

## **California's 2013–14 Budget: Brown Turns the Tide**

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Unlike his first two years, Governor Jerry Brown began this budget cycle from a position of immense political strength. The Democrats controlled a two-thirds supermajority in both chambers of the California Legislature, allowing them to increase taxes without a single Republican vote. In addition, voters passed Propositions 30 and 39 in November 2012, adding several billion in state revenue. With an improving economy, the state also collected billions more taxes than initially projected.

The improved economic and political situations gave Brown and the legislative Democrats the opportunity to broaden the debate over the 2013–2014 budget. Since Republicans were unable to hold up a budget or even prevent tax increases, the fight shifted from getting a budget passed to passing the transformative budget Brown had wanted to implement since his election in 2010. The centerpiece of this new endeavor was a massive restructuring of state money for K-14 education. In addition, Brown wanted to continue paying down the “Wall of Debt,” or the nearly \$30 billion the state had accumulated over its previous borrowing spree.

Sequestration had a minimum effect on California's economy or state budget. The larger fear was long-term federal budget cuts, particularly defense and academic research, both major job-generators in California.<sup>1</sup>

### **Background**

#### **Unemployment**

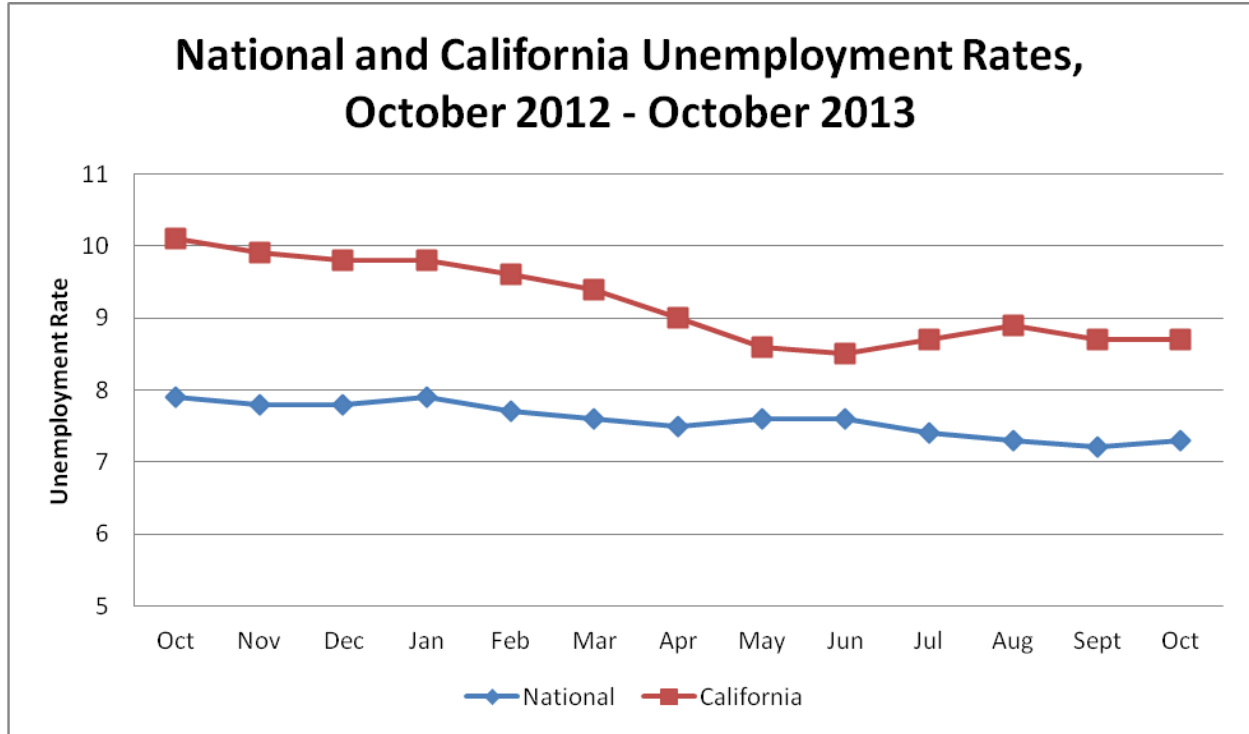
Despite an improved budget outlook, the lingering effects of the Great Recession continued to hit California. Throughout 2012, California's unemployment rate was consistently two to three points higher than the national average. By the fourth quarter, California's unemployment rate was hovering around 10% while the national average had fallen below 8%.<sup>2</sup> In 2013, this gap narrowed, with California's unemployment rate fluctuating between one and one-and-a-half points higher than the national average. Figure 1 depicts the national and California unemployment rates from October 2012 through October 2013.

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<sup>1</sup> February 27, 2013. *Politico*. Sequestration 2013: Fed budget cuts would have limited immediate California impact.

<sup>2</sup> U.S. Bureau of Labor Statistics, 2013.

Figure 1.



Source: U.S. Bureau of Labor Statistics

An optimistic reading of these numbers would highlight the fact that California’s unemployment rate fell at a much faster rate than the national average. From October 2012 to October 2013, California’s unemployment rate fell from 10.1% to 8.7%. During this same period, national unemployment only fell from 7.9% to 7.3%. Nevertheless, California’s unemployment problem continued to be worse than the nation as a whole. In fact, California had the fifth highest unemployment rate of any state in the country in 2013, trailing only Nevada, Rhode Island, Michigan, and Illinois.<sup>3</sup> Moreover, the severity of the unemployment problem was unevenly distributed throughout the state, with the Central Valley, Inland Empire, and Imperial County in far southeastern California more heavily impacted than wealthier counties along the Pacific Coast.<sup>4</sup>

### Demographics

The state’s changing demographics continued to be a major story. California has been a majority-minority state since the late 1990s. After the 2010 census, non-Hispanic whites held a narrow plurality of 40.1% of the state’s population, with Latinos comprising 37.6%.<sup>5</sup> By 2013, non-

<sup>3</sup> U.S. Bureau of Labor Statistics, 2013.

<sup>4</sup> March 22, 2012. *Sacramento Bee*. Graphic: The California Job Market.

<sup>5</sup> U.S. Census Bureau, 2013.

Hispanic whites accounted for 39.4% of the state's population, while Latinos made up 38.2%.<sup>6</sup> Latinos should form a plurality by 2020 (40.8% projected), with non-Hispanic whites declining to just 36.6%.<sup>7</sup> In contrast, as recently as 1980, non-Hispanic whites accounted for two-thirds of California's population.<sup>8</sup> Figure 2 depicts the shifting makeup of the state from 1980 to 2020 (projected).

In the 2012 elections, Latinos, Asian Americans, and African Americans were decisive in the presidential race in California. Despite losing non-Hispanic whites to Mitt Romney by eight points, President Obama won California by more than 20 points.<sup>9</sup> Exit polls showed that the president enjoyed a 45-point advantage among California Latinos, a 58-point advantage among Asian Americans, and a 93-point advantage among African Americans.<sup>10</sup> The Field Poll noted that this was the first time in California history that turnout among registered minority voters was equal to turnout among non-Hispanic whites.<sup>11</sup> Of course, minorities tend to have lower voter registration rates than non-Hispanic whites, and California has a much larger share of non-citizens as a percent of its population than the national average.

## The California Budget Process

Budget-making in California is an ongoing process. Throughout the year, numerous state agencies analyze how much revenue the state is raising (or is expecting to raise) through taxes and fees, and how much of that revenue can be allocated to meet the state's numerous financial obligations.

The kick-off to budget season is the governor's January budget proposal, which must be submitted to the legislature by January 10 of each year for the fiscal year beginning July 1. Once submitted, the proposed budget is referred to the Legislative Analyst's Office (LAO) for review. Similar to the Congressional Budget Office, the LAO is tasked with presenting the legislature with an independent, objective, nonpartisan analysis of the 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 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. In May, the Department of Finance issues a revision to the governor's budget numbers (known as the "May Revise") based on updated economic forecasts and revenue projections. The legislature uses these updated figures in crafting its final budget.

Since the adoption of Proposition 25 in 2010, budgets that do not contain tax increases can pass by a simple majority of both houses (41 in the Assembly and 21 in the Senate). If tax increases are included, the state constitution requires a two-thirds vote of each chamber for passage

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<sup>6</sup> U.S. Census Bureau, 2013.

<sup>7</sup> U.S. Census Bureau, 2013.

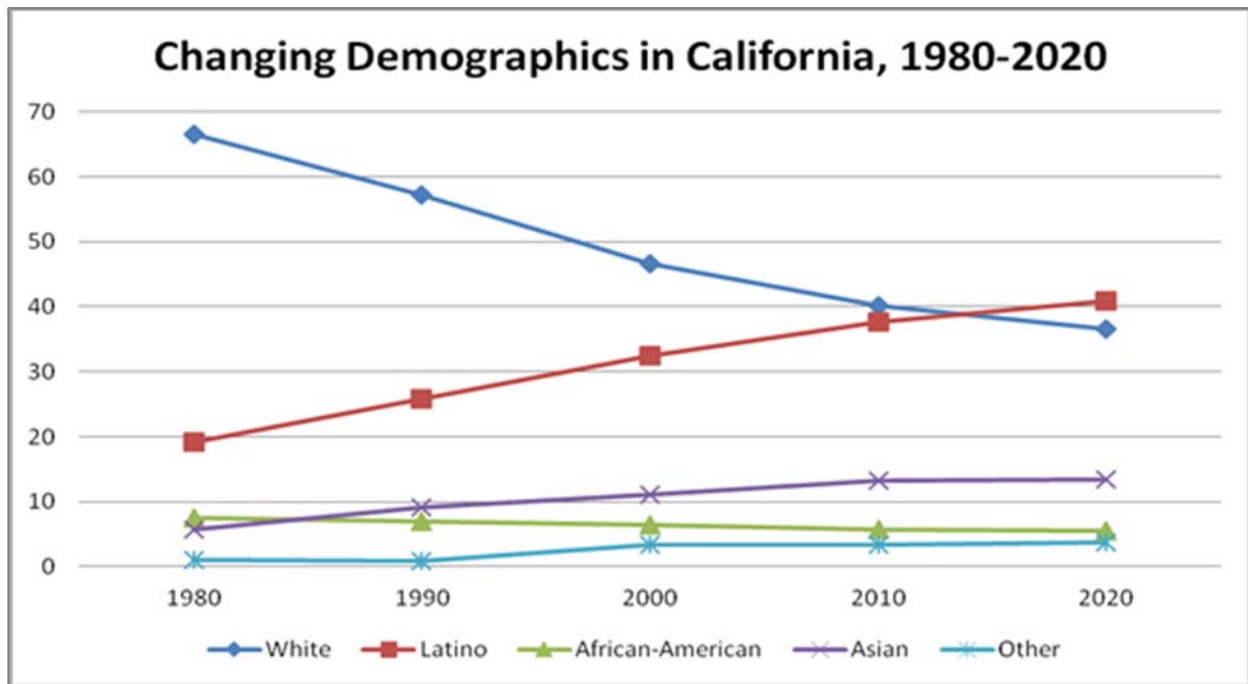
<sup>8</sup> U.S. Census Bureau, 2013.

<sup>9</sup> November 19, 2012. *The Field Poll*. The Growing Political Might of Ethnic Voters in the 2012 Elections.

<sup>10</sup> November 19, 2012. *The Field Poll*. The Growing Political Might of Ethnic Voters in the 2012 Elections.

<sup>11</sup> November 19, 2012. *The Field Poll*. The Growing Political Might of Ethnic Voters in the 2012 Elections.

Figure 2.



Source: U.S. Census Bureau

(54 in the Assembly and 27 in the Senate). If approved, the budget is sent to the governor for his signature.

At that point, the governor may choose to exercise his line-item veto authority. The governor is not allowed to zero-out funding for agencies or programs mandated by law, but is allowed to zero-out other appropriations and to reduce spending levels across the board. The governor is not empowered to increase spending on any line-item. Line-item vetoes—like regular vetoes—can be overridden by a two-thirds vote of both houses of the legislature; however, this is very rare.

The California Constitution requires the legislature to adopt a budget by June 15, and the governor to affirm by July 1, the beginning of the new fiscal year. This deadline was rarely met in previous years due to the lack of a constitutional enforcement mechanism. Proposition 25 changed that. Since 2010, legislators must *pass* a budget by the constitutionally mandated deadline (that particular budget does not have to later be *enacted*, a potentially large loophole), or they will forfeit their pay until a budget is passed. Over the past few years, Proposition 25 has proven very effective in ensuring that a new budget is in place by July 1.

### 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 other states, although the results of the 2012 elections may mitigate

some of these challenges going forward. The perennial obstacles to California budget-making are:

*The Balanced Budget Requirement & Boom-and-Bust Budgeting:* Like most states, California is constitutionally required to produce a balanced budget every year. Unlike most states, California is disproportionately reliant on income tax revenue to fund its operations. This creates a boom-bust cycle giving the state large surpluses when times are good but huge deficits when times are bad. In difficult times, the state is forced to choose between tax increases opposed by Republicans and major spending cuts opposed by Democrats. Both options are politically unpopular, and the dynamic has led to years of budget stalemate in the past. However, with the Republican Party holding less than one-third of the seats in both the Assembly and Senate following the 2012 elections, Republicans lost the ability to stop tax increases favored by a united Democratic Party.

*Supermajority Requirements for Tax Increases:* Over the past 55 years, the Democratic Party has dominated the California Legislature. Republicans have only won a majority in the Assembly twice since 1958. In the Senate, Republicans have won a majority only once since 1956, and that was nearly 45 years ago. Given this history of legislative dominance, one would assume Democrats have been in the driver's seat when it came to crafting budgets. However, since the passage of Proposition 13 in 1978, tax increases have required a two-thirds supermajority vote in each house of the legislature. Until recently, this has given the Republican Party tremendous leverage over the budget-making process because they possessed an effective veto over tax policy.

This dynamic often led to protracted budget stalemates. However, after the 2012 elections, Republican representation in both the Assembly and Senate fell below one-third. The 2012 elections left Democrats with a 55–25 majority in the Assembly and a 29–11 advantage in the Senate. Governor Brown and legislative Democrats were cautious about using their newfound power to raise taxes, especially since voters approved a large tax increase (Proposition 30) at the ballot box in 2012. Republicans now have almost no influence over the state budget process.

*Ballot Box Budgeting:* Of all the states that employ direct democracy, Californians make use of their initiative, referendum, and recall procedures more than citizens of any other state.<sup>12</sup> On any given statewide ballot, California voters can expect to decide the fate of five to fifteen proposals. Often, the proposals have significant fiscal impacts. California's reliance on 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 proposals can be made.

This system of "ballot box budgeting" tends to produce structural deficits for the state, even in the best of times. This is because voters historically approve new spending measures but reject new tax increases. However, voter approval of Proposition 30 in 2012 might signal a sea change in the public's attitude. Perhaps the California electorate is becoming more willing to raise taxes for public investments, such as education, after years of harsh budget cuts.

## **2012 Elections and Political Aftermath**

Proposition 30 was the marquee initiative on the 2012 ballot, drawing strong support from the governor and generating intense media coverage. Proposition 30 raised sales and income tax-

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<sup>12</sup> Initiative & Referendum Institute, 2013.

es to provide increased funding for education. Specifically, the initiative (1) raised California's sales tax from 7.25% to 7.5%, (2) created four new state income tax brackets at \$250,000, \$300,000, \$500,000, and \$1,000,000, (3) increased the income tax rates on individuals in those brackets, with the biggest increase for those making \$1,000,000 or more per year, and (4) made the new income tax rates retroactive to January 1, 2012, thus enabling the state to collect additional tax revenue as early as spring 2013. The Legislative Analyst's Office projected added revenue of \$6 billion per year through 2018–2019, when the tax increases sunset.<sup>13</sup> Passed by a relatively comfortable 55–45% margin, perhaps Proposition 30 signals that California voters are increasingly willing to raise taxes in order to pay for public services like education.

Democrats benefited from this electoral mood and did very well in 2012. President Obama won the state with more than 60% of the vote. Democrats picked up four net congressional seats, and held 38 of California's 53 seats in the House. Among the pickups, Democratic challengers defeated Republican incumbents Dan Lungren of Sacramento, Mary Bono Mack of Palm Springs, and Brian Bilbray of San Diego.

Democrats did even better in California legislative elections. 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. The Democrats surprised everyone by picking up three seats in the Assembly and an astonishing four in the Senate, giving them two-thirds in both chambers.

This was the first time either party had a two-thirds supermajority in both chambers since the Republicans controlled the legislature in 1933. Democrats last saw a two-thirds majority in both chambers in 1883. Even a two-thirds majority in one chamber is rare for the Democrats: they last had that in the Assembly in 1978, and in the state Senate in 1965. Additionally, nearly half of the Assembly class are freshmen, the highest number since 1948. With the recent change to term limits, this freshmen cohort will be able to serve 12 years, double the amount of their predecessors.

Almost as soon as the Democratic supermajority was won, questions began about its strength. An early Democratic caucus turned into a heated discussion on whether the Democrats would keep the supermajority in 2014. Some lawmakers believed the party's victory stemmed from a dynamic new Democratic voter mandate in California while others felt the party did well in traditional Republican areas that could reverse themselves in future elections.<sup>14</sup> In contrast, many Republicans believed the Democrats could hold a supermajority through the end of the decade due to changes in electoral demographics.<sup>15</sup> Governor Brown disagreed. He said, "The supermajority is not a permanent condition. It's something that can be lost far more easily than it can be gained."<sup>16</sup>

Part of the confusion was because the Democrats temporarily lost their supermajority during most of 2013. A series of vacancies and special elections kept the Democrats below two-thirds in

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<sup>13</sup> Legislative Analyst's Office. *The 2013-2014 Budget: Overview of the Governor's Budget*.

<sup>14</sup> January 6, 2013. *San Jose Mercury-News*. School funding, tax changes on Democrats' agenda.

<sup>15</sup> December 16, 2012. *New York Times*. With a supermajority, California Democrats Begin to Make Plans.

<sup>16</sup> December 16, 2012. *New York Times*. With a supermajority, California Democrats Begin to Make Plans.

the Assembly.<sup>17</sup> Complicating matters, State Senator Michael Rubio, a moderate Democrat from the Central Valley, unexpectedly resigned his seat at the end of February, dropping the Democrats below two-thirds in that chamber, too. Republicans won the open seat in a surprise special election victory.

“There will be a very short window that Democrats will have the supermajority,” noted Eric Bauman, vice chairman of the state Democratic Party. “So I’ve been cautioning party activists to be patient.”<sup>18</sup> Most liberal groups realize the vacant seats will make it difficult to push through supermajority tax increases. “It’ll be 2014 until we really have any serious opportunity to go after revenue,” said Mike Herald, executive director of the Western Center on Law and Poverty.<sup>19</sup> “The reality is there’s not going to be new revenues next year. In 2014, the budget picture gets a little better, and we’ll certainly have a supermajority fully in effect then.”<sup>20</sup>

Immediately after their swearing-in in early December 2012, Democratic legislators began calling for greater investment to public education and infrastructure. Lawmakers introduced several proposals that would need a two-thirds majority vote, including measures that would close tax loopholes and other tax increases. “There is going to be pressure to restore some of the cuts we have made to the courts and medical and social services,” acknowledged Assemblywoman Bonnie Lowenthal (D-Long Beach).<sup>21</sup> Meanwhile, Assemblyman Tom Ammiano (D-San Francisco) proposed a revision to Proposition 13, a split-roll property tax that would require businesses to pay higher property taxes than residential property.

Senate Pro Tem Darrell Steinberg urged his Senate colleagues to show fiscal restraint, considering voters just approved more than \$6 billion in new taxes in the November election. “The voters do not want us to burst out of the gate to approve more taxes,” Steinberg warned the chamber.<sup>22</sup> To reporters earlier he promised, “We will exercise this new power with strength, but also with humility and reason.”<sup>23</sup>

Not everyone listened. After the elections, Senator Noreen Evans (D-Santa Rosa) tweeted “Outrageous to say we will do nothing w/supermajority. Slap in the face to CA voters. CA needs positive leadership.”<sup>24</sup> Senator Mark Leno (D-San Francisco) introduced a constitutional amendment that would allow local government to approve new parcel property taxes with only a 55% popular vote, rather than the two-thirds now required by Proposition 13. If placed on the

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<sup>17</sup> The electoral music chairs is quite complicated, involving members resigning to take seats in Congress, the two state legislative chambers, even the Los Angeles City Council. The following article does a very good job explaining the specifics: December 3, 2012. *San Jose Mercury-News*. California Democrats’ supermajority powers will be short-lived.

<sup>18</sup> December 3, 2012. *San Jose Mercury-News*. California Democrats’ supermajority powers will be short-lived.

<sup>19</sup> December 3, 2012. *San Jose Mercury-News*. California Democrats’ supermajority powers will be short-lived.

<sup>20</sup> December 3, 2012. *San Jose Mercury-News*. California Democrats’ supermajority powers will be short-lived.

<sup>21</sup> December 3, 2012. *Los Angeles Daily News*. In Sacramento, plenty of new faces -- and a Democratic supermajority -- get to work on health care, state budget

<sup>22</sup> December 3, 2012. *Los Angeles Times*. Democrats take the reins in a reshaped legislature.

<sup>23</sup> December 3, 2012. *San Jose Mercury-News*. California Democrats’ supermajority powers will be short-lived.

<sup>24</sup> December 3, 2012. *San Jose Mercury-News*. California Democrats’ supermajority powers will be short-lived.

ballot, the amendment would take only a majority of the state electorate to pass, but ballot placement requires a two-thirds vote of the legislature. In the past, Republicans refused to consider the measure, but Democrats could now ignore Republican opposition with their new supermajority.<sup>25</sup>

Even Steinberg was willing to entertain some revisions, since he later supported Leno's proposal.<sup>26</sup> He declared he would not consider closing tax loopholes a tax increase. He told fellow lawmakers at their swearing-in, "We get the overreach warning: we have heard it, and we acknowledge it. But frankly, I think you can focus too much on overreach because there is an equally compelling danger. It is the danger of being so cautious, so worried about creating controversy, that we fail to take advantage of unprecedented opportunities."<sup>27</sup> Steinberg later said, "There are a whole host of things that the two-thirds majority gives an opportunity to talk about. I believe in the two-party system. But are we prepared to use our supermajority if the Republicans choose not to participate? Yes."<sup>28</sup>

Steinberg had several proposals. One would allow the legislature to place tax measures on the ballot with a simple majority instead of the current two-thirds. Throughout 2011 and 2012, Republicans denied Brown's proposed tax increase an automatic spot on the ballot, forcing the governor and his political allies to collect signatures and place an initiative on the ballot instead.

In the same vein, Steinberg wanted to bring back the "indirect initiative," eliminated in 1966. This would give the legislature a chance to approve or amend proposed initiatives before they appear on the ballot, while still allowing initiative sponsors the right to reject any amendment and directly appeal to the voters. "I don't think we should get rid of the initiative process. I think it serves an important purpose," Steinberg argued. "But I think we need to tie it in a much more effective way with the governor and the legislature, with representative government."<sup>29</sup>

Other moderate Democratic legislators supported Steinberg's caution with the supermajority. "We have no more excuses," said Senator Michael Rubio (D-Bakersfield), one of the more moderate Democrats in his party's caucus. "The debate changes because the answers are within our caucus," Senator Lou Correa (D-Anaheim) concurred. To keep the Democratic supermajority, the Democrats "need to focus on deregulation and encouraging jobs to stay in California while protecting the environment," said Correa. "I think it will be a very strong, healthy debate in our caucus over where we want to go."<sup>30</sup>

Steinberg also worked with Rubio to change California's draconian California Environmental Quality Act. Rubio feared the proposal would end up splitting the Democrats into liberal and moderate factions, pushing business-friendly Democrats into an alliance with Republicans.<sup>31</sup> CEQA reform ultimately stalled, with Rubio leaving the Senate in February and Steinberg unable to push through major changes alone.

Political analysts speculated the Democratic supermajority would not vote in lockstep. Allan Hoffenblum, publisher of the influential *Target Book*, noted, "This is a very diverse group of

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<sup>25</sup> December 3, 2012. *Los Angeles Times*. Democrats take the reins in a reshaped legislature.

<sup>26</sup> January 6, 2013. *San Jose Mercury-News*. School funding, tax changes on Democrats' agenda.

<sup>27</sup> December 16, 2012. *New York Times*. With a supermajority, California Democrats Begin to Make Plans.

<sup>28</sup> December 16, 2012. *New York Times*. With a supermajority, California Democrats Begin to Make Plans.

<sup>29</sup> January 23, 2013. *San Jose Mercury-News*. Governor Brown, Democrats may clash over spending.

<sup>30</sup> January 6, 2013. *San Jose Mercury-News*. School funding, tax changes on Democrats' agenda.

<sup>31</sup> January 6, 2013. *San Jose Mercury-News*. School funding, tax changes on Democrats' agenda.

## Budget Deficits Projected in the Governor’s January Proposed Budget<sup>32</sup>

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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
January 2013	Brown: slight surplus LAO: slight deficit <sup>33</sup>

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Democrats. It is not as if they were all San Francisco liberals. We even have some who signed a no-tax pledge.” Future political considerations will play a factor as well. Hoffenblum added, “There are a large number who will be running for vacancies in the state Senate, so they will be careful what they do. And you have a lot of Democrats who were elected by narrow margins in very competitive districts, and they will want to represent their constituents.”<sup>34</sup>

Legislative Democrats quickly learned that a two-thirds majority does not mean they can propose anything. After the elections, Senator Ted Lieu suggested a constitutional amendment to raise the state’s car tax to pre-2003 levels. The additional \$4 billion in revenue would support transportation projects and serve as a “test to see what the two-thirds legislature means.” After a week of intense pressure Lieu backed off, telling reporters “It was pretty clear that if this proposal became a bill, it was not going to go anywhere.” Even in the few weeks since the election, he said, “California’s political landscape has changed.”<sup>35</sup>

### Governor’s January Budget

In early January 2013, Brown proposed his 2013–2014 budget. His third budget, it was the state’s first in many years not to face drastic budget cuts. As opposed to the \$25 billion deficit Brown faced when he took office, Brown projected a slight surplus for the upcoming year. As the table below demonstrates, this year’s proposed budget differs from the massive deficits California has faced recently.

In addition, the increased tax revenue approved by voters would create budget surpluses in the following fiscal years. But that required Brown to keep the legislative Democrats from increasing spending. The governor emphasized this point by declaring the state would be marked by “fiscal discipline and living within our means.” Before even he announced the budget Brown told reporters, “You can take this to the bank: We’re not going to spend money that we can’t afford to spend.”<sup>36</sup>

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<sup>32</sup> January 10, 2013. *San Francisco Chronicle*. Jerry Brown: California’s deficit is gone.

<sup>34</sup> December 3, 2012. *Los Angeles Daily News*. In Sacramento, plenty of new faces—and a Democratic supermajority—get to work on health care, state budget

<sup>35</sup> December 3, 2012. *San Jose Mercury-News*. California Democrats’ supermajority powers will be short-lived.

<sup>36</sup> January 10, 2013. *San Diego Union-Tribune*. Calif. budget to be buoyed by voter-OK’d tax hikes.

Brown proposed a \$97.6 billion General Fund budget, \$5 billion larger than the previous year's, with the additional funding largely directed to schools and higher education. Including the various state special funds, California's proposed total budget was almost \$146 billion. In contrast, General Fund spending had reached a high of \$103 billion before the recession, dropping to \$87 billion during the 2011–12 fiscal year. The governor reiterated his opposition to excess spending from the legislature, announcing at his budget press conference he has “determined to avoid the fiscal mess that the last few governors had to deal with. The way you avoid it is by holding the line, by exercising a common sense approach to how we spend our money.”<sup>39</sup>

The governor acknowledged that convincing lawmakers to continue fiscal discipline will “require a lot of charm.” He said, “Yes, there's inequality out there and yes there's hardship . . . but it's time to invest in education to solve such programs for decades to come—better return on the state's investment.”<sup>40</sup> If the state curtailed excess spending, Brown said the state could reduce its long-term structural “wall of debt” from \$27.8 billion to \$4.3 billion by the end of fiscal year 2016–17.

## 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 General Fund spending. In the previous FY 2012–2013 budget, K-12 education accounted for 41.4%, Health & Human Services 29.2%, Higher Education 10.3%, and Corrections 9.7% (see Figure 3 below).<sup>41</sup>

## K-12 Education

K-12 education was the single largest expense, consuming over 40% of General Fund revenues in the 2012–2013 budget. Overall, the state provided some \$68.4 billion during the previous budget year to support primary and secondary education, with \$37.9 billion coming from the General Fund and \$30.5 billion from other funds.<sup>42</sup>

The governor's budget called for increased spending on K-14 education. Proposition 98 requires California to spend at least 40% of its annual budget on K-14 education (K-12 plus community colleges), and the governor's 2013–2014 budget proposal called for an overall \$2.7 billion (5%) increase in Proposition 98 funding from the previous year, with a 9% increase coming from the General Fund and a 4% decrease from local property tax revenues.<sup>43</sup> Comparing this to the 2012–2013 budget, community colleges were expected to receive a 10% funding increase

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<sup>39</sup> January 10, 2013. *Associated Press*. Calif. Gov. proposes budget with rosier outlook.

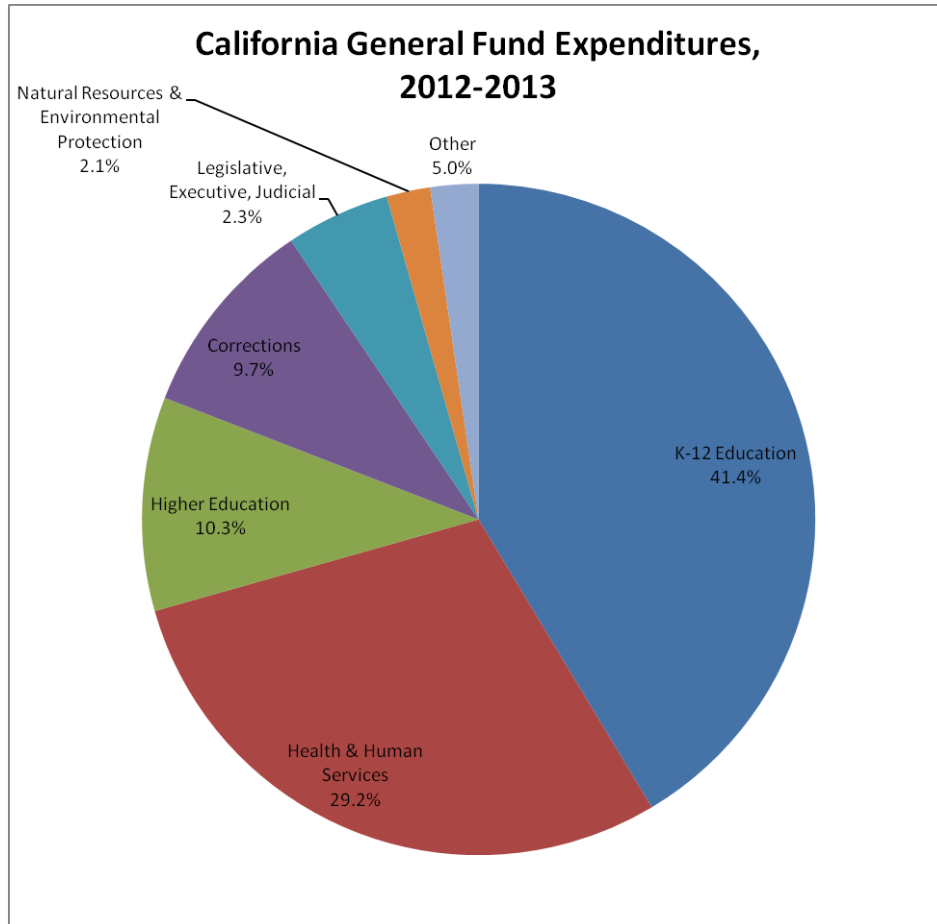
<sup>40</sup> January 10, 2013. *San Jose Mercury-News*. Gov. Jerry Brown releases first ‘good news’ budget in years.

<sup>41</sup> California Department of Finance. *California State Budget 2012-2013*.

<sup>42</sup> California Department of Finance. *California State Budget 2012-2013*.

<sup>43</sup> Legislative Analyst's Office. *The 2013-2014 Budget: Overview of the Governor's Budget*.

**Figure 3.**



Source: Department of Finance

while K-12 would see a 4% increase.<sup>46</sup> This would result in a \$287 increase in K-12 per pupil spending, from \$11,455 in the previous year to \$11,742 in 2013–2014 (see Figure 4 below).<sup>47</sup>

This increase was made possible in part by the passage of Proposition 39 in November 2012. Proposition 39 passed by a 61-39% margin and changed the way multistate businesses calculate their taxable income, resulting in increased corporate tax revenue for the state (projected to be \$900 million in the 2013–2014 budget year).<sup>48</sup> The governor’s budget used half of these new revenues to bolster education spending, while the other half was devoted to energy efficiency programs mandated by the proposition.<sup>49</sup> Brown proposed that the \$450 million in mandated en-

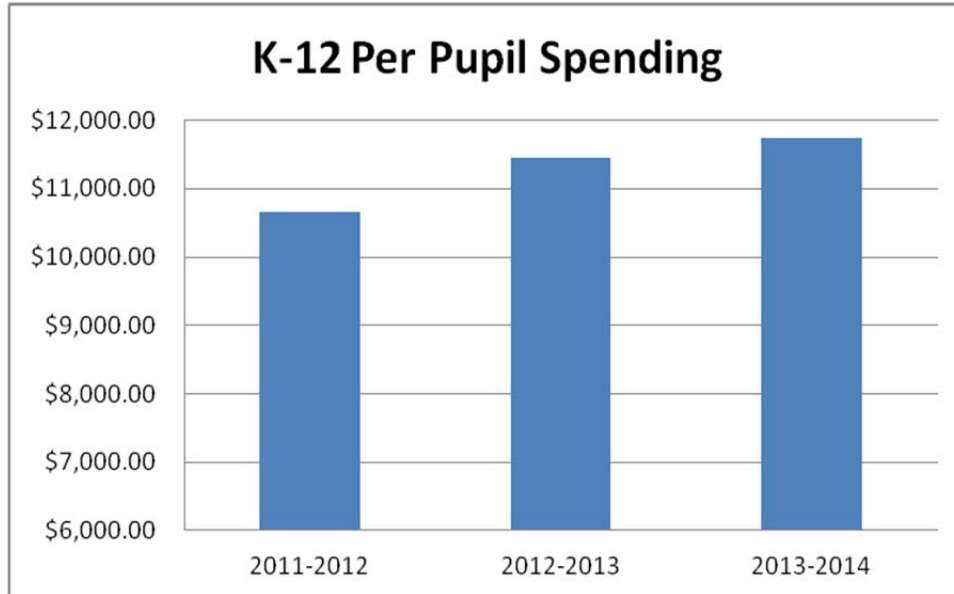
<sup>46</sup> Legislative Analyst’s Office. *The 2013-2014 Budget: Overview of the Governor’s Budget*.

<sup>47</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>48</sup> Legislative Analyst’s Office. *The 2013-2014 Budget: Overview of the Governor’s Budget*.

<sup>49</sup> Legislative Analyst’s Office. *The 2013-2014 Budget: Overview of the Governor’s Budget*.

**Figure 4.**



Source: DOF 2013a

ergy efficiency spending be directed specifically to projects effecting school districts and community colleges.<sup>50</sup>

The governor’s decision was controversial. Many critics, including Legislative Analyst Mac Taylor, argued that by counting Proposition 39 funds earmarked for energy efficiency towards the minimum education funding required by Proposition 98, schools were actually losing money for classroom instruction or other needs. Taylor said, “The voter pamphlet is very explicit: the money is supposed to be transferred to an energy fund and would not count towards Proposition 98 money. We have a difference on the legal view of that. Their view results in less money for schools.”<sup>51</sup> Taylor argued this would lead to a \$190 million loss to public schools.<sup>52</sup>

A major budget revision was a shift in how the state would support local school districts. Along with approximately \$2 billion more in total school funding, Brown proposed a new formula that would shift new funding away from wealthier suburban areas to poorer districts, while promising no district or charter school would receive less funding than the current fiscal year. Money would flow to districts with a high percentage of low-income students and English-language learners, groups that usually require additional costs to educate. Paraphrasing Aristotle, Brown said, “‘Treating unequals equally is not justice.’ And people are in different situations. Growing up in Compton or Richmond is not like it is to grow up in Los Gatos or Beverly Hills or

<sup>50</sup> Legislative Analyst’s Office. *The 2013-2014 Budget: Overview of the Governor’s Budget*.

<sup>51</sup> January 14, 2013. *San Jose Mercury-News*. California legislative analyst commends Gov. Jerry Brown’s budget proposal as fiscally disciplined.

<sup>52</sup> January 14, 2013. *San Francisco Chronicle*. Gov. Brown gets good marks on budget.

Piedmont.”<sup>53</sup> The governor’s new formula also removed dozens of state-mandated spending requirements that hampered many school districts.

Educational reform is a big deal to the governor, and in contrast to his earlier time in office, Brown has learned to focus on one issue at a time. “I have some perspective that I didn’t used to have,” Brown told an audience of about 1,000 business leaders. “You can only have so many initiatives,” he said, citing Arnold Schwarzenegger as a governor who tried to do too much. “You have to be strategic, you have to focus, and then you get it done. . . . I’ve got to handle one thing at a time.”<sup>54</sup>

Bob Blattner, a private education consultant and former education journalist, said Brown’s proposal “is the most important policy discussion of [California] public education in our generation. We are going to redo a system that goes back to Reagan. . . . This is a big deal.”<sup>55</sup>

Brown’s plan generated opposition. Under his proposal, according to Assembly data, roughly one-quarter of California’s school districts would not reach their prerecession spending levels before the end of the decade. Joan Buchanan (D-Alamo), chair of the Assembly Education Committee, said that except for the wealthiest districts, “most suburban schools would end up being losers.” One legislative consultant told the *Los Angeles Times*, “This is a civil war within the education world. It’s directly pitting suburban districts against urban districts.”<sup>56</sup>

## Higher Education

Higher education (primarily the University of California and California State systems) accounted for the third largest area of state spending, accounting for over 10% of General Fund expenditures in 2012–2013. Overall, the 2012–2013 budget provided \$23.1 billion worth of state support for higher education, with \$11.6 billion coming from the General Fund and \$11.5 billion from other funds.<sup>57</sup>

Brown’s proposed 2013–2014 budget called for funding increases for the University of California and California State University systems after years of cutbacks. Figure 5 depicts spending on the UC and CSU systems from 2007–2008 through 2013–2014. The budget specifically called for a 5 percent increase in each system’s base budget, equivalent to \$125 million, and proposed a multiyear plan to increase university base budgets by 5 percent in 2014–2015 and 4 percent in the following two years.<sup>58</sup> The increases were partially meant to forestall additional tuition increases, after five years in which tuition nearly doubled at California’s public colleges.<sup>59</sup> The University of California’s tuition rose \$5,556 (84 percent) while California State University students saw a \$2,700 (97 percent) tuition increase between the 2007–2008 and 2012–2013 academic years.<sup>60</sup>

Brown encouraged higher education administrators to institute reforms to lessen time-to-graduation. The Department of Finance report on the his budget said, “All institutions will be

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<sup>53</sup> January 10, 2013. *San Francisco Chronicle*. Jerry Brown: California’s deficit is gone.

<sup>54</sup> June 2, 2013. *Los Angeles Times*. Gov. Jerry Brown is poised for a big victory.

<sup>55</sup> June 2, 2013. *Los Angeles Times*. Gov. Jerry Brown is poised for a big victory.

<sup>56</sup> June 2, 2013. *Los Angeles Times*. Gov. Jerry Brown is poised for a big victory.

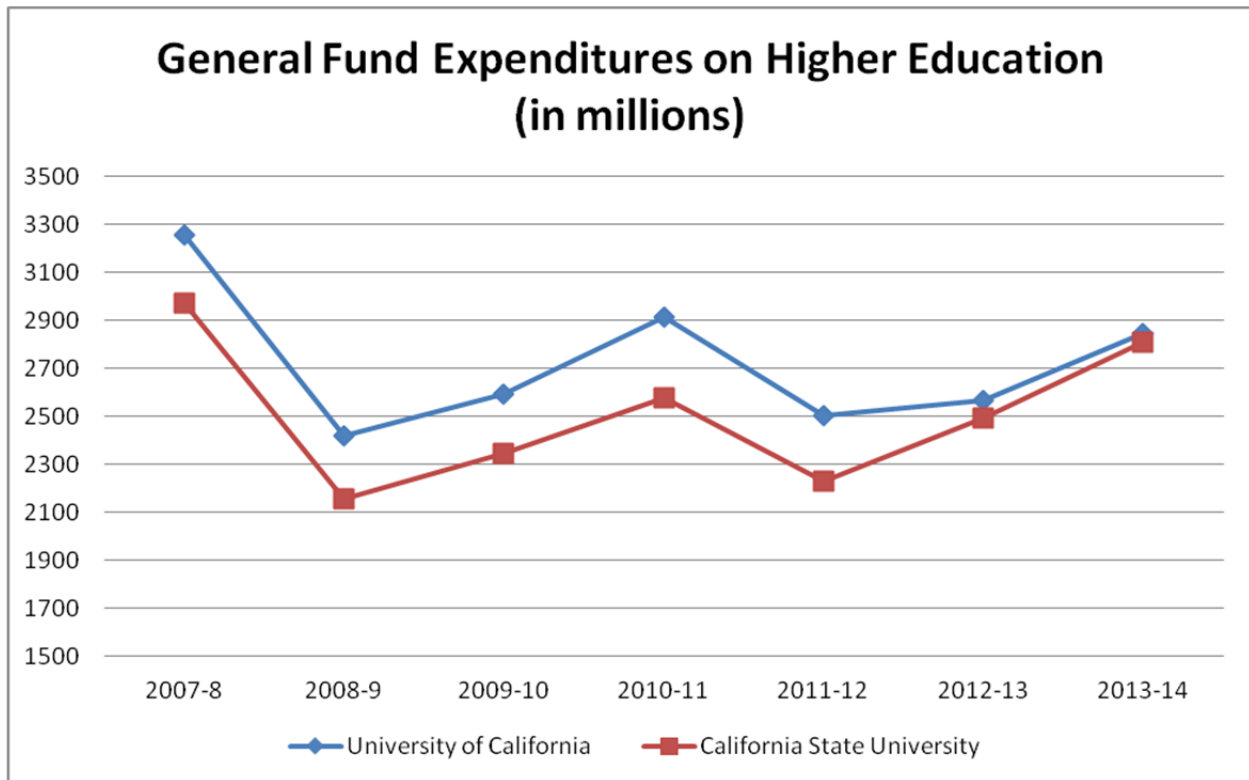
<sup>57</sup> California Department of Finance. *California State Budget 2012-2013*.

<sup>58</sup> Legislative Analyst’s Office. *The 2013-2014 Budget: Overview of the Governor’s Budget*.

<sup>59</sup> Legislative Analyst’s Office. *The 2013-2014 Budget: Overview of the Governor’s Budget*.

<sup>60</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

Figure 5.



Source: DOF 2012a & DOF 2013a.

expected to use these increases to implement reforms that will make available the courses students need and help them progress through college efficiently, using technology to deliver quality education to greater numbers of students in high-demand courses, improving course management and planning, using faculty more effectively, and increasing use of summer sessions.”<sup>61</sup> To that end, the governor’s budget proposal provided \$16.9 million to community colleges and \$10 million each to the University of California and California State systems to increase the number of online courses offered to students.<sup>62</sup>

## Health & Human Services

Health, welfare, and social service programs were the second largest expenditure category in the 2012–2013 budget, accounting for 29.2% of all expenditures, a total of \$105.1 billion, with \$26.7 billion coming from the General Fund and \$78.4 billion from other funds.<sup>63</sup> The governor’s proposed 2013–2014 budget maintained overall spending levels at \$105.1 billion, but in-

<sup>61</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>62</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>63</sup> California Department of Finance. *California State Budget 2012-2013*.

creased the contribution from the General Fund to \$28.4 billion while reducing the contribution from other funds to \$76.7 billion.<sup>64</sup>

One of the major programs in this category is CalWORKs, which provides cash assistance and child-care for the poor. Over the past several years, CalWORKs has experienced significant reductions in its budget as the state has tried to balance its books. Funding for welfare-to-work and childcare services fell by over \$375 million between 2009–2010 and 2011–2012.<sup>65</sup> At the same time, eligibility for cash assistance was reduced from 60 months to 48 months, and maximum aid payments (MAPs) were reduced by 4 percent in 2009 and an additional 8 percent in 2011.<sup>66</sup> In 2012, California passed Senate Bill 1041 with the primary goal of making individuals and families receiving CalWORKs aid more self-sufficient.

A key component of SB 1041 was to limit cash assistance and employment services to 24 months.<sup>67</sup> To remain eligible for cash assistance for an additional 24 months, participants had to meet federal work participation requirements.<sup>68</sup> While this saves the state money in the long-term, it requires an initial investment to improve CalWORKs employment services program. To that end, the governor’s 2013–2014 budget proposed a \$142.8 million General Fund increase to CalWORKs to further the goals of SB 1041. Overall, total CalWORKs expenditures from all sources (state, local, and federal funds) were projected to be \$7.1 billion in 2013–2014.<sup>69</sup>

The governor’s budget also included additional funding for In-Home Supportive Services (IHSS), which provides domestic care to low-income elderly, blind, and disabled Californians. Brown proposed \$1.8 billion in spending on this program in 2013–2014, representing a 6.5% increase from the previous year’s budget.<sup>70</sup> Like other states, California was impacted by implementation of the Affordable Care Act. While the final structure and total costs have yet to be determined, the governor’s 2013–2014 budget set aside \$350 million from the General Fund as a placeholder for the increased costs of health care expansion.<sup>71</sup> California set-up its insurance exchange to provide health care coverage options to the uninsured. Called “Covered California,” it began open enrollment on October 1, 2013 with coverage beginning for participants on January 1, 2014.<sup>72</sup>

## Corrections

Corrections was the fourth largest category of state spending, with funding for the Department of Corrections and Rehabilitation (CDCR) accounting for 9.7% of the state’s General Fund expenditures in 2012–2013. In the 2012–2013 budget, CDCR received a total of \$9 billion in funding, with \$8.8 billion coming from the General Fund and \$201.6 million from other funds.<sup>73</sup> The governor’s 2013–2014 budget would maintain overall funding levels at \$9 billion, but slight-

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<sup>64</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>65</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>66</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>67</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>68</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>69</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>70</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>71</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>72</sup> California Department of Finance. *Governor’s Budget Summary 2013-2014*.

<sup>73</sup> California Department of Finance. *California State Budget 2012-2013*.

ly decrease the contribution from the General Fund to \$8.7 billion while increasing the contribution from other funds to \$252 million.<sup>74</sup>

The state continued to implement the 2011 Public Safety Realignment Act, which shifted the responsibility to counties for handling low-level inmates.<sup>75</sup> This was partly a cost-saving measure, but mostly an effort to comply with the U.S. Supreme Court's ruling in *Brown v. Plata* (2011), which held that California's severely overcrowded prisons constituted a violation of the 8th Amendment. In 2011, California was ordered to reduce its prison population to 137.5% of design capacity by 2013. To achieve this, many low-level inmates would need to move from state prisons to county jails.

In addition, California voters passed Proposition 36 in November 2012 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 to reduce the state's prison population and save money. Proposition 36 changed the original law by requiring life sentences only when a person's third felony conviction is for a violent offense (life sentences would still be required for a nonviolent third felony if either one of the prior felony convictions were for murder, rape, or child molestation). By some estimates, this change would eventually save the state \$150 million to \$200 million dollars per year;<sup>76</sup> however, the Legislative Analyst's Office projected more conservative savings of between \$70 to \$90 million per year.<sup>77</sup>

### Initial Budget Reactions

Compared to previous years, Republicans seemed more supportive of the Democratic governor's budget. Of course, a primary component of that goodwill was their now near-irrelevance in the budget process. Reduced to less than a third in either chamber, Republicans no longer had the numbers to prevent the legislature from passing a budget or a tax increase. Nonetheless, Brown's budget drew "cautious praise" from the minority party, with one calling it "a realistic budget framework."<sup>78</sup> Assembly Republican Leader Conway echoed the sentiment, "I always appreciate it when the governor's the adult in the room."<sup>79</sup>

Democratic leaders were even more supportive, but wanted additional information about the governor's school funding restructuring. "This is a good starting point," said Assembly Speaker John A. Perez (D-Los Angeles). "But it is that, it's a starting point."<sup>80</sup> Senate Pro Tem Darrell Steinberg (D-Sacramento) wanted to restore previous cuts to social services, such as child-care and adult dental care.

Some of the harshest reactions came from California's judicial branch. Brown's proposal added no additional funding to the already overworked judiciary and removed an additional \$200 million of court construction funds. Chief Justice Tani Cantil-Sakauye noted that state courts

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<sup>74</sup> California Department of Finance. *Governor's Budget Summary 2013-2014*.

<sup>75</sup> California Department of Finance. *Governor's Budget Summary 2013-2014*.

<sup>76</sup> November 28, 2011. *San Francisco Chronicle*. "3 Strikes": Proposed law tries to restore intent.

<sup>77</sup> Legislative Analyst's Office. *The 2013-2014 Budget: Overview of the Governor's Budget*.

<sup>78</sup> January 10, 2013. *Associated Press*. Calif. Gov. proposes budget with rosier outlook.

<sup>79</sup> January 10, 2013. *Sacramento Bee*. Gov. Jerry Brown: California's budget deficit is gone.

<sup>80</sup> January 10, 2013. *Sacramento Bee*. Gov. Jerry Brown: California's budget deficit is gone.

were still operating on reduced hours from previous cuts, “This budget doesn’t answer our challenges and our problems.”<sup>81</sup>

A major contrast between Brown and the Legislative Analyst’s Office was whether California still had a budget deficit. According to the earlier November 2012 LAO estimate, the state would still face a \$1.9 billion shortfall this upcoming fiscal year, while the governor’s budget office claimed the state would have a \$1 billion emergency fund even after Brown’s targeted budget increases.<sup>82</sup> The governor’s budget office explained the variation was largely due to accounting differences, delayed payments, or the governor’s budget estimating a slightly rosier economic outlook.<sup>83</sup> The LAO still projected a \$1.9 billion deficit, but acknowledged both sides were fairly close in their estimates.

### **Jerry Brown and his Democratic Backup Singers**

After releasing his proposed budget, Brown appeared on PBS’s “Newshour” and claimed California’s success in tackling the state budget deficit was a model for the nation. He noted the state would only be expecting budget surpluses due to voter support for Proposition 30 and tax increases. “Just austerity will never allow us to climb out of this hole,” Brown said. The governor criticized Republicans for their reluctance to cooperate. “The ideology of the Republicans is different from the Democrats,” he explained. “They don’t mind the inequality.”<sup>84</sup>

Later in January, Brown gave his State of the State speech building on the theme that California had rebounded financially and was now, once again, the model for the rest of the nation. “Two years ago, they were writing our obituary,” Brown told a joint session of the legislature. “Well, it didn’t happen. California is back, its budget is balanced, and we are on the move.”<sup>85</sup> The governor urged the state to build his two big legacy projects: a high-speed rail line that would link northern and southern California, and a large water tunnel that would bring water to southern California while bypassing the environmentally sensitive Sacramento Delta.

In addition, Brown continued his sermon to lawmakers on the need to control spending. Citing the story of Genesis and Pharaoh’s dream of seven cows, the governor warned: “The people have given us seven years of extra taxes. Let us follow the wisdom of Joseph, pay down our debts and store up reserves against the leaner times that will surely come.”<sup>86</sup>

This awkward budget conflict between a governor and lawmakers over spending is not new to California, or any state, but California is experiencing a relatively new political climate. Even before the 2012 Elections, legislative Democrats could now pass a budget without any Republican votes, thanks to the passage of Proposition 25 in 2010, which lowered the budget threshold from two-thirds to a simple majority. By winning a two-thirds Democratic majority in 2012, the Republicans were sidelined during tax discussions too. Two-thirds is also the magic number to put a constitutional amendment on the ballot for voter approval. “Democrats have unrestricted, unchecked power in the executive and the legislative branch today—and they have not had that

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<sup>81</sup> January 10, 2013. *Sacramento Bee*. Gov. Jerry Brown: California’s budget deficit is gone.

<sup>82</sup> January 10, 2013. *Sacramento Bee*. Gov. Jerry Brown: California’s budget deficit is gone.

<sup>83</sup> January 10, 2013. *KXTV News10*. Can Brown keep budget deficit in rearview mirror?

<sup>84</sup> January 15, 2013. *Los Angeles Times*. Jerry Brown tells PBS “the budget is fixed”.

<sup>85</sup> January 24, 2013. *Sacramento Bee*. Jerry Brown says California has confounded critics

<sup>86</sup> January 24, 2013. *New York Times*. As California Bounces Back, Governor Calls For Lofty Goals.

for decades,” said Jim Brulte, the former Republican leader in the Assembly and Senate, and the California Republican State Chairman.<sup>87</sup>

But without the Republicans filling the role as a useful scapegoat, Brown and his fellow Democrats were also solely responsible, fiscally and politically, for passing a budget, while placating interests in the Democratic Party that wished to spend more. And the Democrats could spend more, since they could pass tax increases by themselves. Brulte put this best: “If you are a Democrat, the good news is that your party is 100 percent in charge of state government. If you’re a Democrat, the bad news is that you don’t get to blame anybody else if things go wrong. So Democrats own it.”<sup>88</sup>

With a two-thirds majority, Democrats could override a Brown budget veto, or any of his partial line-item vetoes. So even if Brown vetoed millions of dollars of additional spending by legislative Democrats, those legislators could restore it.

“There is definitely a debate to be had,” said Ben Tulchin, a Democratic pollster and political strategist. “I just can’t believe all Democrats will sit there and go ‘OK, I’m happy with Prop. 30 and I’ll settle for the fact that deeper cuts were not made—but we can’t restore essential services.’”<sup>89</sup>

Moreover, the last successful veto override was during Brown’s first tenure in office in the 1970s. In fact, in his first two terms in office, Brown was overridden more times by the legislature than any other California governor in several decades.<sup>90</sup> The governor even joked about the issue, saying “I have more experience with veto overrides than any other governor.”<sup>91</sup>

While Brown and legislative Democratic leaders tended to downplay such divisions, other Democratic legislators believed a veto override remained a potential option. After years of budget cuts to social spending, many on the political left supported greater social spending. Liberal Berkeley State Senator Loni Hancock argued, “It is a constitutional right of the legislature, and I think it’s there and it can be used.” Speaker Perez was more cautious, telling the media, “The way to make things work is to actually try to work together, not to engage in divisive activities and pursue a confrontational approach between the legislature and the governor.”<sup>92</sup>

In addition, Brown’s new school funding plan would produce winners and losers, and some thought legislators might be reluctant to support the new changes. “It will put [members] in a very difficult situation,” said Assemblywoman Joan Buchanan, who chaired the Education Committee. “One member came up to me and said, ‘Eight of my school districts lose and two benefit. What do I do?’” Some thought an unusual coalition might emerge to block Brown’s changes, rather than the traditional partisan cleavage seen on most budget votes. “It will be more rural versus urban,” said Assembly Minority Leader Connie Conway.<sup>93</sup>

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<sup>87</sup> December 16, 2012. *New York Times*. With a supermajority, California Democrats Begin to Make Plans.

<sup>88</sup> December 16, 2012. *New York Times*. With a supermajority, California Democrats Begin to Make Plans.

<sup>89</sup> January 23, 2013. *San Jose Mercury-News*. Governor Brown, Democrats may clash over spending.

<sup>90</sup> Since 1946, just seven veto overrides have been successful, four of them occurring during Brown’s original tenure. (League of Women Voters of California, State Executive Branch Overview); <[http://www.smartvoter.org/gtg/ca/state/overview/state\\_exec.html#4](http://www.smartvoter.org/gtg/ca/state/overview/state_exec.html#4)>

<sup>91</sup> January 23, 2013. *San Jose Mercury-News*. Governor Brown, Democrats may clash over spending.

<sup>92</sup> January 23, 2013. *San Jose Mercury-News*. Governor Brown, Democrats may clash over spending.

<sup>93</sup> February 21, 2013. *San Francisco Chronicle*. California School funding plan won’t be easy sell.

That said, the strong support for Brown and his legislative agenda in the 2012 Elections carried into 2013, along with support for his proposed budget as well. The PPIC Statewide Survey in late January found strong support for Governor Brown, with a 51% record high approval rating compared to only 28% disapproval. This support even rubbed off on the legislature, with 41% approval, 42% disapproval. This slightly negative net approval was actually an impressive accomplishment for the state legislature, climbing back from just 15% approval in 2010. The governor's budget proposal received an impressive 69% approval among adults surveyed, with a majority of Democrats, independents, and even Republicans indicating support for the budget.<sup>94</sup> A Field Poll also showed high approval ratings for Brown (57%) and considerably less for the legislature (36%).<sup>95</sup>

Complicating the budget equation was the extra revenue. The state finished more than \$4 billion ahead of forecasts in January 2013, the largest one-month overage in recent memory, almost five percent of the entire General Fund. Financial experts suspected the surge was due to federal tax changes: companies paid out additional dividends and bonuses in late 2012 to avoid higher taxes in 2013.

"I suspect the single biggest element is the acceleration of dividend and capital gains payments to avoid the increases taking effect under federal law," said Brad Williams, a former revenue forecaster with the Legislative Analyst's Office who is now a private consultant. Many suspected the extra revenue in January would lead to less money in coming months if the boom is from accelerated tax payments.<sup>96</sup> These experts urged caution until Brown introduced his budget revisions in May with updated fiscal forecasts.

And the governor and legislature have overreacted to monetary blips before. A few years before they extrapolated \$4 billion in extra annual revenue based on \$1.2 billion extra collected in May and June. The extra \$2.8 billion never materialized forcing midyear budget cuts and further reductions the following year.<sup>97</sup>

## Legislative Refinement

The first salvo from the legislature came in late March 2013 when an Assembly budget subcommittee voted to reject Brown's proposal to shift adult education programs from local school districts to community colleges. In a rare bipartisan unanimous vote, the committee voted to keep \$754 million in the K-12 system, rather than the governor's plan to give less than half of that to community colleges. "We want to send a message that adult education needs to be rebuilt," said Assemblywoman Susan Bonilla (D-Concord), chair of the Assembly Budget Subcommittee on Education Finance. "But, we don't want to in any way lead to further undermining of those programs."<sup>98</sup>

The LAO confirmed in late April that the state was collecting about \$4 billion more in personal income tax than initial projections. Brown was still wary, however, and wanted to wait for the more extensive forecast included in the May revision. He cautioned that much of the additional revenue might get tied up in Proposition 98, which guarantees a certain amount of funding

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<sup>94</sup> January 2013, *PPIC*, PPIC Statewide Poll: Californians & Their Government.

<sup>95</sup> February 21, 2013. *Field Poll*. Release #2438.

<sup>96</sup> January 23, 2013. *Sacramento Bee*. California sees a revenue bump after tax changes.

<sup>97</sup> January 23, 2013. *Sacramento Bee*. California sees a revenue bump after tax changes.

<sup>98</sup> March 19, 2013. *Sacramento Bee*. Assembly committee rejects adult education program shift.

for K-14 education. “Wait ’til the May revise,” Brown told reporters. “We have a very complicated mechanism called Prop. 98, and depending upon how the money flows, it may not be as available as many people are now thinking.” Even the LAO admitted that “much or all of the revenue gain could be required to be allocated to schools and community colleges under Proposition 98, which means that this fiscal year’s strong revenue performance may have little, if any, positive effect for the state’s financial bottom line.”<sup>99</sup>

Brown warned Democrats not to alter key parts of his education proposal or they were “going to get the battle of their lives.” Senate Democrats had released a counterproposal earlier that week that would alter the redistribution formula, spreading the additional revenue to all school districts and not concentrate the funding in the poorer ones like the governor’s proposal. The governor responded by claiming his reform was crucial to reverse the growing gap between rich and poor in California. “Increasingly this state is turning into a two-tier society,” Brown said, accompanied by twenty California school superintendents. “Those at the top are doing better and better and those in the middle and the bottom are doing worse and worse. The very least we can do is invest in our schools in a way that recognizes reality.” The governor added, “This is not an ordinary legislative measure. This is a cause. I will fight any effort to dilute this bill.”<sup>100</sup>

By the end of April, the state had collected almost \$5 billion more than expected, with nearly \$2.8 billion in personal income tax money arriving on April 17, the third-highest single-day collection in California history. And while Brown remained guarded, legislative Democrats were thrilled. “We’re not framing the debate around what to cut,” said Assembly Budget Chairman Bob Blumenfield (D-Woodland Hills). “We’re making choices about what kind of investments we want to make.”<sup>101</sup> The governor wanted to use the additional revenue to pay down the \$28 billion debt the state accumulated during previous budget crises.

Legislative Democrats wanted to restore the cuts to social spending over the past few years and restore California’s safety net. Steinberg pushed to restore Medi-Cal dental benefits and boost mental health programs as personal priorities. “There is no shame, in fact there’s pride, in fighting to restore cuts to those who have suffered the most during the budget crisis—the poor, the elderly, and the disabled,” he said, while acknowledging, “But we can only restore programs if there is money. And we don’t know whether or not there will be new money.”<sup>102</sup>

Republicans, largely cut out of budget negotiations between Brown and the Democratic legislators, urged the governor to remain firm. Democrats “love to fund, they hate to cut, and when they feel like they have money, they’re going to spend it.” said Senate Republican leader Bob Huff. Rob Stutzman, a Republican strategist, said the conflict increased pressure on Democrats to honor their promise of fiscal restraint in return for voters passing the Proposition 30 tax increases. “It’s a great opportunity for the governor to hold the line on restraining state spending,” he said. “It’s going to create an interesting tension for him with Democrats in the legislature.”<sup>103</sup>

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<sup>99</sup> April 23, 2013. *Sacramento Bee*. Jerry Brown urges budget restraint despite strong revenue.

<sup>100</sup> April 24, 2013. *Los Angeles Times*. Jerry Brown vows battle with Democratic critics of education plan.

<sup>101</sup> May 2, 2013. *Los Angeles Times*. California tax revenue yields multibillion-dollar surplus.

<sup>102</sup> May 6, 2013. *Sacramento Bee*. With revenue rising, Democrats push to restore safety net cuts.

<sup>103</sup> May 6, 2013. *Sacramento Bee*. With revenue rising, Democrats push to restore safety net cuts.

## May Revise: Fighting over the Extra Pot of Gold

In early May, Brown released his revised \$96.4 billion General Fund budget, \$1.3 billion less than proposed in January. While the governor acknowledged the state's additional \$4.5 billion in revenue collection, the administration believed the extra tax money was a one-time aberration, with the surplus projected to dissipate to only \$2.8 billion by the end of June 2013. Most of that money was guaranteed to schools to repay money taken in previous years.

Brown did dedicate about \$1 billion to help school districts implement California's new Common Core Curriculum Standards, which required student testing to be done on computers. His budget also predicted slower economic growth because of federal spending cuts from sequestration and the expiration of the temporary federal payroll cut. Brown cautioned, "This is not the time to break out the champagne."<sup>104</sup>

Most of the revision contained the same elements of Brown's January plan with a small amount of revenue added to help Californians find jobs and cover the increased probation responsibilities from shifting low-level offenders from state prisons to county jails. The state would also abandon its January proposal to cap the number of state-subsidized university classes that college students could take before paying more. Overall spending would equal \$145.7 billion, including bond money and revenue dedicated to specific spending in California's various special funds.<sup>105</sup>

Brown repeatedly said there was no money to restore previous cuts in social spending. "The money is not there," he argued. "Anyone who thinks there is spare change around has not read the budget."<sup>106</sup> "Everybody wants to see more spending," Brown added. "That's what this place is—it's a big spending machine. You need something? Come here and see if you can get it. But I'm the backstop at the end."<sup>107</sup>

Despite the overall decrease in the General Fund compared to the January proposal, the revised budget still contained the governor's new educational funding formula, which would divert about \$2 billion to lower-income school districts, rather than the legislative Democrats' plan to spread new financing more evenly across the state. All school districts would still get more funding than they received in 2011–12, but those with higher concentrations of low-income students, English language learners and foster youth would get more. "I think the idea in a Democratic legislature of helping the less advantaged is very persuasive," the governor said.<sup>108</sup>

Brown reiterated his opposition to discussing any additional tax increases. Asked about additional spending, including a ballot measure to enact an oil-severance tax to raise more money for education, Brown referred to the tax increases in Proposition 30, "We just got a nice tax . . . and I think we ought to take a deep breath and let people see how we're spending it in a wise way before we ask for anything else."<sup>109</sup>

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<sup>104</sup> May 14, 2013. *San Francisco Chronicle*. Brown's budget gives education big boost.

<sup>105</sup> May 14, 2013. *Los Angeles Times*. Gov. Jerry Brown sticks to hard line in revised budget proposal.

<sup>106</sup> May 14, 2013. *Los Angeles Times*. Gov. Jerry Brown sticks to hard line in revised budget proposal.

<sup>107</sup> May 14, 2013. *New York Times*. California Governor Issues Cautious Budget, Disappointing Democrats.

<sup>108</sup> May 14, 2013. *New York Times*. California Governor Issues Cautious Budget, Disappointing Democrats.

<sup>109</sup> May 14, 2013. *Contra Costa Times*. Gov. Jerry Brown's revised budget plan offers more money for schools.

Steinberg said Brown's spending plan would "treat thousands of disadvantaged students unequally" because there would be less funding for disadvantaged students in wealthier districts. "I agree we must aggressively pay down our state's debt and set aside money for a reserve, but there's a disappointing aspect to this proposal," Steinberg argued. "It's important that we begin making up for some of the damage done to tens of thousands of Californians."<sup>110</sup>

Other Democratic legislators were frustrated that Brown did not allocate more funding to restore social services. "A certain amount of caution is good when we don't know for certain where the economy will be next year," said Assemblywoman Nora Campos. "But at the same time, we need to remember that nearly two million Californians are out of work."<sup>111</sup>

In contrast, Republicans continued to praise the Democratic governor. Assembly Budget Committee Vice Chairman Jeff Gorell said it was "appropriate for the governor to have conservative revenue projections," while Assembly Republican leader Connie Conway of Tulare called Brown "the adult in the room" and predicted the largest obstacles would come from Democratic lawmakers.<sup>112</sup>

The LAO disagreed with some of the governor's numbers in the May Revise. Legislative Analyst Mac Taylor projected state revenues were \$3.2 billion higher than the governor's, reflecting a different view of the state's current economic climate. "We do not agree with the administration's view that there has been a significant dimming of the state's near-term economic prospects," the analyst wrote. Despite their diverging numbers, the legislative analyst agreed with the governor on adopting a cautious budget. Taylor said most of the extra tax revenue is obligated to fund education. "We need to be disciplined. We dug out of a big, deep hole, and the last thing we want to do is start another one," he said. "I think the governor is wise in being very cautious in making additional commitments until we're sure that additional money has come in."<sup>113</sup>

## Democratic Disagreements

The discussion about extra budget money once again reopened the larger debate about how the Democrats should use their new legislative supermajority. This was especially true among liberal groups who helped the Democrats earn that supermajority and wanted to see a payoff to their hard work and campaign support. "We worked hard last year to help get that supermajority," said Jim Araby, the executive director of the United Food and Commercial Workers Western States Council, which donated millions of dollars and cranked out 7,500 three-hour volunteer shifts last fall to help elect Democrats and pass Proposition 30. "Right now, some of our members are wondering if they're going to come out for some Democrats next year. Are they going to give up their off time, their Saturdays and Sundays to make calls and knock on doors if they're not going to see a progressive agenda come out of it?"

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<sup>110</sup> May 14, 2013. *Sacramento Bee*. Gov. Jerry Brown takes cautious approach on California budget.

<sup>111</sup> May 14, 2013. *San Jose Mercury-News*. California Gov. Jerry Brown proposes more education spending, but his budget is less upbeat.

<sup>112</sup> May 14, 2013. *Sacramento Bee*. Gov. Jerry Brown takes cautious approach on California budget.

<sup>113</sup> May 17, 2013. *Associated Press*. Analyst pegs revenue \$3.2B higher than Gov. Brown.

“The supermajority is something that you have to use it or lose it,” said Rick Jacobs, head of the 750,000-member Courage Campaign, a progressive grassroots advocacy group active in the 2012 elections. “It is time to be bold. What is anybody afraid of?”<sup>114</sup>

Democratic leaders were afraid of losing their supermajority. “Power is fleeting,” said Rhys Williams, a spokesman for Steinberg. “If you abuse it, you lose it.” While the vast majority of the legislative caucuses reside in the Bay Area or Los Angeles, Democrats also come from more marginal seats in the Central Valley and Inland Empire, traditionally more conservative parts of the state. “A lot of Democrats from more conservative areas don’t want to vote to raise taxes because they know it would kill them in their districts,” said Steve Maviglio, spokesman for Assembly Speaker John Pérez.”<sup>115</sup>

This hypothetical concern became all too real in late July, several weeks after the final budget was signed into law, when the Senate Democrats lost a special election in the Central Valley. Republican farmer Andy Vidak defeated Democratic Kern County Supervisor Leticia Perez 52–48%, costing the Democrats a seat in the Senate, although the Democrats still kept their supermajority. The election was initially triggered because Democratic Senator Michael Rubio had resigned his seat earlier in the year. In the May primary, Vidak almost captured the seat outright, but late absentee and provisional ballots lowered his total to 49.8%, forcing the runoff. The district tilts heavily towards the Democrats, but has a large Latino population, who historically have lower turnout compared to other ethnic groups, especially in low turnout special elections

Despite the preliminary electoral surprise in May, Democrats forged ahead with their budget alternative, restoring several social spending cuts passed over by Brown, funding dental care for poor adults and more spending on mental health programs. In addition, Assembly and Senate Democrats voted to accent to the rosier LAO economic forecast, along with the \$3.2 billion more in revenue. Senate Democrats went further and voted to alter Brown’s school spending formula, delaying implementation for one year and targeting spending on specific lower-income schools, not just poorer school districts, which would have had the effect of spreading the money to more parts of California.

Assembly Democrats allocated several hundred million for middle-class college scholarships, and both chambers agreed to restore \$100 million in court funding, along with paying down the state debt. In all, legislative Democrats would spend about \$2 billion more than Brown proposed in his revised budget. “We’re very sensitive to maintaining a balanced budget with a prudent reserve,” Steinberg acknowledged. “On the other hand, there’s been a lot of damage done the past five years. We want to focus on a few areas where people have been hurt the worst and see if we can begin helping them.”<sup>116</sup>

The governor declined to say if he would veto a budget package that included additional spending. “We’re in an exploratory, quasi-collaborative mode, and I don’t think edicts or pronouncements will help that process,” Brown said. Asked how the budget negotiations would play out, Brown replied, “A lot in private, and a little bit in public.”<sup>117</sup>

Public polling still showed strong support for Brown’s budget. Sixty-one percent of California residents, including a majority of Republicans and independents, backed his overall plan in a late May PPIC poll. Brown continued to register higher approval ratings than the legislature:

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<sup>114</sup> May 19, 2013. *San Francisco Chronicle*. Dems urged to use legislative muscle.

<sup>115</sup> May 19, 2013. *San Francisco Chronicle*. Dems urged to use legislative muscle.

<sup>116</sup> June 6, 2013. *Sacramento Bee*. California lawmakers using rosy revenue estimates for budget plans.

<sup>117</sup> May 29, 2013. *Sacramento Bee*. Jerry Brown says budget talks in ‘quasi-collaborative mode’.

48% compared to 35% for the legislature. The poll did not ask about budget differences between Brown and legislative Democrats, including the key divide over school spending formulas.<sup>118</sup>

By early June, with just a few days left before the June 15 constitutional deadline to pass a budget, Steinberg told reporters the legislature and Gov. Brown had “basically aligned” on public education funding. Praising the governor for including significant augmentations to his spending plan, Steinberg noted only a few points remained. “The governor suggested an equity formula that to me was about 80 percent there, but I still object to about 20 percent of it,” the Senate Pro Tem said.<sup>119</sup> “It’s almost there, but not yet,” Perez said a few days later, after several more rounds of private negotiations.<sup>120</sup>

## Compromise Reached

Brown and the legislative Democrats reached a final compromise on everything just a day or two later. The governor convinced legislators to use his more cautious fiscal projections and ignore the extra money projected by the LAO. In exchange, Democratic legislators were able to add about \$200 million more in social spending. Perez and the Assembly Democrats would also get their new program to limit college tuition costs for middle-class families. To pay for the extra spending, the state would slow down the repayment owed to schools under Proposition 98.

The compromise increased the amount of money flowing to K-12 from \$1.6 billion to \$2.1 billion, and Democratic lawmakers agreed to implement Brown’s new education funding formulas with a few slight revisions to placate suburban districts. Expanding the total amount of school funding made suburban districts happier. “That was certainly our first concern,” said Terry Koehne, spokesman for the San Ramon Valley Unified School District. “There were definitely winners and losers in the original proposal.”<sup>121</sup>

Legislative budget leaders Senator Mark Leno and Assemblyman Bob Blumenfield admitted they compromised and agreed with Brown’s fiscal terms “to reach a deal.” Leno said, “As all budgets are acts of compromise, this budget would be no exception.” He noted if revenues continued to beat projections, they could revisit higher spending in 2014.<sup>122</sup> Not surprisingly, Brown remained skeptical. “I haven’t made any agreement,” the governor told reporters. “Look, we have boom and bust, money comes in, money goes out. I’m trying to be a good, prudent steward of the people’s money.”<sup>123</sup>

Still, the mood was largely congratulatory. “This is a real step forward,” Brown announced at a Capitol press conference. “California is focusing in this budget on improving the health care of the people of our state and improving educational opportunity, while we’re living in balance.” Pérez agreed, adding, “This is a tremendous accomplishment for the people of California.”<sup>124</sup>

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<sup>118</sup> May 29, 2013. *Sacramento Bee*. Poll: Californians back governor’s budget, school plan.

<sup>119</sup> June 6, 2013. *Sacramento Bee*. Steinberg calls Jerry Brown’s education plan ‘80 percent there’.

<sup>120</sup> June 10, 2013. *Associated Press*. Legislative leaders says state budget deal is near.

<sup>121</sup> June 11, 2013. *San Jose Mercury-News*. California budget deal reached by Gov. Jerry Brown, lawmakers.

<sup>122</sup> June 11, 2013. *San Jose Mercury-News*. California budget deal reached by Gov. Jerry Brown, lawmakers.

<sup>123</sup> June 11, 2013. *Sacramento Bee*. Jerry Brown, California legislative leaders tout budget deal.

<sup>124</sup> June 11, 2013. *Contra Costa Times*. Gov. Jerry Brown, top lawmakers celebrate their California budget deal.

Steinberg joked, “Ho hum, another on-time, balanced budget in California. This is the third year in a row, and this one feels better than even the first two.” In contrast to previous budget fights that dragged on throughout the summer, this was the earliest the legislature had adopted a spending plan for California since 1986.<sup>125</sup>

The legislature passed the state budget on June 14, a day before the constitutional deadline. It passed in both chambers along party lines. The budget increases California General Fund expenditures by about \$5 billion over the previous year, and over \$10 billion from the 2011–2012 fiscal year two cycles ago. The \$145 billion in total state spending was approximately \$3 billion more than the previous year. In addition to the \$96.3 billion General Fund, the state will hold \$1.1 billion in reserve.

A few days before the start of the fiscal year on July 1, Brown signed the budget. “We have a balanced budget, not proposed, but actually actualized—the first time in probably a decade or more where the state’s finances are in very solid shape,” he said.<sup>126</sup> He used line-item vetoes to reduce about \$40 million in spending, the smallest amount vetoed since Pete Wilson in 1993. Unlike the beginning of the year, there was not talk of veto overrides among legislative Democrats.

## Enacted Budget

Figure 6 shows the distribution of state General Fund expenditures for FY 2013–2014.

### K-12 Education

The May Revision and final enacted budget hewed closely to Governor Brown’s initial funding proposals. Both the May Revision and enacted budget allocated \$70 billion for K-12 education programs, with only a slight difference in the amount coming from the General Fund as opposed to other funds.<sup>127, 128</sup> The May Revision proposed \$39.9 billion in General Fund spending, while the enacted budget set General Fund contributions at \$39.6 billion.<sup>129, 130</sup>

### Higher Education

Similarly, higher education funding saw few changes, as both the May Revision and enacted budget allocated \$25.4 billion.<sup>131, 132</sup> As with K-12 funding, the General Fund contribution shifted slightly from \$12.7 billion in the May Revision to \$13.1 billion in the final budget, although the total amount of state funding remained the same.<sup>133, 134</sup> Both plans maintained the governor’s

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<sup>125</sup> June 11, 2013. *Contra Costa Times*. Gov. Jerry Brown, top lawmakers celebrate their California budget deal.

<sup>126</sup> June 27, 2013. *San Francisco Chronicle*. Gov. Brown proudly signs balanced state budget.

<sup>127</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>128</sup> California Department of Finance. *California State Budget 2012-2013*.

<sup>129</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>130</sup> California Department of Finance. *California State Budget 2012-2013*.

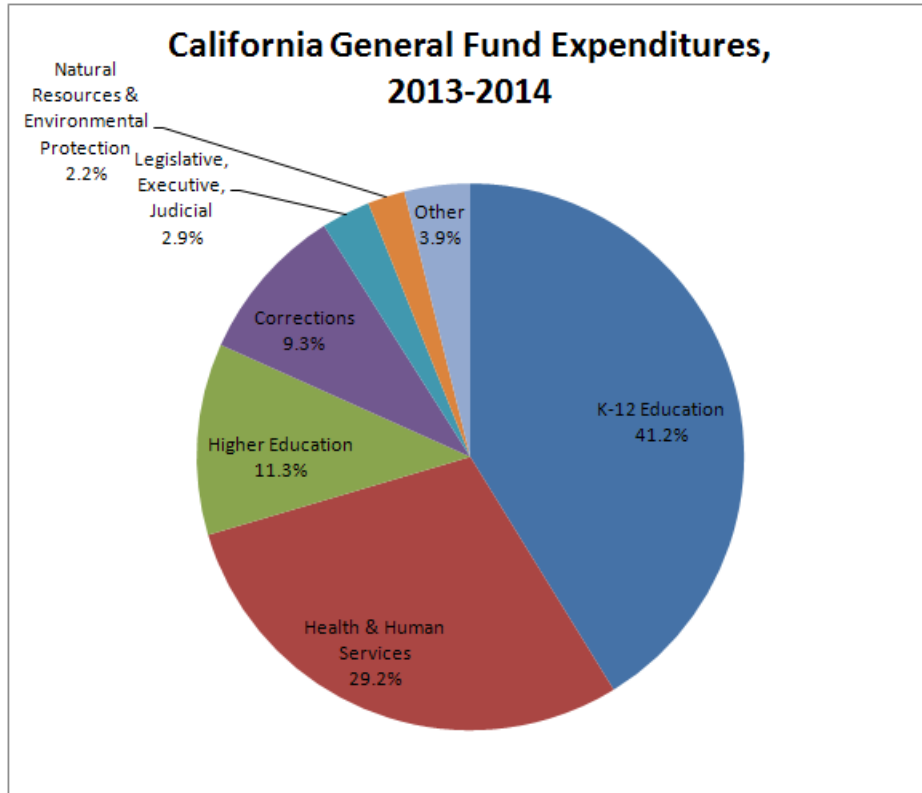
<sup>131</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>132</sup> California Department of Finance. *California State Budget 2012-2013*.

<sup>133</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>134</sup> California Department of Finance. *California State Budget 2012-2013*.

**Figure 6.**



Source: Department of Finance

commitment to providing planned percentage-based increases to higher education funding over the next several years.<sup>135, 136</sup> This is called the “Multi-Year Stable Funding Plan.” Both the May Revision and final enacted budget included a four-year tuition freeze provision for the University of California and California State University systems.<sup>137, 138</sup> Unlike previous years, UC and CSU students will not be subject to any tuition increases prior to the 2017-2018 academic year.<sup>139, 140</sup>

### **Health & Human Services**

The May Revision called for an increase in General Fund spending of \$100 million on Health and Human Services, from \$28.4 billion in the governor’s initial proposal to \$28.5 billion.<sup>141</sup>

<sup>135</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>136</sup> California Department of Finance. *California State Budget 2012-2013*.

<sup>137</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>138</sup> California Department of Finance. *California State Budget 2012-2013*.

<sup>139</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>140</sup> California Department of Finance. *California State Budget 2012-2013*.

<sup>141</sup> California Department of Finance. *May Revision 2013-2014*.

\$48.3 million of that increase was earmarked for CalWORKs, in order to implement new protocols to help those on assistance gain employment, and to deal with problems such as mental health issues, substance abuse, and domestic violence.<sup>142</sup> Additional increases were proposed for IHSS in order to deal with increased caseloads.<sup>143</sup>

The enacted budget decreased the General Fund's contribution by \$400 million from the level proposed in the May Revision.<sup>144</sup> New CalWORKs employment services protocols received a boost of \$148.2 million (\$100 million above the May Revision).<sup>145</sup> The final budget included a five percent increase in CalWORKs grants, effective March 1, 2014.<sup>146</sup> The Department of Finance projected this increase would cost \$51 million in the 2013–2014 fiscal year and approximately \$150 million annually in subsequent years.<sup>147</sup>

## Corrections

In the May Revision and enacted budget, the \$100 million initial cut was restored, leading to total CDCR funding of \$9.1 billion, with \$8.8 billion coming from the General Fund.<sup>148</sup> This increased funding was used for a variety of programs including increasing the number of inmates participating in fire camps (\$15.4 million), implementing drug interdiction programs that have proven effective in other states (\$6.6 million), and funding county probation departments engaged in programs to reduce recidivism (\$72.1 million).<sup>149</sup>

## Post-Budget Analysis

Steinberg said “Budgets represent signposts of great progress or difficult times,” and this one is the former: “Real people, hurt for so long, will get some help.”<sup>150</sup> He also acknowledged its limitations. “Of course it’s not enough,” said the Senate Pro Tem. “But there’s no way we could make up for five, six years of devastating cuts in one year. This is a start, and it’s a very good start.”<sup>151</sup>

Pérez praised the budget, saying it “builds on the progress we’ve made over the last couple of years.” The Speaker added, “It is a budget that says the fiscal health of the state is on the mend . . . but also that we’re committed to the health and well-being of all of the people who live in California.”<sup>152</sup>

Pérez’s middle-class college scholarships will start in the 2014–15 school year and become fully effective in 2017–18. Covering up to 40% of tuition at either the Cal State University or University of California systems, CSU alone estimates 150,000 students may qualify.

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<sup>142</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>143</sup> California Department of Finance. *May Revision 2012-2013*.

<sup>144</sup> California Department of Finance. *California State Budget 2013-2014*.

<sup>145</sup> California Department of Finance. *California State Budget 2013-2014*.

<sup>146</sup> California Department of Finance. *California State Budget 2013-2014*.

<sup>147</sup> California Department of Finance. *California State Budget 2013-2014*.

<sup>148</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>149</sup> California Department of Finance. *May Revision 2013-2014*.

<sup>150</sup> June 27, 2013. *San Jose Mercury-News*. Gov. Jerry Brown signs on-time budget into law.

<sup>151</sup> June 28, 2013. *Sacramento Bee*. For California’s poor and needy, state budget is a partial victory.

<sup>152</sup> June 27, 2013. *San Jose Mercury-News*. Gov. Jerry Brown signs on-time budget into law.

Although the budget restored \$63 million to reopen closed courts, California Chief Justice Tani Cantil-Sakauye was still concerned. “In the last several years, about \$1 billion in General Fund support has been taken from the judicial branch,” she said. “We are out of one-time solutions and funding transfers to blunt the impact of such massive budget reductions in the future.” Cantil-Sakauye argued the extra funding “absolutely won’t be enough to provide the kind of access to justice the public deserves.”<sup>153</sup>

Republicans like Senator Bill Emmerston of Hemet feared the budget was only balanced because of the temporary extra taxes in Proposition 30. “My biggest fear is we’re going to create another budget hole to the General Fund after Prop. 30 goes away,” he said. “If the economy does not grow sufficiently, we’re going to get another budget crisis in the future.”<sup>154</sup>

Brown acknowledged more needed to be done, but warned that reforming California would take time.. “I’ve said there needs to be more pension reform,” Brown told the *New York Times*. “Well, when to do that is a matter of my prudential judgment. People who want to do everything all at once generally don’t get anything done.” He pointed out, “It’s not just one year. It’s many years.”<sup>155</sup>

“Some people were ridiculing California, and some were calling it a failed state,” Brown noted. “Unemployment came down from 12.2 to 8.5. Real estate is rebounding. There’s a lot of confidence out there.” He said his father always told him, “Timing is important.”<sup>156</sup>

John Foran, a former Democratic legislator during Brown’s earlier stint as governor, said Brown is “more down to earth and pragmatic, and more of a problem solver” than before.<sup>157</sup> But Foran noted that legislative Democrats are more pragmatic as well. “The Democrats, particularly those that have gone through this horrible deficit every year, want a situation in which they don’t have this terrible deficit every year. So they probably are more pragmatic than they used to be.”<sup>158</sup>

## Reflections on Brown

Negotiations between Brown and Steinberg and Pérez were largely uneventful, unlike 2011, when Brown became the first governor in state history to veto the budget bill. Or 2012, when the legislature passed a budget plan without first reaching agreement with the governor. The improving economy helped, as did the increased taxes from Proposition 30.

“To get the budget cuts these past two years, I had to go to the legislature and say ‘Please, please, please!’” Brown told *The Atlantic* in Spring 2013. Democratic lawmakers “didn’t like it, but they agreed as part of getting the tax increase.”<sup>159</sup>

Many political analysts believed the drama-free budget would help Brown and the Democrats in the 2014 election. “[Brown] wanted to ensure that he put himself in the best place possible,

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<sup>153</sup> June 27, 2013. *San Jose Mercury-News*. Gov. Jerry Brown signs on-time budget into law.

<sup>154</sup> June 28, 2013. *Sacramento Bee*. For California’s poor and needy, state budget is a partial victory.

<sup>155</sup> August 16, 2013. *New York Times*. Brown Cheered in Second Act, at Least So Far.

<sup>156</sup> August 16, 2013. *New York Times*. Brown Cheered in Second Act, at Least So Far.

<sup>157</sup> June 14, 2013. *Sacramento Bee*. California budget negotiations a breeze for Jerry Brown.

<sup>158</sup> June 14, 2013. *Sacramento Bee*. California budget negotiations a breeze for Jerry Brown.

<sup>159</sup> May 22, 2013. *The Atlantic*. Jerry Brown’s Political Reboot.

not just for him but for everyone going into an election year,” said Gale Kaufman, a Democratic strategist. “It’s been a while since you had much to say for an incumbent that was positive.”<sup>160</sup>

Many legislative Democrats agreed. On the Senate floor during the budget debate, Sen. Hannah-Beth Jackson noted, “California’s back. I think this budget is a reflection of that.”<sup>161</sup> Senator Mark Leno, Chair of the Senate Budget Committee, called the plan “the most positive and encouraging budget experience I’ve had in my 11 years at the Capitol.”<sup>162</sup> Steinberg agreed, “The passage of the budget may just represent the end of one very difficult era and the beginning of a new and better era—an era of economic growth, hope, and restoration.” Pérez was also upbeat. “This budget is really in stark contrast to the budgets of the last several years,” he said.<sup>163</sup>

Steinberg later noted, “This was the first year in many that we weren’t negotiating how deep to cut and what to cut. Instead, we were negotiating about restorations, and I think the biggest debate was how fast and how much.”<sup>164</sup>

Some Democrats were still upset that more social services were not restored. Although pleased with the overall budget, Democratic Assemblywoman Nancy Skinner said Brown pushed too hard to hold down expenses. “Many of us felt in the legislature a little more spending on a couple of areas that really had devastating cuts might have been justified.”<sup>165</sup>

As for Brown, there is a strong consensus among pundits that he brings a wiser maturity to the budget process than his first time in office during the 1970s and ’80s. “Brown has lived long enough to know the difference between Indian summer and spring. And from a fiscal standpoint, this is Indian summer,” said Jack Pitney, a former Republican Party strategist and professor at Claremont McKenna College. “Colder days lay ahead.”<sup>166</sup>

“He wasn’t really a politician the first time,” Bruce Cain told *The Atlantic*. The Stanford Political Scientist added, “He could be standoffish to legislators, who in those days were formidable figures with real knowledge and expertise. Now the legislature is full of itinerant politicians, and he is far more experienced than any of them.”<sup>167</sup>

If the economy improves, will Brown be willing to spend the excess revenue? Steve Levy, director of the Center for Continuing Study of the California Economy in Palo Alto, described Brown as more cautious than conservative. “A conservative wouldn’t spend the money if we had it,” Levy said. “I think Brown will be perfectly willing to spend the money if the revenues continue to come in above expectations and the economic recovery continues to outpace the nation.”<sup>168</sup>

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<sup>160</sup> June 14, 2013. *Sacramento Bee*. California budget negotiations a breeze for Jerry Brown.

<sup>161</sup> June 14, 2013. *Sacramento Bee*. California budget negotiations a breeze for Jerry Brown.

<sup>162</sup> June 14, 2013. *San Francisco Chronicle*. State lawmakers OK \$96.3 billion budget.

<sup>163</sup> June 14, 2013. *San Jose Mercury-News*. California Legislature approves state budget with rare surplus.

<sup>164</sup> June 14, 2013. *Reuters*. California lawmakers pass budget, set aside rainy day funds.

<sup>165</sup> June 14, 2013. *Reuters*. California lawmakers pass budget, set aside rainy day funds.

<sup>166</sup> June 14, 2013. *Los Angeles Times*. ‘Less liberal’ is the new conservative in state Capitol.

<sup>167</sup> May 22, 2013. *The Atlantic*. Jerry Brown’s Political Reboot.

<sup>168</sup> June 14, 2013. *Los Angeles Times*. ‘Less liberal’ is the new conservative in state Capitol.

## Vanishing Republican Influence

Republicans, who just a few years ago were holding up Brown's tax initiative and refusing to compromise, now rely on Brown to constrain spending pushed by more liberal Democratic lawmakers. "In many ways, he's the Republicans' vehicle for budget negotiations," said Jeff Gorell, vice-chairman of the Assembly Budget Committee. "It's through his less liberal approach that Republicans are able to . . . participate in what's going on."<sup>169</sup>

It was a direct consequence of voters passing Proposition 25 in 2010, which lowered the threshold to pass the budget from two-thirds to a simple majority and had the side effect of completely removing the Republicans from the budget negotiations. "To not even be involved in the process of the budget, to not even know what's in it—I have a problem with that," said Republican Assemblyman Rocky Chavez.<sup>170</sup> "He's just ignored the Republicans," said Tony Quinn, a political analyst and former Republican legislative aide. "So has the media, so have the Democrats, so has everybody else. Their irrelevancy is a simple, political fact of losing."<sup>171</sup>

The Big Five long ruled budget politics in California. The governor and the majority and minority leaders in each chamber would cobble together a budget compromise, always at the last-second, sometimes weeks or months after the deadline. Proposition 25 shrunk the Big Five to the Big Three, removing Republicans from the equation, giving all the power to Brown, Steinberg, and Perez. This year, the Big Three largely negotiated out of the spotlight and the three Democratic leaders all claimed victory.

"Everybody got what they wanted—at least of the Big Three," said Jeff Cummins, a political science professor at California State University, Fresno. "Not a lot total-wise, but Steinberg and Pérez had staked out their position on what their pet programs were. They can at least claim credit for getting a couple of the main pieces they wanted out of the deal."<sup>172</sup>

This generates some heated discussion among Republicans. For some, like Jon Fleischman, administrator of the influential conservative website Flash Report and a former executive director of the California Republican Party, any praise for Brown would undercut the party's ability to challenge the Democrats in 2014, and end the Democratic legislative supermajority. "If the public sees Jerry Brown as the adult in the room, why do they need Republicans?" Fleischman argues. "It's single-party rule right now . . . Republicans need to claw back."<sup>173</sup>

Senate Republican leader Bob Huff was more pragmatic, given the lack of influence legislative Republicans now have in Sacramento. Brown "is the most conservative of the three leading Democrats in Sacramento," Huff said. "We've got to play the hand that's been dealt. Our stuff is routinely ignored. We find ourselves in agreement with the governor more often than not."<sup>174</sup>

## Supermajority and Taxes

And what of the new Democratic supermajority? Steinberg told reporters the supermajority has been effective, but used sparingly. "This experiment of how a supermajority would perform in

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<sup>169</sup> June 14, 2013. *Los Angeles Times*. 'Less liberal' is the new conservative in state Capitol.

<sup>170</sup> June 14, 2013. *Reuters*. California lawmakers pass budget, set aside rainy day funds.

<sup>171</sup> June 14, 2013. *Sacramento Bee*. California budget negotiations a breeze for Jerry Brown.

<sup>172</sup> June 14, 2013. *Sacramento Bee*. California budget negotiations a breeze for Jerry Brown.

<sup>173</sup> June 14, 2013. *Los Angeles Times*. 'Less liberal' is the new conservative in state Capitol.

<sup>174</sup> June 14, 2013. *Los Angeles Times*. 'Less liberal' is the new conservative in state Capitol.

California is seven months old,” he said in July 2013. “The early returns are very positive. This year is not nearly done but it is already a year marked by achievement. We have used it selectively and strategically.”<sup>175</sup> The Democrats used their two-thirds majority twice: overhauling the state’s enterprise zones and a \$75 real estate fee to raise \$720 million annually for affordable housing. While Brown signed the enterprise zone bill into law, the real estate fee passed in the Senate but sat in the Assembly throughout 2013, awaiting a final vote.

Speaker John Pérez echoed the calls for fiscal discipline. “It shouldn’t—but it may—surprise folks that Democrats with our supermajority will be looking to build on the fiscal responsibility that we’ve shown the last couple of years,” Perez acknowledged. The Speaker admitted, despite pressure from liberal constituencies, there’ll be little if any restoration of previous social spending reductions. “We don’t have endless amounts of money.”<sup>176</sup> In another example of this restraint, Assemblyman Tom Ammiano’s proposal to revise Proposition 13 never made it out of committee.

### **Epilogue: November 2013**

A mid-November 2013 LAO report added further fuel to the argument that California had finally transcended its never-ending budget quagmire. “The state’s budgetary condition is stronger than at any point in the past decade,” the report noted. California could have a surplus of more than \$2.4 billion by June 2014, the end of its fiscal year, driven by an improving economy and a rising stock-market. Furthermore, the analyst’s office predicts multibillion dollar surpluses over the next few years, potentially tempering the loss of revenue when Proposition 30’s temporary tax measures expire in 2018.<sup>177</sup> Figure 7 depicts the state’s projected budget surpluses from 2014–2020, based on the LAO’s 2013 calculations.

This would further the demand among Democratic legislators to increase social spending and restore programs cut during the recession. Brown, not surprisingly, urged caution. “It turns out, according to the legislative analyst, we have billions of dollars in surplus,” Brown noted. “So there will be a great effort to spend it as quickly as possible.” The governor noted California still had many other fiscal obligations. “We have deferred maintenance on our roads, that is serious, we have unfunded and growing liabilities in our pension and retiree health—state, university and local level,” Brown said.<sup>178</sup>

Caution was also important politically as well. At the same time the LAO was releasing its report, the Republicans almost won another special legislative election, this time in the San Fernando Valley, the middle-class suburbs of Los Angeles. Although registered Democrats outnumbered Republicans nearly 2–1 in the 45th Assembly District, Republican Susan Shelly lost by only a few hundred votes. Shelly ran on a platform to deny the Democrats their two-thirds majority in the legislature, and therefore their ability to alter Proposition 13 without legislative Republican votes.

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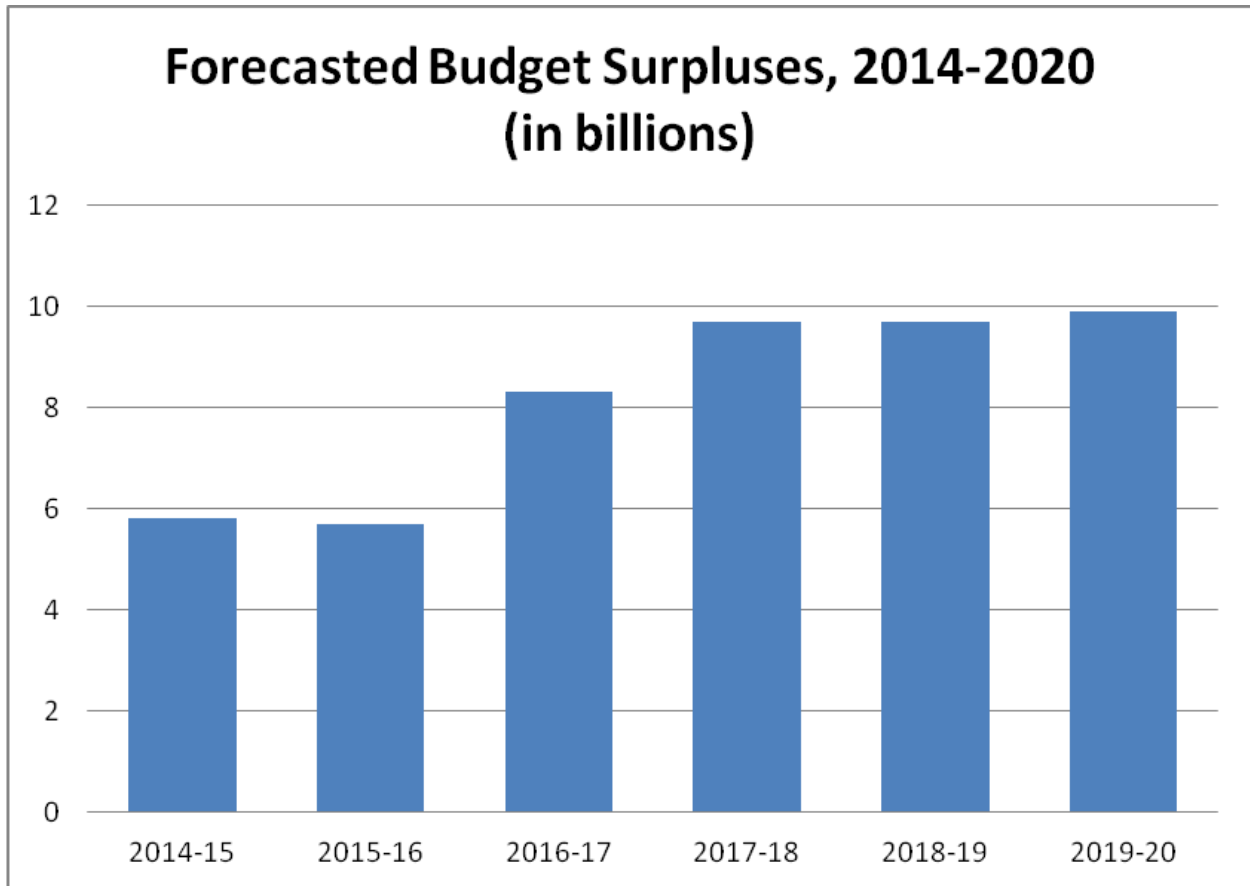
<sup>175</sup> July 10, 2013. *Sacramento Bee*. State Senate leader says Democrats’ super-majority made difference.

<sup>176</sup> May 6, 2013. *Sacramento Bee*. With revenue rising, Democrats push to restore safety net cuts.

<sup>177</sup> November 20, 2013. *Los Angeles Times*. California’s budget outlook is the best in a decade, analyst says.

<sup>178</sup> November 21, 2013. *Sacramento Bee*. Jerry Brown urges caution on California budget outlook.

**Figure 7.**



Source: Legislative Analyst's Office.

Republicans had almost won another seemingly safe Democratic seat by a few hundred votes in the Inland Empire just a few months earlier as well. Would the Republicans be able to make the Democratic supermajority the issue in the next general election? The 2014 Election had already begun by late 2013.