

California's 2014–15 Budget: Political Corruption Distracts the State

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Governor Jerry Brown used the relatively easy budget negotiations during this budget cycle to set himself up to run as the elder statesman seeking reelection for an unprecedented fourth term as governor. The state's youngest governor in the 1970s and '80s, Brown is now California's oldest governor and longest-serving chief executive. He won election handily by one of the largest margins in state history.

However, it was not budget politics or even elections that occupied Sacramento's attention this fiscal year, but rather a series of three separate political corruption investigations and convictions in the state senate that tarnished the Golden State. These cases not only generated a great deal of negative media attention, but they cost the Democrats three seats, as the caucus was forced to suspend all three senators. This denied the Democrats their supermajority in the senate, and therefore the legislature as a whole. After an impressive electoral victory in 2012 gave the Democrats their first supermajority in over a hundred years, Democratic lawmakers slinked into the 2014 elections without much to crow about.

This budget cycle marked the last year of the state's current legislative leadership, and much of the budget negotiations were marked by tranquil, respectful discussions. Even when the Democrats needed Republican votes on two ballot measures, Republicans were willing to negotiate, in sharp contrast to previous years.

Background

Demographics

The state's changing demographics also continue 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 percent of the state's population, with Latinos comprising 37.6 percent.¹ Based on updated information from the U.S. Census Bureau (through 2013), non-Hispanic whites currently account for 39 percent of the state's population, while Latinos make up 38.4 percent.² Based on Census Bureau projections, Latinos should form a plurality by 2020 (40.8 percent projected), with non-Hispanic whites declining to just 36.6 percent.³ As recently as 1980,

¹ U.S. Census Bureau, 2015.

² U.S. Census Bureau, 2015.

³ U.S. Census Bureau, 2015.

non-Hispanic whites accounted for two-thirds of California's population.⁴ Figure 1 depicts the shifting makeup of the state from 1980 to 2020 (projected).

Unemployment

Unemployment is also a major issue. In January 2008, the unemployment rate in California stood at 6.1 percent.⁵ By September 2010, less than three years later, that figure had doubled to 12.2 percent.⁶ California is known as a boom-and-bust state, and during hard times California often suffers more than the country at large. For example, the national unemployment rate hit its recent zenith in October 2009 at 10 percent, after which it slowly began to recede.⁷ Meanwhile, California's jobless rate continued to climb.

Since late 2010, California had had a very slow recovery from the Great Recession. As recently as 2012, California's unemployment rate was consistently two to three points higher than the national average. In 2013 and 2014, this gap narrowed, with California's unemployment rate fluctuating between one and one-and-a-half points higher than the national average.⁸ In January 2014, California's unemployment rate stood at 8.1 percent in compared to the national rate of 6.6 percent.⁹ By December 2014, California had reduced its unemployment rate by a full percentage point, to 7.1 percent, while the national rate also fell one point to 5.6 percent.¹⁰ Figure 2 depicts the California and national unemployment rates from January 2013 through December 2014.

While down substantially from its high of 12.2 percent, California still closed 2014 with a very high unemployment rate compared to other states. Only two other states in the country, Louisiana and Mississippi, had unemployment rates that were higher.¹¹ Moreover, two of the hardest hit states in the Great Recession, Nevada and Rhode Island, recorded unemployment rates lower than California's by December 2014.¹² Clearly, much work remains to be done.

The California Budget Process

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

The kick-off to the annual budget season is the governor's budget proposal, which must be submitted to the legislature by January 10 of each year, for the fiscal year beginning July 1. Once submitted to the legislature, the proposed budget is referred to the Legislative Analyst's Office (LAO) for review. Similar to the Congressional Budget Office, the LAO is tasked with presenting the legislature with independent, objective, and nonpartisan analysis of the state budget. LAO budget analysts craft a detailed report on the governor's budget, and will frequently highlight

⁴ U.S. Census Bureau, 2015.

⁵ U.S. Bureau of Labor Statistics State Unemployment Database, 2015.

⁶ U.S. Bureau of Labor Statistics State Unemployment Database, 2015.

⁷ U.S. Bureau of Labor Statistics National Unemployment Database, 2015.

⁸ U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2015.

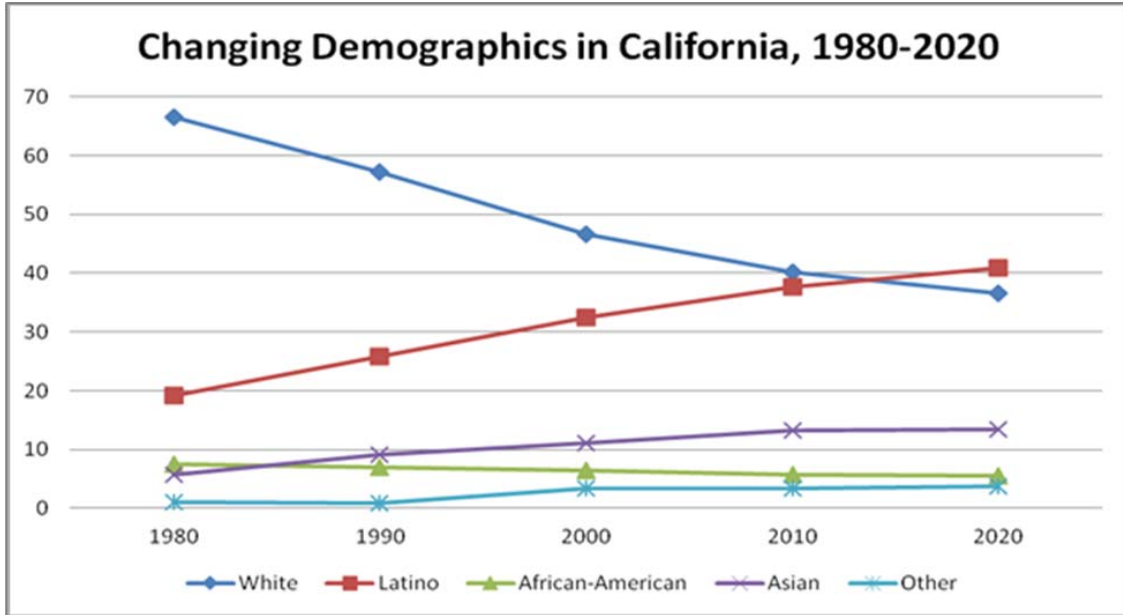
⁹ U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2015.

¹⁰ U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2015.

¹¹ U.S. Bureau of Labor Statistics State Unemployment Database, 2015.

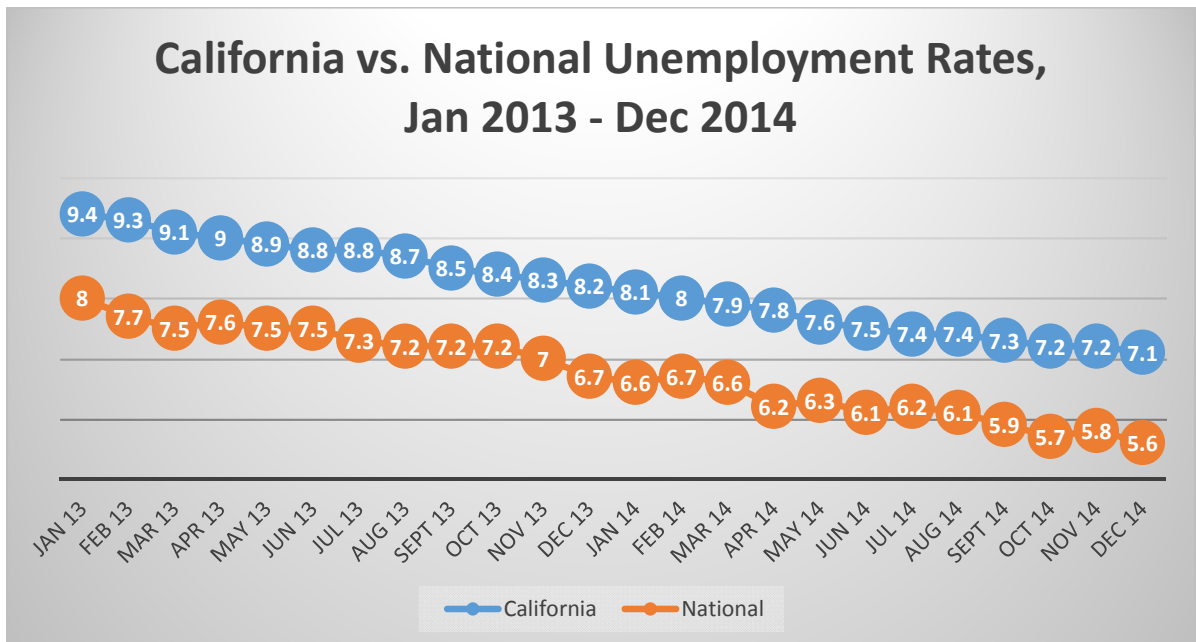
¹² U.S. Bureau of Labor Statistics State Unemployment Database, 2015.

Figure 1.



Source: U.S. Census Bureau.

Figure 2.



Source: U.S. Bureau of Labor Statistics.

areas of either inadequate or excessive spending in various departments, as well as highlighting changes from the previous year's budget. From there, the action shifts to the assembly budget and senate budget and fiscal review committees, before proceeding to the assembly and senate floors for consideration. 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 may be passed by a simple majority of both houses (41 in the assembly and 21 in the senate). However, if tax increases are included in the budget, the state constitution requires a two-thirds vote of each chamber for passage (54 in the assembly and 27 in the senate). If approved, the budget is sent to the governor for his signature.

At that point, the governor may choose to exercise his line-item veto. 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. However, the governor is not empowered to increase spending on any line-item. Line-item vetoes—like regular vetoes—can be overridden by a two-thirds vote of both houses of the legislature, however, this is very rare.

The California Constitution requires the legislature to adopt a budget by June 15, and the governor to affirm his signature by July 1, which is the beginning of the new fiscal year. While this deadline has rarely been met in previous years, owing to the lack of a constitutional enforcement mechanism, Proposition 25 changed that. Since 2010, legislators must *pass* a budget by a constitutionally mandated deadline or they 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. 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. However, unlike most states, California is disproportionately reliant upon income tax revenue to fund its operations. This creates a boom-and-bust cycle giving the state's large surpluses when times are good, but huge deficits when times are bad. During difficult times, the state is forced to choose between tax increases opposed by Republicans and major spending cuts opposed by Democrats. Both options are politically unpopular.

Supermajority Requirements for Tax Increases: Over the past 55 years, the Democratic Party has dominated the California legislature. Republicans have only won the majority in the assembly twice since 1958. In the senate, Republicans have won the majority only once since 1956, and that election was nearly 45 years ago. Given this history of legislative dominance, one would assume that Democrats have historically 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 in each house of the legislature to pass. Until recently, this has given the

Republican Party tremendous leverage over the budget-making process because they possessed an effective veto over tax policy.

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.¹³ On any given California ballot, voters frequently decide the fate of five to fifteen different proposals. Very often, these proposals have significant fiscal impacts. California's reliance upon direct democracy complicates the job of the governor and state legislature in crafting a budget, because certain taxing and spending options are not available to them. For example, Proposition 98 mandates that 40 percent of the state's budget be allocated for K-14 education. Thus, 40 percent of the budget is off-the-table before any budget proposals can be made.

This system of "ballot box budgeting" also tends to produce structural deficits for the state, even in the best of times. This is because voters have historically approved new spending measures but rejected new tax increases. However, Proposition 30 temporarily raised sales and income taxes by approximately \$6 billion to provide increased funding for education. Passing by a relatively comfortable 55-45 percent margin in 2012, perhaps this signaled that California voters are increasingly willing to raise taxes in order to pay for public services like education. Time will tell.

The Big Four and the 2013–2014 Budget

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 over 90 percent of all state General Fund spending. In the FY 2013–2014 budget, K-12 education accounted for 41.2 percent, health and human services 29.2 percent, higher education 11.3 percent, and corrections 9.3 percent (see Figure 3 below).¹⁴

K-12 education was the single largest expense facing California in 2013–2014, consuming over 41 percent of General Fund revenues in the FY 2013–2014 budget. Overall, the state was providing \$70 billion of funding to support primary and secondary education, with \$39.6 billion coming from the General Fund and \$30.4 billion from other funds.¹⁵ Compared to the previous year, the 2013–2014 budget increased spending on K-12 education by \$2.6 billion.¹⁶

Health, welfare, and social service programs were the second largest category of expenses in the 2013–2014 budget, accounting for 29.2 percent of all state spending. The budget provided a total of \$113.5 billion for such programs, with \$28.1 billion coming from the General Fund and \$85.4 billion from other funds.¹⁷ Compared to the previous year, the 2013–2014 budget increased spending on health and human services by \$8.4 billion.¹⁸

Higher Education accounted for the third largest area of state spending, consuming over 11 percent of General Fund revenues in the 2013–2014 budget. Overall, the state was providing \$25.4 billion in funding,

¹³ Initiative & Referendum Institute, 2015.

¹⁴ California Department of Finance. *California State Budget 2013–2014*.

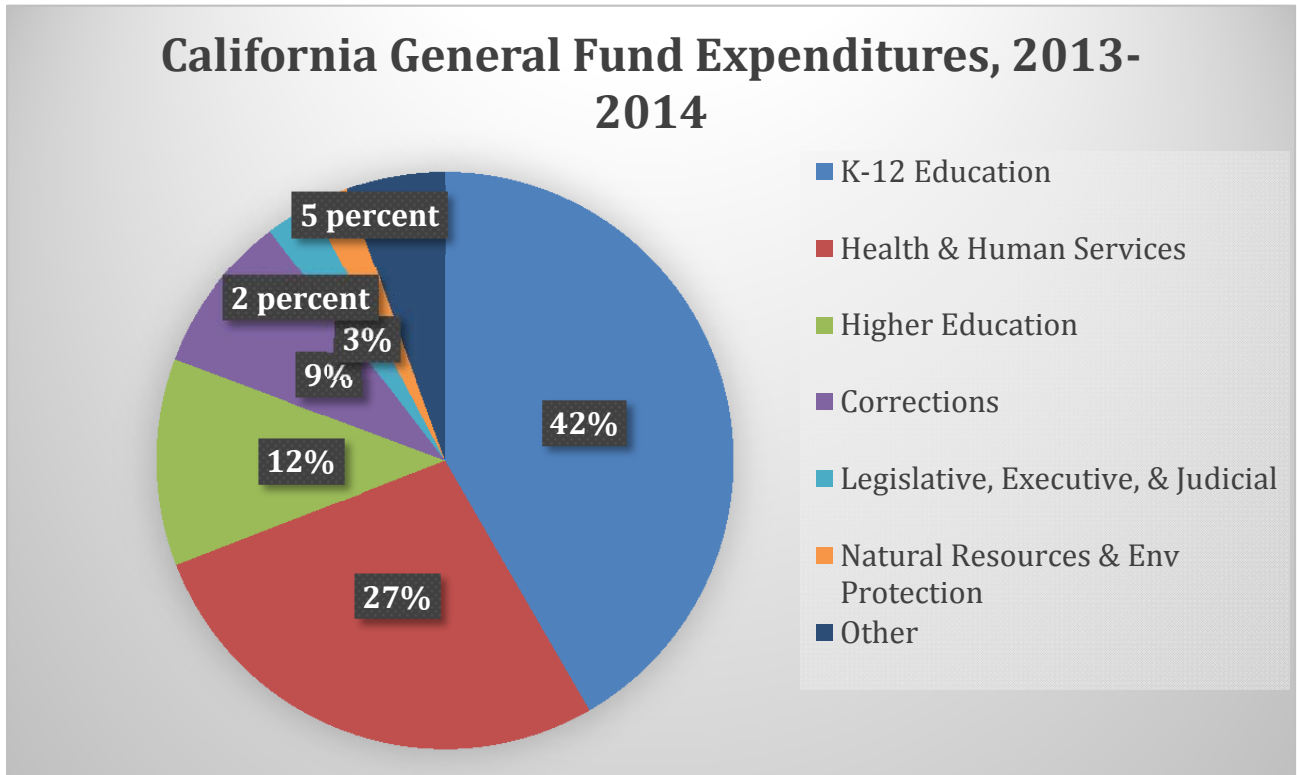
¹⁵ California Department of Finance. *California State Budget 2013–2014*.

¹⁶ California Department of Finance. *California State Budget 2012–2013*.

¹⁷ California Department of Finance. *California State Budget 2013–2014*.

¹⁸ California Department of Finance. *California State Budget 2012–2013*.

Figure 3.



Source: California Department of Finance.

with \$13.1 billion coming from the General Fund.¹⁹ Compared to the previous year, the 2013–2014 budget increased spending on higher education by \$2.3 billion.²⁰ In 2013–2014, both systems received a 5 percent increase in their base budgets, equivalent to \$125 million, along with guarantees of planned percentage-based increases to their funding over the next several years.²¹ Moreover, the budget included a four-year tuition freeze provision for both the University of California and California State University systems.²²

Corrections was the fourth largest category of state spending, with funding for the California Department of Corrections and Rehabilitation (CDCR) accounting for 9.3 percent of the state’s budget. In the 2013–2014 budget, CDCR received a total of \$9.1 billion in funding, with \$8.8 billion coming from the General Fund.²³ Compared to the previous year, the 2013–2014 budget increased spending on corrections by \$100 million.²⁴

¹⁹ California Department of Finance. *California State Budget 2013–2014*.

²⁰ California Department of Finance. *California State Budget 2012–2013*.

²¹ California Department of Finance. *California State Budget 2013–2014*.

²² California Department of Finance. *California State Budget 2013–2014*.

²³ California Department of Finance. *California State Budget 2013–2014*.

²⁴ California Department of Finance. *California State Budget 2012–2013*.

November 2013 LAO Report

A mid-November LAO report added further fuel to the argument that California has 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 predicted multibillion dollar surpluses over the next few years, potentially tempering the loss of revenue when Proposition 30’s temporary tax measures expire in 2018.²⁵ Figure 4 depicts the state’s projected budget surpluses from 2014–2020, based on the LAO’s calculations.

This should further the demand among legislators to increase social spending and restore programs cut during the recession. Governor 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 the state 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.²⁶

Caution might very well have been appropriate politically. At the same time the LAO was releasing its report, the Republicans almost won another special election in the legislature, this time in the San Fernando Valley, the middle-class suburbs of Los Angeles. Although the Democrats outnumber Republicans nearly 2–1 in the 45th Assembly District, the Republican candidate Susan Shelly lost by only a few hundred votes, running on a platform to deny the Democrats a two-thirds majority in the legislature, specifically, their ability to alter Proposition 13. This was the second assembly special election in a few months where the Republicans almost won a seemingly safe Democratic seat by a few hundred votes, nearly winning in the Inland Empire in September as well. It seemed the battle for 2014 had already begun, and the stage was set for Governor Brown’s next budget proposal.

Governor’s 2014–2015 Budget

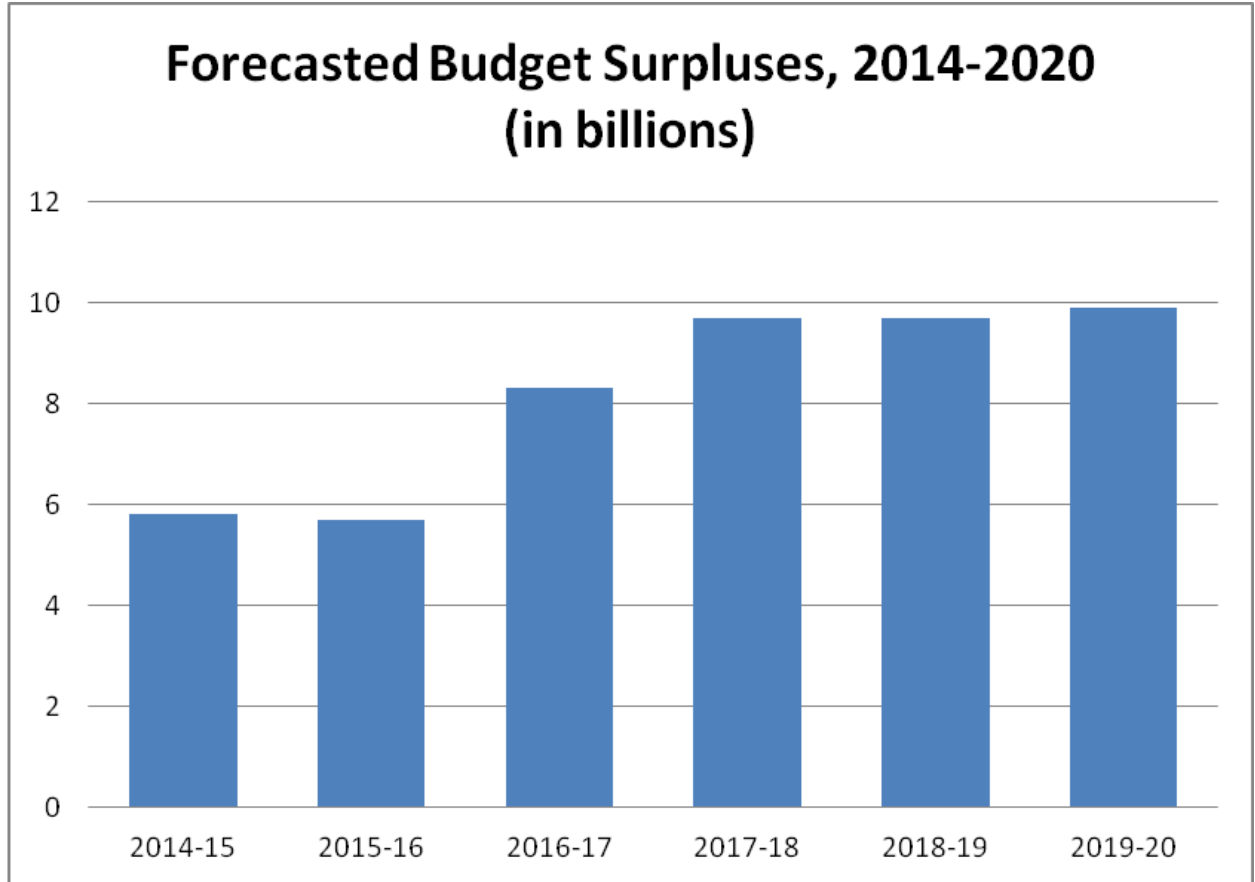
A growing economy and additional tax revenue had sent California’s proposed General Fund to a record high, in contrast to recent years of fiscal and governmental dysfunction.

Even before Brown announced his proposed 2014–2015 budget, assembly Democrats released their own budget agenda in December 2013. Speaker John Pérez’s plan would increase social spending, including restoring \$400 million for Medi-Cal reimbursement rates for hospitals that has been in litigation for several years. The state would also fund transitional kindergarten for all four-year-olds. Deferred funding for schools would be repaid at an accelerated rate while the state would also establish an \$8 billion reserve by 2017. Pérez, running for state controller in 2014, insisted assembly Democrats would not repeat the mistakes of the state legislature in the late 1990s and early 2000s, which increased permanent spending by billions only to find budget shortfalls once the Dot-Com boom ended. “What we need to do is build in long-term stability,

²⁵ November 20, 2013. *Los Angeles Times*. “California’s Budget Outlook Is the Best in a Decade, Analyst Says.”

²⁶ November 21, 2013. *Sacramento Bee*. “Jerry Brown Urges Caution on California Budget Outlook.”

Figure 4.



Source: Legislative Analyst's Office.

which is why the more appropriate and responsible thing is to take these spikes, look at them as one-time or short-term funds, and spend them accordingly," Pérez told reporters.²⁷

In early January, Brown announced his 2014–2015 \$155 billion budget. His proposed budget is about 15 times as large as the one he introduced for the 1975–1976 fiscal year in his first term. Once federal funds are included, this year's total proposed budget is well over \$200 billion, the equivalent of more than 10 percent of California's entire economic output.²⁸ The governor's plan included \$11 billion to repay part of the state's large structural debt while setting aside a \$1.6 billion reserve fund. More than half of those repayments would go to public schools.

Brown's plan would increase K-14 spending by \$6.3 billion over the previous year, while also providing more than \$3 billion in one-time spending. Local school districts would decide how to allocate the extra spending, with many school unions advocating salary increases.

²⁷ December 12, 2013. *Sacramento Bee*. "Assembly Democrats Say They Want to Pay Down Debt, Save and Spend More."

²⁸ January 9, 2014. *Sacramento Bee*. "Fun with Numbers—Details of Jerry Brown's Proposed Budget."

“For this year, there’s very good news. Good news in the fiscal stability and resources available for the state of California,” Brown told assembled reporters in Sacramento, “but also cautionary warnings that, by no means, are we out of the wilderness.” With an improved economy and the extra tax revenue from Proposition 30, the governor’s budget proposal projects an increase to the General Fund by more than 8 percent, to \$106.8 billion. The governor proposes \$670 million in new spending to expand Medi-Cal benefits for mental health, substance abuse, adult dental, and specialized nutrition coverage. Just like two years ago, Brown was forced to announce his budget earlier than intended because a leaked copy of his plan began circulating early.²⁹

Brown’s budget also acknowledged the looming future pension liabilities from the state’s two massive underfunded retirement systems. CalPERS, which provides retirement benefits to public employees is underfunded by \$218 billion. The governor wants “a new funding strategy” for CalSTRS, which administers teachers’ pensions and is short \$80.4 billion. Brown said progress will occur between teachers, school districts, and the state once people see the “disaster ahead.”³⁰ He noted at the news conference that total debt obligations balloon to \$355 billion once you add unfunded pension obligations. “Lots of programs may seem attractive, but when you have this level of long-term liability, it isn’t time to just embark on a whole raft of new initiatives,” Brown said. “This is a strong budget, a balanced budget, but it’s not free from liability.”³¹

One controversial component of Brown’s budget is his proposal to spend \$250 million from revenue generated through the state’s new cap-and-trade program to help fund California’s controversial high-speed rail project. “The alternative would be not to spend the money, and you do need that money, and we’re going to spend it,” the governor said. “No one’s talking about the Marshall Plan or putting a man on the moon or the transcontinental railroad,” he added.³² A California judge has currently blocked the state from using bond money authorized by Proposition 1A, passed by voters in 2008. The state has \$3.4 billion in federal funding to start construction of the rail project in the Central Valley, but more is needed just to finish the initial segment.

The governor has suggested that cap-and-trade revenue, which is designed to reduce greenhouse gas emissions, would be a long-term future source of funding for the project. Brown said the rail project was consistent with California’s history as “a generator of dreams and great initiatives.” While the nonpartisan Legislative Analyst’s Office has previously noted that the rail project could eventually help reduce greenhouse gas emissions, there would be no immediate benefits until after 2020, when California must reduce greenhouse gases to 1990 levels. “The high-speed rail is a reducer of greenhouse gases, an enhancement of the quality of California life and a bringing together of our various” communities around the state, Brown countered in his press conference with reporters. Given expectations that the state’s population will grow by millions of residents, he said, “We need alternatives.”³³

²⁹ January 9, 2014. *Los Angeles Times*. “Jerry Brown Unveils California Budget Blueprint at News Conference.”

³⁰ January 9, 2014. *Los Angeles Times*. “Jerry Brown Unveils California Budget Blueprint at News Conference.”

³¹ January 9, 2014. *San Jose Mercury-News*. “State Budget: Gov. Jerry Brown Proposes Paying Down Wall of Debt, Continues Calls for Restraint.”

³² January 9, 2014. *Sacramento Bee*. “Brown Says Cap-and-Trade Money for High-Speed Rail ‘Very Appropriate.’”

³³ January 9, 2014. *Sacramento Bee*. “Brown Says Cap-and-Trade Money for High-Speed Rail ‘Very Appropriate.’”

Referring back to Proposition 30, Brown came out against any additional taxes, specifically an oil severance tax on petroleum extraction in California. “I don’t think this is the year for new taxes,” he told reporters. “When I went up and down the state campaigning for Proposition 30, I said it was temporary and it is going to be temporary. I just think we need to do everything we can to live within our means before going back again to try and get more taxes.”³⁴

The governor was also reluctant to spend the surplus on new programs or fully restoring services cut during the recession. Brown argued the state needs to prepare for future downturns while it reduces its large structural deficits. “Now some people would say, because we have this little black mark there, that we should go on a spending binge,” he said during his budget press conference, pointing to a chart showing this year’s surplus. “I don’t agree with that. We see the lessons in history.”³⁵ Brown’s proposal was even starker: “While there are few signs of immediate contraction, we know from history that another recession is inevitable.”³⁶

Overall, Republicans expressed surprising support for the budget while warning legislative Democrats not to increase spending. “I like where it’s at,” said Assembly Republican Leader Connie Conway of Tulare, referring to the budget. “My fear is that it’s not going to stay as constrained as it is right now.”³⁷ She made a similar point in her released statement: “I hope that Gov. Brown is successful in convincing his fellow Democrats to resist the urge to spend away any fiscal progress the state has made.”³⁸ Senate Republican Leader Bob Huff of Diamond Bar agreed. “This notion of restraint is a truly Republican message,” Huff said. “Still, I think there is pent-up desire among some Democrats to spend, and those efforts could easily become a runaway train.”³⁹

Senate President Pro Tem Darrell Steinberg (D-Sacramento) agreed with Brown’s emphasis on paying down old debts, but believes additional social spending is necessary for early kindergarten programs, rehabilitation for prisoners, and services for people with developmental disabilities. “Right now, it’s important not to overreach,” Steinberg said. “We know there was real damage done to people, especially vulnerable people, these last few years, but it’s important to exercise some restraint.”⁴⁰ Steinberg cautioned reporters this was just the beginning of budget negotiations and has previously argued that at least one-third of the surplus should go to restoring social programs cut earlier, as well as transitional kindergarten.⁴¹

Even liberal Democrats realized that even with the additional revenue the state would not be able to drastically increase social spending. But Senator Mark Leno (D-San Francisco) noted

³⁴ January 9, 2014. *Capitol Weekly*. “Brown: Thumbs Down on Oil Severance Tax.”

³⁵ January 9, 2014. *Associated Press in Sonora Union Democrat*. “California Budget Surges to Record High.”

³⁶ January 9, 2014. *San Francisco Chronicle*. “Jerry Brown’s \$107 Billion California Spending Plan Leaked.”

³⁷ January 9, 2014. *Associated Press in Sonora Union Democrat*. “California Budget Surges to Record High.”

³⁸ January 9, 2014. *Los Angeles Times*. “Jerry Brown Unveils California Budget Blueprint at News Conference.”

³⁹ January 9, 2014. *San Jose Mercury-News*. “State Budget: Gov. Jerry Brown Proposes Paying Down Wall of Debt, Continues Calls for Restraint.”

⁴⁰ January 9, 2014. *San Jose Mercury-News*. “State Budget: Gov. Jerry Brown Proposes Paying Down Wall of Debt, Continues Calls for Restraint.”

⁴¹ January 9, 2014. *Associated Press in Sonora Union Democrat*. “California Budget Surges to Record High.”

“with such great need out there, some will argue that restoring the social safety net is more important than paying down the wall of debt as quickly as the governor says we should.”⁴²

Rainy Days and Spending Cuts Always Get Democrats Down

When announcing his proposed budget, Brown also backed Assembly Speaker John A. Pérez’s proposal to strengthen the state’s rainy-day fund by placing a constitutional amendment on the ballot. “Learning from the state’s recent history and seeking to avoid the same traps of the past,” the administration said in its budget plan, “the budget uses the surplus to pursue two goals that enhance the state’s long-term fiscal capacity—paying down debts and liabilities, and saving a portion for a rainy day.” The state’s current fund was established in 2004 but does not force the legislature to deposit surplus revenue. Pérez said in an e-mail that he is “pleased to see so many areas of agreement between the governor and the assembly, particularly how strongly he has embraced the rainy-day fund that is the cornerstone of the assembly’s budget proposal.”⁴³

There was already a proposal on the ballot to alter the rainy-day fund. That measure, ACA 4, was part of a deal to end a three-month standoff between legislative Republicans and Democrats and then-Gov. Arnold Schwarzenegger and pass the 2010–11 fiscal budget. Originally scheduled for the 2012 ballot, lawmakers moved it back to 2014.

Unions and other liberal advocates wanted to see changes to ACA 4, claiming that the ballot measure would excessively restrict state spending. ACA 4 would make it tougher for the state to suspend cash transfers into the rainy-day fund and would use a 20-year calculation to determine if the state had surplus cash. “What’s better, parking [the] money or using it for one-time purposes?” said Dennis Meyers, assistant executive director for governmental relations of the California School Boards Association, one of the members of the influential Education Coalition that includes the California Teachers Association.⁴⁴

Brown acknowledged the details of his revised plan have still yet to be worked out. “The reason for that rainy-day fund is the volatility. With that zig-zag, up and down, in capital gains and spending, the only way to offset that is to have money in reserve, and that’s what I intend to do,” he told reporters. “The measure will be on the ballot, unless it’s changed. I think that provides a lot of incentive to come up with some better alternatives.”⁴⁵

Democrats will need Republican votes to replace ACA 4 with their own rainy-day plan since they no longer hold a two-thirds majority in the state senate. Steinberg, who voted for ACA 4 called the measure “flawed, and flawed significantly.” He added, “I think the governor’s proposal will undoubtedly be better, but we have to analyze it.”⁴⁶

Republicans will oppose anything they deem weaker than ACA 4. “We await details on the proposal announced today. However if it is stronger than Assembly Constitutional Amendment

⁴² January 9, 2014. *San Jose Mercury-News*. “State Budget: Gov. Jerry Brown Proposes Paying Down Wall of Debt, Continues Calls for Restraint.”

⁴³ January 9, 2014. *Sacramento Bee*. “Jerry Brown’s Budget Plan Proposes Cautious Spending, Paying Down Debt.”

⁴⁴ January 9, 2014. *Sacramento Bee*. “Rainy-Day Proposal Pulls Back from 2010 California Budget Deal.”

⁴⁵ January 9, 2014. *Sacramento Bee*. “Rainy-Day Proposal Pulls Back from 2010 California Budget Deal.”

⁴⁶ January 9, 2014. *Sacramento Bee*. “Rainy-Day Proposal Pulls Back from 2010 California Budget Deal.”

4—which will be on the ballot in November—then we’d be happy to take it under consideration,” said Assembly Republican Leader Connie Conway (R-Tulare) in a statement.⁴⁷ She later told reporters, “The devil is in the details . . . the fiscal restraint, the rainy-day fund, all those things are good. But what worries someone like me is that the governor gets overwhelmed by his own hobbies, as I like to say, because they are going to want to spend, spend, spend. I don’t think he wants to do that.” Senate Republican Leader Hoff agreed, supporting an even “more robust” reserve, and sees ACA 4 as a “better starting point.”⁴⁸

State of the State

The Legislative Analyst’s Office gave a strong positive review to Brown’s budget proposal. In their initial January review, the LAO said “The governor’s emphasis on debt repayment is a prudent one,” adding “Overall, the governor’s proposal would place California on an even stronger fiscal footing, continuing California’s budgetary progress.” Anticipated growth in the U.S. and California economy might generate even more state revenue by the May revise. The LAO supports the enhancement of the state’s rainy-day fund, but worries Brown’s proposal might be too complicated and cumbersome. Like before, the LAO remains skeptical about Brown’s plan to use cap-and-trade money to prop up the high-speed rail project, calling it “legally risky.”⁴⁹

Brown gave his record-breaking eleventh State of the State address later in January, repeating a similar mantra to his earlier time in office: the state must live within its means. “We can’t go back to business as usual,” the governor told the assembled dignitaries and state legislators. “Boom and bust is our lot,” Brown said, “and we must follow the ancient advice, recounted in the Book of Genesis, that Joseph gave to the Pharaoh: ‘Put away your surplus during the years of great plenty, so you will be ready for the lean years which are sure to follow.’”⁵⁰

Brown had special playing cards made with pictures of his dog Sutter on the back urging several different messages of frugality. “Bark if you don’t like deficits,” The governor read from one card. “Don’t let our balanced budget go to the dogs,” read another.⁵¹ The limited number of special cards quickly became popular collector’s items, in part due to the Welsh corgi’s well-known Twitter following and overall popularity.

The cards did not impress everyone, however. “I’m going to have cards printed that say, ‘Bark if you don’t like poverty,’” said Senator Holly Mitchell (D-Los Angeles).⁵² Assemblywoman Nora Campos (D-San Jose) agreed. “For too many, jobs are still hard to find, and families are still struggling in poverty.”⁵³

⁴⁷ January 9, 2014. *Sacramento Bee*. “Rainy-Day Proposal Pulls Back from 2010 California Budget Deal.”

⁴⁸ January 10, 2014. *Sacramento Bee*. “California Budget Will Test Jerry Brown’s Relationship with Lawmakers.”

⁴⁹ January 13, 2014. *Sacramento Bee*. “Fiscal Analyst Issues Early Praise for Jerry Brown’s Budget.”

⁵⁰ January 22, 2014. *Los Angeles Times*. “Gov. Jerry Brown Urges Frugality in State of State Speech.”

⁵¹ January 22, 2014. *Los Angeles Times*. “Gov. Jerry Brown Urges Frugality in State of State Speech.”

⁵² January 22, 2014. *Los Angeles Times*. “Gov. Jerry Brown Urges Frugality in State of State Speech.”

⁵³ January 22, 2014. *San Jose Mercury-News*. “State of State Address: Gov. Jerry Brown Hails California’s Comeback.”

Senate Pro Tem Steinberg was more conciliatory, describing Brown's speech as "a clarion call to not forget where California came from over the last five or six years."⁵⁴ Senate Republican Leader Bob Huff even said Brown's plans to pay off the state's debt and build up a healthy reserve make him "sound more Republican each day."⁵⁵

Brown admitted California still has "too many struggling families," but his speech mainly focused on other needs, like the state's worsening drought. "Water recycling, expanded storage, and serious groundwater management must all be part of the mix," Brown said. "It's a tall order, but it is what we must do to get through this drought and prepare for the next."⁵⁶ The governor noticeably did not mention his controversial tunnel plan that would shift water around the Sacramento Delta and only made a passing reference to his plan to build the high-speed train.

The 17-minute speech focused on California's long-term stability. "We will build for the future," Brown promised. "Not steal from it." Brown noted his own place in California history by recalling his first State of the State address in 1959, when his father was governor and the current Governor Brown was still a seminary student. He mentioned his first stint as governor as a time when he downplayed the importance of political seasoning. Now, Brown said, he believes "there's no substitute for experience," drawing laughs and applause.⁵⁷

Taxes are both on and off the agenda. California Superintendent of Public Instruction Tom Torlakson has already called for an extension of Proposition 30 beyond its 2018 expiration. "We need to renew Prop. 30," Torlakson told local PTA leaders in Sacramento.⁵⁸

On the other hand, Assemblyman Tom Ammiano (D-San Francisco) pushed for legislation to amend Proposition 13 last year, advocating for a "split-roll." This would assess commercial property at market value while still keeping Prop 13's property tax protections on residential housing. His bill barely passed the assembly and died in the senate without a hearing. This year, Ammiano has already given up on the amendment. "The political climate is death for anything that gets close to Prop. 13," said Ammiano's spokesman, Carlos Alcala. Due to term limits, "This is his last year, and he wants to work on something that can get done."⁵⁹

New Legislative Leadership

Term limits forced the legislature to select new leadership in 2014. The senate replaced termed-out Senate Pro Tem Darrel Steinberg (D-Sacramento) with Kevin de León (D-Los Angeles) in October 2014. De León, elected to the senate in 2010, had earlier lost a battle for the California Assembly Speaker to John Pérez (D-Los Angeles) in 2009. De León was stripped of his coveted chair of the Appropriations Committee and moved to one of the dreariest offices in the Capitol. "When they put you in one of the smallest offices, next to the cafeteria, where you can hear people ordering sandwiches, you have sunk low," de León told a reporter.⁶⁰ The son of single mother from Mexico, de León grew up in San Diego and worked as an immigrant activist and

⁵⁴ January 22, 2014. *Los Angeles Times*. "Gov. Jerry Brown Urges Frugality in State of State Speech."

⁵⁵ January 22, 2014. *Los Angeles Times*. "Gov. Jerry Brown Urges Frugality in State of State Speech."

⁵⁶ January 22, 2014. *Los Angeles Times*. "Gov. Jerry Brown Urges Frugality in State of State Speech."

⁵⁷ January 22, 2014. *Los Angeles Times*. "Gov. Jerry Brown Urges Frugality in State of State Speech."

⁵⁸ January 9, 2014. *Sacramento Bee*. "Torlakson: Proposition 30 Tax Increases Should Be Extended."

⁵⁹ January 29, 2014. *Los Angeles Times*. "Lack of Leadership a Big Obstacle in Updating Prop. 13."

⁶⁰ June 18, 2014. *Los Angeles Times*. "Setback Puts Kevin de León on the Path to Senate Leadership."

later a union organizer for the powerful California Teachers Association before running for elective office in a heavily Latino section of Los Angeles. After losing the battle with Pérez, de León ran for the senate with the encouragement of Steinberg, and quickly rose to chair the Senate Appropriations Committee. De León becomes the first Latino head of the senate since 1883. “It’s an improbable journey not just within the context of the political roller coaster but also where I came from,” de León reflected, after winning unanimous support among his senate colleagues.⁶¹

De León acknowledges his earlier political loss has made him a better leader. Losing the speakership to Pérez in 2009 “was one of the great things to happen to me,” de León said, acknowledging he didn’t feel that way at the time. “Quite frankly, I grew up a lot,” he admitted. “I listen more, I’m much more patient—much more patient. I move forward the interests of my colleagues, to help them move forward with their policies, their goals, their ambitions. I really just immerse myself and focus on policy.”⁶²

Pérez himself was also termed out as Assembly Speaker, passing the baton to Toni Atkins (D-San Diego) in May 2014. Atkins grew up in southwestern Virginia, in a home with no running water, the impoverished daughter of a miner and seamstress. Speaking to reporters after the assembly unanimously elected her Speaker, Atkins said her leadership ascent was “surreal.” “It’s a place I never thought I would be,” she reflected, alluding to her upbringing. “It was honestly never in my world vision that I could do this. So it’s an incredible personal honor.”⁶³ Atkins became the second person in a row from the LGBT community to hold the office of Speaker, as well as the first Speaker from San Diego. She promised she would fight for California’s disadvantaged. “Growing up poor shapes your perspective, and it shapes your commitment to making a difference,” said Assemblyman Raul Bocanegra (D-Pacoima), noting in particular Atkins’s efforts to help the homeless.⁶⁴ Atkins said California suffers from a dearth of reasonably priced housing. “If I could add my own personal concern, reducing homelessness and providing affordable housing, including for our state’s growing population of veterans,” she told reporters.⁶⁵

Spring Is in the Air, and It Smells Like . . . Corruption

Spring in Sacramento is usually filled with talk about the upcoming May Revise, where the governor releases a modified version of his budget to account for changes in the economy and tax revenues. This year, however, talk in Sacramento and the broader state was intently focused on corruption charges engulfing the California Senate. Three Democratic state senators were either charged or convicted of serious crimes, shifting not only the political discussion in Sacramento, but also altering the political calculations over the annual budget, among other things.

Subject to a year-long corruption investigation, Senator Ron Calderon (D-Montebello) was finally indicated in late February on 24 federal charges of political corruption, including bribery and money laundering totaling nearly \$100,000.⁶⁶ The FBI had raided the lawmaker’s Sacramen-

⁶¹ June 18, 2014. *Los Angeles Times*. “Setback Puts Kevin de León on the Path to Senate Leadership.”

⁶² January 5, 2014. *Merced Sun-Star*. “Kevin de León Aims to Move Past Calderon Scandal to Lead Senate.”

⁶³ March 17, 2014. *Los Angeles Times*. “Assemblywoman Toni Atkins Voted in as Speaker-Elect.”

⁶⁴ March 17, 2014. *Los Angeles Times*. “Assemblywoman Toni Atkins Voted in as Speaker-Elect.”

⁶⁵ March 17, 2014. *Sacramento Bee*. “It’s Official: Toni Atkins Elected Speaker of California Assembly.”

⁶⁶ February 24, 2014. *KPCC*. “State Sen. Ron Calderon Arraigned on Corruption, Money Laundering Charges.”

to offices the previous summer. Calderon allegedly used his children to launder bribery payments. Pleading not guilty in federal court, the senator was released on a \$50,000 bond.⁶⁷ His brother, Tom, a former member of the California Assembly, was also charged and had pleaded not guilty the previous week.⁶⁸

Fellow senate Democrats gave Calderon a week deadline to either voluntarily take a leave of absence or be formally suspended. Senate President Pro Tem Darrell Steinberg went further and urged Calderon to resign. “Given the seriousness of charges that strike at the very heart of what it means to be a public official, Senator Calderon’s continued service is a cloud over all the important work that we must get done this year,” Steinberg said. “It is in the best interests of the people and the senate if he resigns. I call on him to do so.”⁶⁹

A few hours before the deadline, Calderon agreed to a leave of absence, burying his public statement the night of the Academy Awards. This was the second senatorial leave in less than a week. Roderick Wright (D-Inglewood) had also taken an absence after a Los Angeles County jury found him guilty on eight charges of perjury and voter fraud. Wright’s conviction stemmed from a long battle over whether the senator had lied about living in his district when running for the senate in 2008.⁷⁰

“Both of the members are on indefinite leaves of absence, they’re not going to come back to the senate until they’re cleared,” the Senate Pro Tem told reporters following Calderon’s decision. Both Calderon and Wright would continue to receive their legislative pay while on leave, with Steinberg citing a legal opinion from the legislature’s counsel that the chamber can’t suspend a legislator’s salary. “We have two choices: expulsion or a leave of absence,” Steinberg said, noting that Calderon has not been tried and that Wright “has a potentially viable claim before the trial judge within just a couple of months.” Losing these two senators cost the Democrats their two-thirds supermajority, but Steinberg said that wasn’t the most important thing, “The supermajority is important but not nearly as important as the senate itself.”⁷¹

Others weren’t as quick to dismiss the loss of the Democratic supermajority, which as noted before, last occurred in the state back in 1883. “Suddenly, Republicans have leverage they didn’t have a week ago,” said Bill Whalen, a former aide to Republican Gov. Pete Wilson. “They’re now in a position to name a price, and the question is: Do they have a price in mind?” Larry Gerston, a political science professor at San Jose State University agreed. “Republicans have been completely left out of the debate on this and other issues,” he said. “Now, they’re hungry for power.”⁷²

Calderon and Wright’s absence not only deprived the Democrats of the supermajority, but exacerbated ideological cleavages that already existed within the party membership. Both sus-

⁶⁷ February 24, 2014. *Los Angeles Times*. “Sen. Ronald Calderon Pleads Not Guilty in Corruption Case.”

⁶⁸ February 24, 2014. *KPCC*. State Sen. Ron Calderon Arraigned on Corruption, Money Laundering Charges.”

⁶⁹ February 24, 2014. *Los Angeles Times*. “Sen. Ronald Calderon Pleads Not Guilty in Corruption Case.”

⁷⁰ March 3, 2014. John Moyers, *ABC KXTV Sacramento*. “Political Math Toughens for Democrats as Calderon Takes Leave.”

⁷¹ March 3, 2014. *Sacramento Bee*. “Steinberg on Loss of Wright, Calderon: ‘We Move Forward Now.’”

⁷² March 3, 2014. *San Jose Mercury News*. “Scandals Cost California Democrats Supermajority in Senate.”

pendent senators were moderates in an overall very liberal caucus. “Let’s not make the mistake of viewing California Democrats as a monolithic bloc. We have some urban, some rural, some farmers, some environmentalists, some from northern California and some from southern,” Gerston said. Steinberg “has managed to herd these cats, but now, he’s going to have to work his magic with them and the Republicans.”⁷³

Tax increases were already implausible with Governor Brown’s vocal opposition, but two other issues would now require Republican votes to reach a two-thirds legislative majority: the water bond and the aforementioned rainy-day fund constitutional amendment. Both would already appear on the November ballot, but both needed substantial revisions to increase their chances of passing. Democrats needed Republican votes to revise a pork-loaded water bond already on the ballot, but the price of Republican support was more surface storage like dams and reservoirs, something environmental groups opposed. And Republicans wanted a budget reserve to serve as a de facto cap on state spending, in contrast to the array of liberal groups that kept urging legislative Democrats to increase social and educational spending.⁷⁴

While Calderon and Wright were not reliable liberal votes on either issue, as journalist and political analyst John Moyers accurately pointed out, both senators were more likely to join “their fellow Democrats than Republicans, who both simply see things differently and may worry about giving Democrats any big political victories in an election year.”⁷⁵

The situation went from bad to worse in late March, as amazingly a third Democratic state senator got caught up in legal trouble. But this was not just another case of political corruption. Senator Leland Yee (D-San Francisco) was charged on seven counts of corruption and firearms trafficking, swept up in a FBI sting involving dozens of people across the Bay Area, including several members of organized crime. Released on \$500,000 bail, Yee faces up to 20 years in prison for illegally importing firearms and accepting illegal campaign contributions in the tens of thousands, including money from an undercover FBI agent asking for weapons from a Muslim separatist group in the Philippines, with the hope of smuggling them into the United States. The federal roundup also included arresting gangster Raymond “Shrimp Boy” Chow, who had previously spent time in prison for gun trafficking.

In a fabulous example of irony, the *Sacramento Bee* reported, “The same year the undercover agent got Yee to facilitate the illegal gun transaction, the senator carried a pair of gun control bills.”⁷⁶ While neither bill made it to the governor’s desk, Yee spoke out against the risk of unregulated firearms. “Unauthorized access to a firearm too often results in unintentional or self-inflicted gunshot wounds, or firearms being stolen to be used in future crimes,” Yee wrote in the analysis accompanying the bill.⁷⁷ A well-known supporter of gun control, Yee was honored in 2006 by the Brady Campaign for co-authoring a bill requiring new handguns to be equipped with identification technology known as micro-stamping.⁷⁸

⁷³ March 3, 2014. *San Jose Mercury News*. “Scandals Cost California Democrats Supermajority in Senate.”

⁷⁴ March 3, 2014. John Moyers, *ABC KXTV Sacramento*. “Political Math Toughens for Democrats as Calderon Takes Leave.”

⁷⁵ March 3, 2014. John Moyers, *ABC KXTV Sacramento*. “Political Math Toughens for Democrats as Calderon Takes Leave.”

⁷⁶ March 26, 2014. *Sacramento Bee*. “FBI: California Sen. Leland Yee Took Bribes, Trafficked Guns.”

⁷⁷ March 26, 2014. *Sacramento Bee*. “FBI: California Sen. Leland Yee Took Bribes, Trafficked Guns.”

⁷⁸ March 26, 2014. *Los Angeles Times*. “Sen. Yee Charged with Trafficking Firearms in Sweeping FBI Probe.”

Steinberg asked Yee to resign immediately, and promised to suspend him if he did not. “Leave,” Steinberg told Yee through the media. “Don’t burden your colleagues and this great institution with your troubles. Leave!”⁷⁹ The scandals were taking a toll on the Senate Pro Tem. “I know what people are thinking. This is the third incident the senate has had to deal with,” an emotional Steinberg told reporters. “We are going to do everything in our power to uphold the integrity of the senate and do the people’s business and still have a great and productive year.” Steinberg was asked whether further political reforms could help reform the senate. “We will continue looking to do whatever is necessary. But gun running?” Steinberg said. “There’s no ethics reform that I am aware of to address, you know, that kind of allegation.”⁸⁰

Termed out of office at the end of 2014, Yee was running for secretary of state, and had raised more than \$600,000. Right before his arrest in late March, he held the third-largest amount of cash on hand of the eight candidates running.⁸¹ Although Yee withdrew from the race, his name was already on the ballot, and Yee surprisingly finished third, winning just shy of 10 percent.

The Republicans would capitalize on these scandals, both in the chamber, but also later in the 2014 elections. “Sacramento turns out to be the ‘House of Cards,’” quipped Whalen, Wilson’s former political strategist. GOP strategist Rob Stutzman said Republicans should campaign on the Democrat’s ethical lapses. “You can now argue this is a real culture of corruption within the party in charge in Sacramento,” he said. “And let’s not forget—the investigations are supposedly ongoing.” San Jose State political scientist Larry Gerston agreed. “Right or wrong, people will begin to look at that Democratic majority as enabling a culture of corruption . . . and this gives the Republicans an opportunity to take the ball and run with it.”⁸²

Senate Republicans felt a leave of absence or even a suspension was not enough, and pushed to expel the three Democratic senators. Senator Joel Anderson (R-Alpine) led the expulsion efforts, blaming Democratic leaders for creating a culture of tolerance for illegal activity. “If you refuse to act and you shirk your responsibility to act, is it a surprise that senators don’t take ethics as seriously as they should?” Anderson asked. Senate Minority Leader Bob Huff (R-Diamond Bar) told reporters that the allegations reflect poorly on all lawmakers, not just Democrats. “We all get painted with the same brush,” Huff said. “The problem is manifesting itself, but people hold us all to the same standards.”

In response, the Democratic-led senate voted to suspend the three lawmakers, the strongest disciplinary action since 1905, when four senators were expelled for corruption. Calderon, Wright, and Yee were prevented from engaging in legislative affairs, but would still continue to receive their \$95,291 salaries. This was the first time in history either chamber of the California legislature has suspended one of its legislators, let alone seven percent of the entire chamber. Anderson was only the only senator to vote no, continuing to call for expulsion, and said it was wrong for the senators to continue to receive their salaries. “If you reward bad behavior, you will get more of it,” he said. As mentioned before, the legislature’s legal counsel ruled lawmakers could only lose their pay if they were expelled or suspended.⁸³

⁷⁹ March 26, 2014. *Sacramento Bee*. “FBI: California Sen. Leland Yee Took Bribes, Trafficked Guns.”

⁸⁰ March 27, 2014. *Associated Press*. “Scandals Plague Democrats in California Capital.”

⁸¹ March 26, 2014. *Los Angeles Times*. “Sen. Yee Charged with Trafficking Firearms in Sweeping FBI Probe.”

⁸² March 26, 2014. *San Francisco Chronicle*. “Calif. State Senator Yee’s Arrest Adds to Democrats’ Scandals.”

⁸³ March 28, 2014. *Associated Press*. “California Senate Suspends 3 Democratic Lawmakers.”

Steinberg acknowledged the growing criticism of the senate but defended his leadership and the rest of the chamber's integrity. "One is an anomaly, two is a coincidence. Three? That's not what this senate is about," Steinberg said to lawmakers before the vote. Termed out this year himself, Steinberg announced the senate would cancel a floor session in April for a mandatory ethics review, saying it is time for the chamber to "take a deeper look at our culture."⁸⁴

Back to the Rainy-Day Fund

As stated earlier, these scandals were able to shift the Democratic supermajority into a Republican superminority, forcing Brown and the Democrats to cater to Republican wishes. But not on the budget, where Democrats only needed a simple majority, thanks to Proposition 25, passed in 2010. But Brown still needed Republican votes to pass his revised rainy-day fund, and in mid-April he called for the legislature to take up his changes. Without a revision, voters would face the original proposal, part of the 2010 budget deal among legislators and Governor Arnold Schwarzenegger. Originally scheduled to go before voters in 2012, lawmakers postponed the plan until the November election, and there was strong support behind altering the original text. Liberal groups and unions particularly demanded a revision because they felt the original would make it too difficult to increase state spending, even in good economic conditions.

Brown's revision would shift revenue to the rainy-day fund when California experienced a spike of volatile capital gains revenue in a single year. The governor and lawmakers could then either save the money in the reserve fund or spend it on long-term spending, like public pensions and deferred-maintenance projects. "We simply must prevent the massive deficits of the last decade, and we can only do that by paying down our debts and creating a solid rainy-day fund," the governor said.⁸⁵ Brown proposed \$1.6 billion for the reserve fund and \$1.6 billion to pay off bonds used to balance the budget during the recession. The fund itself could only be accessed after the governor declared a financial emergency, and could potentially reach 10 percent of the entire state budget, as opposed to the 3 percent in the little-used current emergency fund established in 2004.

Republican response was mixed. Some were skeptical of any revision they felt would weaken the 2010-negotiated agreement. "Republicans will oppose any effort to replace the strict proposal that is already before the voters with a faux rainy-day fund scheme," Assembly Minority Leader Connie Conway (R-Tulare) said in a statement. But the Democrats already had a two-thirds majority in the assembly, what they needed was Republican votes in the senate. And Senate Minority Leader Bob Huff (R-Diamond Bar) was more open to dialogue. "It's just common sense for California to put away money during the 'boom' years to avoid future tax increases and spending reductions in the 'bust' years," he said in a statement. "However, we are mindful that legislative Democrats have undermined similar efforts in the recent past."⁸⁶

Steinberg was also wary, preferring to tackle this issue later in the year. "Constitutional amendments must be done right, not rushed," the senate majority leader posted on Twitter.⁸⁷ Speaker John Pérez was more supportive, however, and said in a statement, "We need to estab-

⁸⁴ March 28, 2014. *Associated Press*. "California Senate Suspends 3 Democratic Lawmakers."

⁸⁵ April 16, 2014. *Los Angeles Times*. "Jerry Brown Pushes His Plan for State Reserve Fund."

⁸⁶ April 16, 2014. *Los Angeles Times*. "Jerry Brown Pushes His Plan for State Reserve Fund."

⁸⁷ April 16, 2014. *Los Angeles Times*. "Jerry Brown Pushes His Plan for State Reserve Fund."

lish a solid system for saving money in good years, so that we can better weather the bad years.”⁸⁸

Pérez and Steinberg would again clash on the rainy-day fund a few weeks later when Brown made a rare visit to the assembly’s budget panel urging legislative support for his plan. Pérez told reporters afterwards he wanted a final vote on the measure before the governor releases his revised budget in May. But earlier in the day Steinberg told reporters he wanted the emergency fund to be part of the budget process. “We ought to take this up as part of the overall budget, which is only weeks away,” Steinberg said.⁸⁹

Unlike previous years, where negotiations between Brown and legislative Republicans went nowhere, both sides reached a compromise after only a few weeks of private discussion. The rainy-day fund would include a higher capital gains trigger than Brown’s earlier proposal, but would also include a contribution from General Fund revenue as well. Those regular contributions satisfied Republicans demands for tighter fiscal discipline, but they agreed to use half of the money set aside each year to pay off long-term debt, including pension liabilities, something Steinberg demanded. Pérez, running for state controller, got a rainy-day fund he could campaign on, while Brown continued his reputation as California’s elder statesmen. Even Senate Minority Leader Huff praised the governor, saying that Brown “set up a good framework” for the agreement.⁹⁰ The proposed constitutional amendment passed unanimously in both chambers.

Budget Time

With the rainy-day fund successfully negotiated, Sacramento turned to the governor’s May revise. With \$2.4 billion in additional revenue from January projections, Brown proposed more than \$1 billion in General Fund spending, and billions more from bond and special funds. California would significantly increase Medi-Cal spending because of higher than expected enrollments. Medi-Cal funding increased \$1.2 billion over Brown’s January budget proposal, with half that amount to cover then 1.4 million additional enrollees spurred on by President Barack Obama’s Affordable Care Act. An additional 900,000 applicants were backlogged. With the combination of significant government outreach and constant media attention, people “came out of the woodwork” to register for Medi-Cal, said Diana Dooley, the top official overseeing healthcare in Brown’s administration. “The outreach was successful and people responded.”⁹¹

The state estimates that about a third of all Californians would be covered in state-funded health care by the following year, costing hundreds of millions more than anticipated. That expansion is “a huge social commitment on the part of the taxpayers of California,” Brown told reporters as he released his revised budget. I’m proud we did it.” The extra cost would make it difficult to increase other social spending, however. And Brown continued to make that point to those in the legislature and elsewhere that urged him to spend more. “There are many good ideas,

⁸⁸ April 16, 2014. *Associated Press*. “Governor Calls Special Session on Rainy-Day Fund.”

⁸⁹ April 28, 2014. *Sacramento Bee*. “Jerry Brown Urges Committee Support for Reserve Plan.”

⁹⁰ May 8, 2014. *Sacramento Bee*. “Jerry Brown, California Lawmakers Reach Deal on Rainy-Day Fund.”

⁹¹ May 13, 2014. *Los Angeles Times*. “Gov. Brown’s Revised Budget Proposal Boosts Spending for Medi-Cal.”

in healthcare, in schooling, the environment, in prison reform, in court expansion, but we only have so much money,” the governor said. “If you find more cookies in the jar, hallelujah.”⁹²

While the federal government pays the full health care costs for those who only became eligible for Medi-Cal under the Affordable Care Act, it requires California and the other states to pay 50 percent of the costs for new applicants who were already eligible for Medi-Cal but failed to apply earlier. This second group applied at much higher rates than expected, a 60 percent increase over initial estimates. “The good news is now they have healthcare coverage,” said Assemblyman Richard Pan (D-Sacramento). “But . . . we should’ve had them on board earlier.”⁹³

In addition to health care, Brown’s May revise also allocated more funding to teachers’ pensions. California would increase the amount it deposits into the underfunded California State Teachers’ Retirement System and raise the amount teachers and school districts would need to contribute as well. “It costs us hundreds of millions of dollars for every year we wait” to increase deposits into the fund, Brown said. “We’ve been talking about it, and I believe it’s time for action.”⁹⁴ Currently only 67 percent funded, the 30-year plan would gradually increase contributions to CalSTRS, and eliminate its unfunded liability in about 30 years.

The new budget plan also included additional funding for schools, drought-relief, and the court system. What his plan didn’t include was any mention of Steinberg’s plan for universal preschool. Costing \$1.5 billion annually when fully implemented, the governor had earlier opposed additional preschool funding due to its questionable educational value as well as the cost. “In California, we have K-through-12 and two years of community college,” Brown said. “That’s 15 years. Some people are saying the real challenge to those 15 years is that we don’t have a 16th year. If we got that 16th year, everything would go hunky dory. Well, if that’s true, some reallocation needs to be made within that 15-year Prop. 98 program.”⁹⁵

In response, Steinberg threatened to withhold funding for Brown’s high-speed rail program. “We have more than lifted to meet the governor’s agenda and his top priority items,” Steinberg said. “It’s time that he do a little lifting as well to help meet our priorities.” The Senate Pro Tem told reporters he was skeptical the state senate would want to spend \$250 million on the governor’s rail project. As mentioned earlier, Brown wants to use revenue generated from the state’s new carbon emissions cap-and-trade program. “The high-speed rail thing will be a much tougher sell this time,” Steinberg said. “I hear about it from my caucus all the time. . . . We will have to see some movement in this thing for us to consider making that a priority again this year.”⁹⁶

Other liberal lawmakers continued to oppose Brown’s stingy social spending increases. At a rally at the Capitol, Assemblywoman Lorena Gonzalez (D-San Diego) said, “I’m for the rainy-day fund, but we also have to spend some money, too.” Elsewhere, Senator Holly Mitchell (D-Los Angeles) said Brown’s budget does too little to help California’s children and its poor. With the economy improving, she said, “If not now, when?”⁹⁷

⁹² May 13, 2014. *Los Angeles Times*. “Gov. Brown’s Revised Budget Proposal Boosts Spending for Medi-Cal.”

⁹³ May 13, 2014. *Los Angeles Times*. “Gov. Brown’s Revised Budget Proposal Boosts Spending for Medi-Cal.”

⁹⁴ May 13, 2014. *Los Angeles Times*. “Gov. Brown’s Revised Budget Proposal Boosts Spending for Medi-Cal.”

⁹⁵ May 14, 2014. *San Francisco Chronicle*. “Steinberg May Leverage Bullet Train in Budget Talks.”

⁹⁶ May 14, 2014. *San Francisco Chronicle*. “Steinberg May Leverage Bullet Train in Budget Talks.”

⁹⁷ May 14, 2014. *Sacramento Bee*. “Jerry Brown Urges Budget Restraint Amid Massive Medi-Cal Expansion.”

Even Republicans acknowledge the roughest political fight would be between Brown and legislative Democrats. Assembly Minority Leader Connie Conway (R-Tulare) said the “toughest job” for Brown will be “his own party, and how they try to slice and dice” the budget plan. Conway said, “Now the real games begin.”⁹⁸

Brown philosophically rejoined Steinberg’s criticisms in an editorial board meeting with the *San Francisco Chronicle*. “First the desire emerges, then the desire becomes a need, and the need becomes a right, and the right becomes a law, and the law becomes a lawsuit,” he said. “And that’s pretty well how we’re doing things. When I was in Japan, practicing my Zen meditation . . . we would say: ‘Desires are endless. I vow to cut them down.’” The governor contrasted the negative role of the legislature with what he called the positive role of the executive. “I want to emphasize the persuasive power of the executive over the coercive power” of the legislature, he said. “Coercion is when we pass a law: Thou shalt do this,” he said. “The persuasive power is to try and move people . . . call people together. Convene. I’m doing that.”⁹⁹

Steinberg responded by means-testing his preschool proposal, slashing the \$1.5 billion cost to \$378 million. Free preschool would only be offered to children whose families qualified for free and reduced lunch programs.

Steinberg wasn’t the only Democratic legislator willing to use high-speed rail to bargain with the governor. Some questioned whether a California bullet train would even reduce greenhouse gas emissions. “I’m quite unsure that laying down track in the middle of the Central Valley will meet immediate carbon goals,” said Senator Kevin de León (D-Los Angeles), Steinberg’s successor as the Democratic leader of the state senate. But Brown is “fixated on building a legacy for himself with high-speed rail.”¹⁰⁰

Senate Democrats responded by offering the high-speed rail project 20 percent of future cap-and-trade revenue, as opposed to the third Brown wanted. And that 20 percent would include other intercity rail projects. “We all know the governor wants that high-speed rail,” said Senator Jim Beall (D-San Jose). “It becomes a bargaining chip.”¹⁰¹ Assembly Democrats went even further and wanted high-speed rail to fully compete against other transportation projects for funding.

Much of the final negotiations, like any budget year, took place behind closed doors and away from the media. But gone are the days of nasty partisan fights that would stretch out months beyond the constitutional budget deadline of June 15, or even July 1, the start of the new fiscal year. Final budget negotiations were cordial and fairly productive. George Skeleton of the *Los Angeles Times* reported that at one point, negotiations took place on a Saturday evening, in a cellphone conversation while Steinberg was grocery shopping.¹⁰²

On Friday, two days before the budget was due, Brown and legislative Democrats announced a deal, or at least their statements did, as the Big Three were unavailable to reporters. “The leaders of the legislature have worked very hard to build a solid and sustainable budget that pays

⁹⁸ May 14, 2014. *Sacramento Bee*. “Jerry Brown Urges Budget Restraint Amid Massive Medi-Cal Expansion.”

⁹⁹ May 17, 2014. *San Francisco Chronicle*. “Brown Doubles Down on High-Speed Rail Amid Calls for Restraint.”

¹⁰⁰ May 30, 2014. *Los Angeles Times*. “Bullet Train Funding Is Bargaining Chip in State Budget Debate.”

¹⁰¹ May 30, 2014. *Los Angeles Times*. “Bullet Train Funding Is Bargaining Chip in State Budget Debate.”

¹⁰² June 15, 2014. *Los Angeles Times*. “Gov. Brown, Lawmakers Trade Goodies to Reach On-Time Budget.”

down debt, brings stability to the teachers' pension system, and builds at long last a reliable rainy-day fund," Brown said in a statement. Lawmakers were happy extra revenue was available. "For years California's budgets were about getting out of a hole," new Assembly Speaker Toni Atkins (D-San Diego) said in a statement. "This budget is about building a foundation for the future." Steinberg was even happy. "This budget proves once again that negotiation and cooperation can achieve a great outcome," Steinberg (D-Sacramento) said. "We're expanding preschool for our youngest and career pathway programs for our older students."¹⁰³

What was the deal? Brown's rail project would get \$250 million from initial cap-and-trade revenue, but only 25 percent of the revenue from future years, rather than the governor's preferred 33 percent. The rest of the revenue would be divided into affordable housing, various transit programs, and other energy efficiency and natural resource projects. Courts would get \$40 million for one-time court construction, but would not receive the \$100 million annual increase sought by legislative Democrats and California Supreme Court Chief Justice Tani Cantil-Sakauye.

Although less than Steinberg wanted, the budget included 11,500 new preschool slots for low-income 4-year-olds in the first year, and 31,500 slots in future years. Additional revenue was also allocated to reimburse early learning and child care providers, and other preschool programs. In all, the programs will cover approximately half of the state's four-year-olds. "You always begin with a big goal and aspiration, then you define success by whether or not you made significant, even large, progress," Steinberg said. "And we did. I'm very pleased."¹⁰⁴

One last-minute budget surprise came from teachers' unions. Budget language would limit local school districts reserves, potentially freeing up money to increase salaries. "This is all about understanding that school districts really must spend the taxpayers' dollars that they receive in the classroom," said Mike Myslinski, a spokesman for California Teacher Association (CTA). He added that higher reserves "may translate into fiscal security for administrators, but it means limiting programs for students."¹⁰⁵

Quietly added, it struck a raw nerve with school administrators. In a letter to Brown and lawmakers, the Education Management Group, which represents school boards, administrators and superintendents, said the bill language was "fiscally irresponsible" and inconsistent with principles of local control. "For most of the last two decades, California has focused on preventing school district bankruptcies by enacting laws that require multiyear projections, enforcement of strict fiscal standards by county offices of education, early intervention, and even the authority to override the spending decisions of local governing boards," the letter said. "It is therefore ironic that, at the very time an initiative has been placed on the statewide ballot to strengthen the state's rainy-day fund, that the legislature and governor would consider statutory changes that eviscerate provisions at the local school district level that are based on the same premise of fiscal prudence and responsibility."¹⁰⁶

Education lobbyist Kevin Gordon said he suspects "some linkage here to the rainy-day fund and the fact that the California Teachers Association didn't object" to the new rainy-day fund measure. Public employee unions had objected to the initial rainy-day fund measure previously

¹⁰³ June 13, 2014. *Los Angeles Times*. "Jerry Brown, Top Lawmakers Announce Budget Deal."

¹⁰⁴ June 13, 2014. *Los Angeles Times*. "Jerry Brown, Top Lawmakers Announce Budget Deal."

¹⁰⁵ June 14, 2014. *San Francisco Chronicle*. "Schools, In-Home Care, Bullet Train Win in State Budget."

¹⁰⁶ June 11, 2014. *Sacramento Bee*. "California to Add Child Care, Transitional Kindergarten Slots in Budget Deal."

scheduled for the ballot.¹⁰⁷ The proposal to limit school reserves would only take effect if voters pass the measure. Although strongly opposed by Republicans and school districts once publicized, the provision stayed in the budget.

The legislature passed the budget two days later on Father's Day, six hours before the constitutional deadline. Senate Republican leader Bob Huff of Diamond Bar said on Twitter, "Usually on Father's Day, I barbecue meat. I wish I could roast a few Dem priorities." The senate approved the budget 25–11. Senator Anthony Cannell (R-Ceres) cast the GOP's only vote for the main budget bill. The vote in the assembly was long party lines, 55–24. Assembly Republicans particularly attacked the appropriation for high-speed rail, noting it would take a lot more state money to fund the estimated \$68 billion total cost. "High-speed rail is dead, and as a state we need to give up on this particular project," said Assemblyman Jeff Gorell (R-Camarillo).¹⁰⁸

Legislative Democrats vowed to continue pressing Brown to increase state social spending in future years. "We will be back," said Senator Hannah-Beth Jackson (D-Santa Barbara). "And we will be hopefully as strong and as vocal as possible." But they were happy to see at least some spending increases. "This is a much brighter day than what we've seen in years past," said Senator Mark Leno (D-San Francisco).¹⁰⁹ Steinberg agreed. "We are not there yet, but we are well on our way, and things are dramatically different and better than they were several years ago," the Senate Pro Tem said. "The difference is night versus day. A hail storm versus bright sunshine. It is constant dread versus real hope for the future."¹¹⁰

Brown signed the \$156.4 billion state budget a few days later, still 10 days before the new fiscal year began, the earliest in nearly 30 years. "This on-time budget provides for today and saves for the future," said Brown, who traveled to the home city of newly sworn-in Assembly Speaker Toni Atkins (D-San Diego) to sign the budget bill.¹¹¹ The budget set a record for General Fund spending and stands in sharp contrast to four years ago during Schwarzenegger's administration, when partisan bickering pushed back a final deal into October, three months into the fiscal year.

Scarcely using his line-item veto, Brown only axed \$3.2 million in funding, and nothing from the General Fund. John Myers pointed out Brown holds the modern record for fewest line-item vetoes; in four of his 12 budgets as governor since 1975, Brown vetoed zero dollars in General Fund spending. Myers adds, "That's compared to Arnold Schwarzenegger, and even Gray Davis, who both vetoed billions of dollars in legislative spending during their tenures."¹¹²

¹⁰⁷ June 11, 2014. *Sacramento Bee*. "California to Add Child Care, Transitional Kindergarten Slots in Budget Deal."

¹⁰⁸ June 15, 2014. *Sacramento Bee*. "Lawmakers Approve California Budget with Midnight Deadline Looming."

¹⁰⁹ June 15, 2014. *Sacramento Bee*. "Lawmakers Approve California Budget with Midnight Deadline Looming."

¹¹⁰ June 15, 2014. *San Jose Mercury News*. "California Legislature Passes \$108 Billion Budget."

¹¹¹ June 20, 2014. John Myers, *KQED News*. "Brown Signs Budget, Leaves It Almost Veto-Free."

¹¹² June 20, 2014. John Myers, *KQED News*. "Brown Signs Budget, Leaves It Almost Veto-Free."

Final 2014–2015 Budget

In the final FY 2014–2015 budget, K-12 education accounted for 41.65 percent of General Fund expenditures, health and human services 27.45 percent, higher education 11.6 percent, and corrections 8.9 percent (see Figure 5 below).¹¹³

K-12 Education

K-12 education is the single largest expense facing the state of California, consuming nearly 42 percent of General Fund revenues in the 2014–2015 budget. Overall, the state is providing \$76.6 billion of funding to support primary and secondary education, with \$45.3 billion coming from the General Fund and \$31.3 billion from other funds.¹¹⁴ Compared to the previous year, the 2014–2015 budget increased spending on K-12 education by \$6.6 billion, with \$5.7 billion of that increase coming from the General Fund.¹¹⁵ In addition, transitional kindergarten for four-year-olds from poor families, a major priority for Democratic lawmakers was also funded in the budget to the tune of \$25 million.¹¹⁶ This one-time appropriation will be used for preschool and transitional kindergarten teacher training in the area of early childhood development,¹¹⁷ and to provide stipends for prospective teachers.¹¹⁸ The budget also sets aside \$10 million for loans to expand existing state preschool facilities.¹¹⁹

Proposition 98 is the minimum funding formula for K-14 education (K-12 plus community colleges) in California. Passed by voters in 1988, it mandates that at least 40 percent of the state's General Fund revenue be devoted to K-14 education. It also mandates, in years of strong economic growth, that state spending on education equal the previous year's level of spending plus per capita growth and a student enrollment adjustment. With an improving economy, Proposition 98 funding has been soaring, resulting in much higher levels of spending on education. Due to these dramatic increases, per pupil spending is projected to rise by \$975, from \$12,248 in 2013–2014 to \$13,223 in 2014–2015. A further rise of \$239 per pupil is projected for 2015–2016, bringing total per pupil spending to \$13,462 in that budget year (see Figure 6).¹²⁰

Health and Human Services

Health, welfare, and social service programs were the second largest expense in the 2014–2015 budget, accounting for 27.45 percent of all state spending. The budget provided a total of \$136.7 billion for such programs, with \$29.6 billion coming from the General Fund and \$107.1 billion from other funds.¹²¹ This level of expenditure represented an increase of \$23.2 billion

¹¹³ California Department of Finance. *California State Budget 2014–2015*.

¹¹⁴ California Department of Finance. *California State Budget 2014–2015*.

¹¹⁵ California Department of Finance. *California State Budget 2013–2014 & California State Budget 2014–2015*.

¹¹⁶ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan*.

¹¹⁷ California Department of Finance. *California State Budget 2014–2015*.

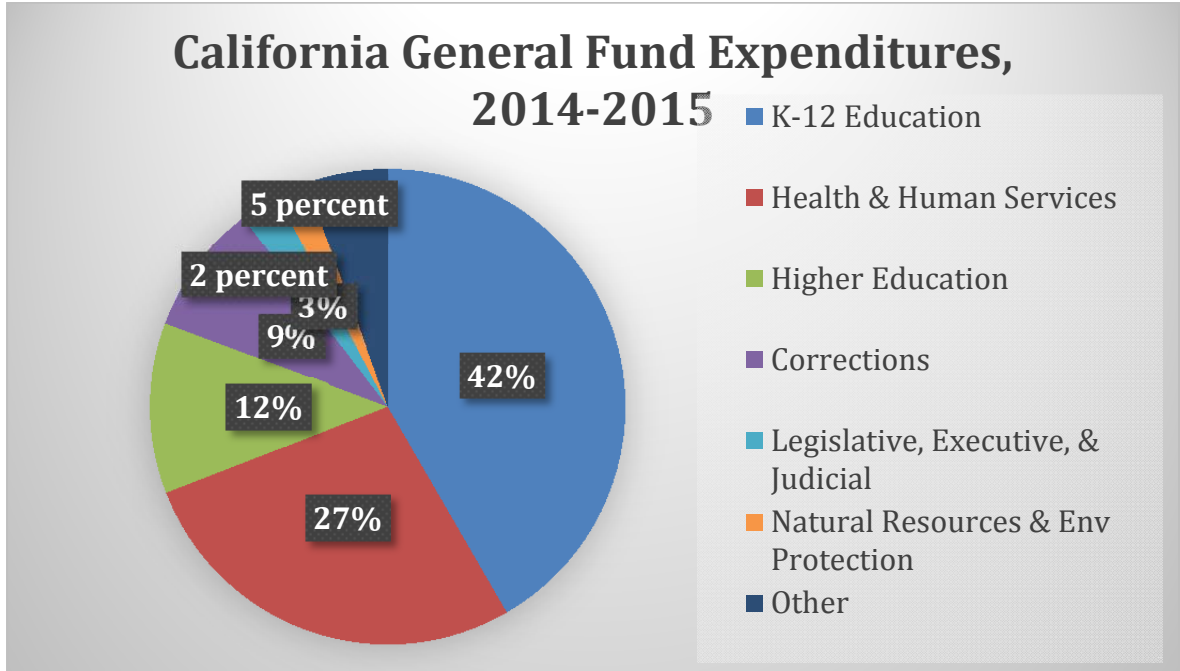
¹¹⁸ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan*.

¹¹⁹ California Department of Finance. *California State Budget 2014–2015*.

¹²⁰ California Department of Finance. *California State Budget 2014–2015*.

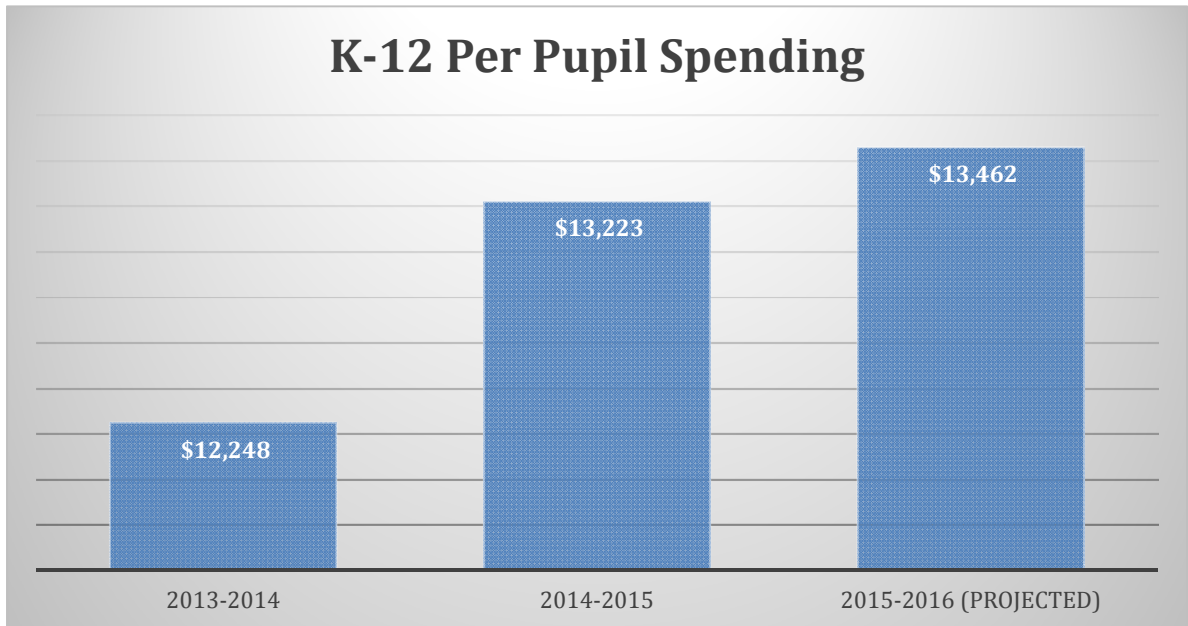
¹²¹ California Department of Finance. *California State Budget 2014–2015*.

Figure 5.



Source: California Department of Finance.

Figure 6.



Source: California Department of Finance.

from the previous year's budget, with \$1.5 billion of that increase coming from the General Fund.¹²²

Two of the most significant programs under health and human services are CalWORKs and In-Home Supportive Services (IHSS). CalWORKs is California's main social welfare program, which provides cash assistance and child care for the poor. The In-Home Supportive Services program provides domestic care services to low-income elderly, blind, and disabled Californians.

During the Great Recession, CalWORKs experienced significant reductions in its budget, as well as a significant restructuring, as the state has tried to balance its books. For example, funding for welfare-to-work and child care services fell by more than \$375 million between 2009–2010 and 2011–2012.¹²³ 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 2011.¹²⁴ In 2012, SB 1041 was passed 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.¹²⁵ In order to remain eligible for cash assistance for an additional 24 months, participants had to meet federal work participation requirements.¹²⁶ While CalWORKs' caseload rose substantially during the recession—topping out at 597,000 cases in June 2011—it has steadily decreased since then due to the tougher eligibility requirements, time limits on receiving aid, and a slowly improving labor market.¹²⁷

In 2014–2015, despite an increase of \$1.5 billion to the overall health and human services budget, General Fund spending on CalWORKs fell by \$462 million to a funding level of \$733 million.¹²⁸ This represents a 39 percent decrease in General Fund support for CalWORKs. This is largely because funding responsibility for CalWORKs is being shifted from the General Fund to other funding sources, such as Medi-Cal.¹²⁹ Indeed, despite what might appear as state disinvestment in CalWORKs, monthly grants for CalWORKs recipients are actually being increased by 5 percent.¹³⁰ According to the LAO, this should result in a \$34 per month increase in cash assistance for a family of three with no other income, at a cost to the state of \$180 million per year.¹³¹ In addition, the budget also eliminated a lifetime ban on CalWORKs assistance for felons convicted of drug offenses.¹³²

Meanwhile, while General Fund support for CalWORKs was being reduced, 2014–2015 appropriations for In-Home Supportive Services (IHSS) were increased by 10 percent to \$202 million.¹³³ Federal regulations issued by the U.S. Department of Labor require in-home care workers

¹²² California Department of Finance. *California State Budget 2013–2014* and *California State Budget 2014–2015*.

¹²³ California Department of Finance. *Governor's Budget Summary 2013–2014*.

¹²⁴ California Department of Finance. *Governor's Budget Summary 2013–2014*.

¹²⁵ California Department of Finance. *Governor's Budget Summary 2013–2014*.

¹²⁶ California Department of Finance. *Governor's Budget Summary 2013–2014*.

¹²⁷ Legislative Analyst's Office. *The 2014–2015 Budget: Analysis of the Human Services Budget*.

¹²⁸ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan*.

¹²⁹ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan*.

¹³⁰ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan*.

¹³¹ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan*.

¹³² June 17, 2014. *Sacramento Bee*. "Lawmakers Approve California Budget with Midnight Deadline Looming."

¹³³ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan*.

to receive overtime pay beginning in January 2015 if they work more than 40 hours per week.¹³⁴ To save more than \$600 million per year, Governor Brown's initial budget prohibited overtime, which would have had the effect of reducing care to many sick and elderly clients. Democratic lawmakers convinced Brown to compromise and allow overtime, in exchange for future guidelines that would limit overtime costs from surging. As a result, the state will pay \$92.7 million for IHSS overtime in 2014–2015.¹³⁵ In addition, the new Labor Department regulations also require that IHSS providers be compensated for time spent waiting during medical appointments and traveling between the homes of IHSS recipients.¹³⁶ The LAO estimates this will cost the state \$69.9 million in 2014–2015.¹³⁷

Higher Education

Higher Education accounts for the third largest area of state spending, consuming 11.6 percent of General Fund revenues in the 2014–2015 budget. Overall, the state is providing \$26.2 billion in funding, with \$14.7 billion coming from the General Fund.¹³⁸ This represents an increase of \$800 million from the previous year's budget; comprised of an increase of \$1.6 billion from the General Fund coupled with a decrease of \$800 million from other funds.¹³⁹

This budget continues to provide much needed relief to the University of California and California State systems after years of cutbacks. Figure 7 depicts General Fund spending on the UC and CSU systems from 2007–2008 through 2014–2015. While both systems have recovered from their funding lows during the Great Recession, both are still operating with less General Fund revenue in 2014–2015 than they had in 2007–2008, despite educating more students. In 2007–2008, the UC system received \$3.4 billion from the General Fund; while the 2014–2015 budget only provides a funding level of \$3 billion.¹⁴⁰ In 2007–2008, the CSU system received \$3.26 billion from the General Fund; while the 2014–2015 budget only provides a funding level of \$2.97 billion.¹⁴¹

To fill the gap, tuition and fees have risen sharply over this period. Annual in-state tuition and fees at University of California schools has risen from \$6,636 to \$12,192 between 2007–2008 and 2014–2015, an increase of 84 percent.¹⁴² The rise was even more dramatic at California state schools, where annual in-state tuition and fees rose from \$2,772 to \$5,472 over the same period, an increase of 97 percent.¹⁴³ Figure 8 depicts the rising cost of tuition and fees at UC and CSU schools, although tuition and fees have been frozen since 2011–2012.

¹³⁴ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan.*

¹³⁵ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan.*

¹³⁶ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan.*

¹³⁷ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan.*

¹³⁸ California Department of Finance. *California State Budget 2014–2015.*

¹³⁹ California Department of Finance. *California State Budget 2013–2014* and *California State Budget 2014–2015.*

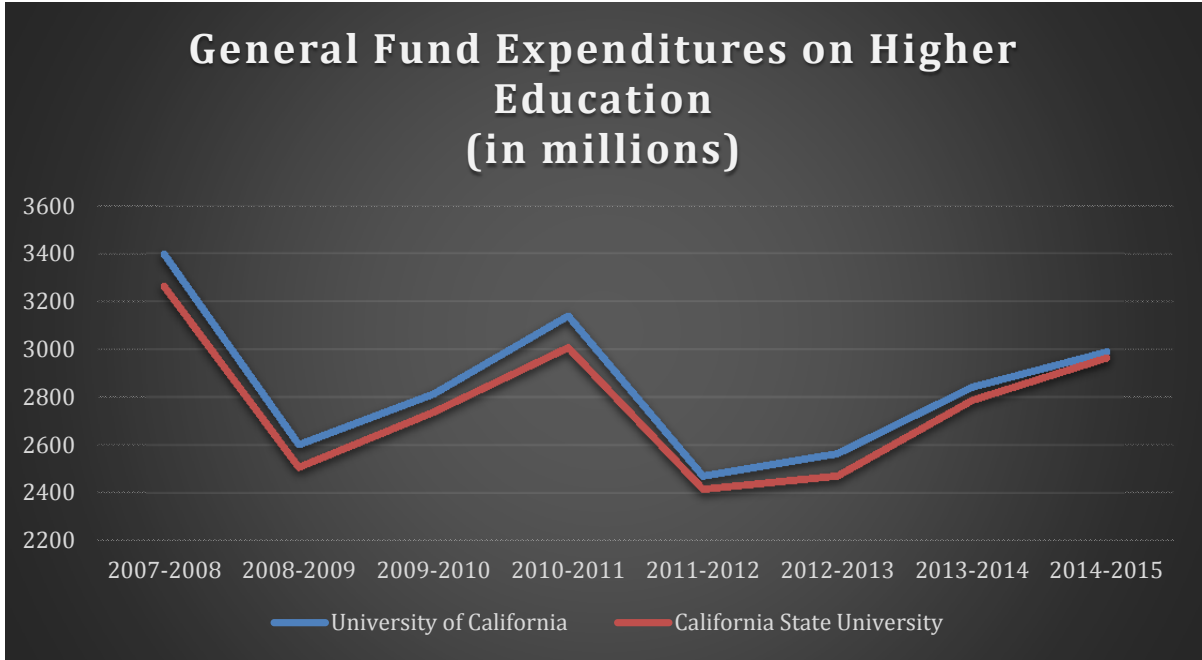
¹⁴⁰ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan.*

¹⁴¹ Legislative Analyst's Office. *The 2014–2015 Budget: California Spending Plan.*

¹⁴² California Department of Finance. *Governor's Budget Summary 2014–2015.*

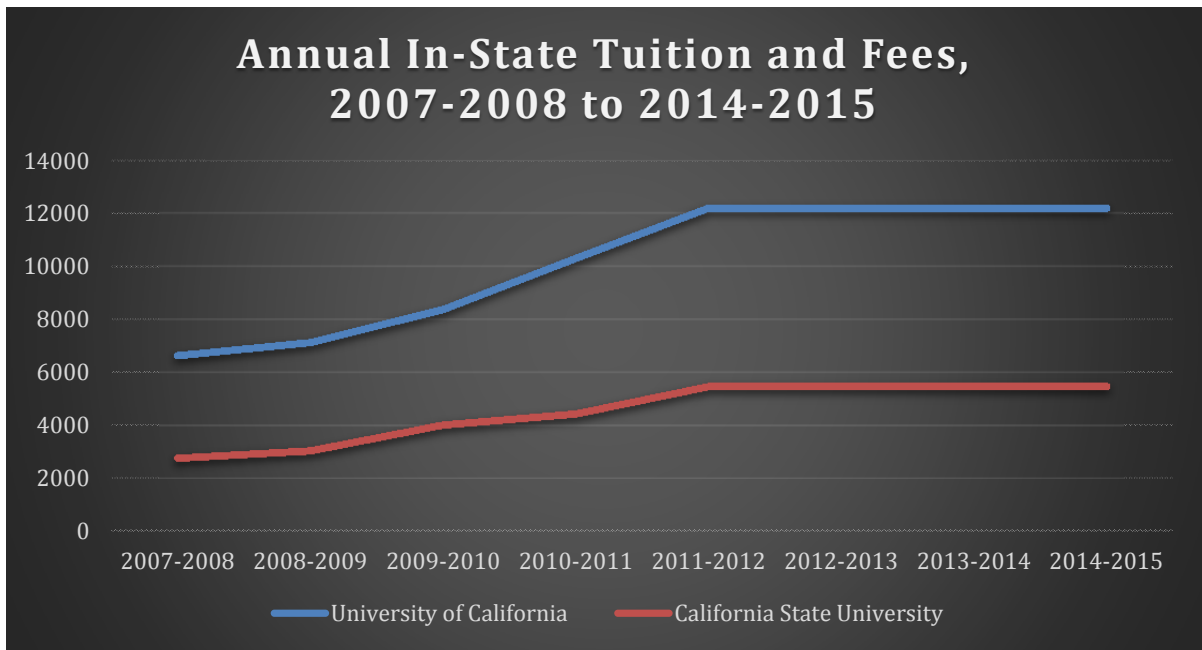
¹⁴³ California Department of Finance. *Governor's Budget Summary 2014–2015.*

Figure 7.



Source: Legislative Analyst's Office.

Figure 8.



Source: California Department of Finance.

Corrections

Corrections is the last of the “big four,” with funding for the California Department of Corrections and Rehabilitation (CDCR) accounting for 8.9 percent of the 2014–2015 General Fund budget. Overall, CDCR received a total of \$12 billion in funding, with \$9.6 billion coming from the General Fund.¹⁴⁴ This represents an increase of \$900 million from the previous year’s budget, with \$700 million of that coming from the General Fund.¹⁴⁵

This increase is primarily meant to cover projected expenses for an increasing prison population. The Legislative Analyst’s Office predicts that that state’s prison population will rise over the course of 2014–2015, even as the population of parolees is projected to decline.¹⁴⁶ By the end of the 2014–2015 budget year, the LAO estimates that California’s inmate population will rise to about 138,000 while the parolee population will fall to about 40,000.¹⁴⁷ In addition, the increased budget will also be used for the expansion of the correctional officer training academy, increased workers’ compensation expenses, and the expansion of certain rehabilitation programs.¹⁴⁸

Going forward, Governor Brown has said he wants to reform criminal justice policies and address problems that arose after low-level prisoners were shifted from overcrowded state prisons to unprepared county jails following the *Brown v. Plata* decision in 2011.¹⁴⁹ As a result, look for another increase to CDCR’s budget in 2015–2016.

2014 Elections and Public Opinion

Despite sweeping Republican victories nationwide in 2014, California continued its contrarian politics and voted Democratic. In the June 3 “top two” gubernatorial primary, Jerry Brown won an absolute majority of all votes cast with 54.3 percent in a field that included two prominent Republicans and a host of other candidates. The second-place finisher was Republican Neel Kashkari from Laguna Beach, who beat out Republican Assemblyman Tim Donnelly from San Bernardino County, 19.4 percent to 14.9 percent, setting up a Brown-Kashkari race in the general. In November, Democrats swept all seven partisan statewide executive offices, including Jerry Brown winning a historic fourth term as governor. Brown defeated Kashkari 60 percent to 40 percent, winning the largest Democratic margin in California history, surpassing even his father’s historic gubernatorial margin in 1958. Kashkari lost despite being prochoice, in favor of same-sex marriage, and even voting for Barack Obama in 2008. Moreover, he even outspent Brown seven million to five million, with three million coming from his own funds.¹⁵⁰ Even these figures, however, understate the insignificance of Kashkari’s cash advantage. While Brown raised \$5.2 million for his re-election, he only actually spent \$800,000 on personal campaign ac-

¹⁴⁴ California Department of Finance. *California State Budget 2014–2015*.

¹⁴⁵ California Department of Finance. *California State Budget 2013–2014 & California State Budget 2014–2015*.

¹⁴⁶ Legislative Analyst’s Office. *The 2014–2015 Budget: California Spending Plan*.

¹⁴⁷ Legislative Analyst’s Office. *The 2014–2015 Budget: California Spending Plan*.

¹⁴⁸ Legislative Analyst’s Office. *The 2014–2015 Budget: California Spending Plan*.

¹⁴⁹ November 10, 2014. *San Francisco Chronicle*. “Jerry Brown Looks to Solidify Legacy with Big State Projects.”

¹⁵⁰ January 30, 2015. *Los Angeles Times*. “Neel Kashkari Spent More Than Jerry Brown on Governor’s Race.”

tivities.¹⁵¹ With approval ratings always above 50 percent and a healthy lead in the polls all year,¹⁵² Brown spent most of his campaign funds supporting Propositions 1 and 2, the aforementioned water bond measure and provision to increase the state’s rainy-day fund (both of which passed).¹⁵³ While this may seem dangerous, Brown is accustomed to winning elections handily while being vastly outspent. In 2010, he was outspent by former eBay CEO Meg Whitman by an eye-popping \$142 million (\$178 million to \$36 million) and still managed to win by 13 percentage points.¹⁵⁴ Despite being a well-financed moderate candidate, Kashkari, a former federal treasury official in George W. Bush’s administration, never had a chance in solid “Blue” California.

Figure 9 illustrates Jerry Brown’s approval ratings throughout 2014. After cresting at 59 percent approval in January, Brown was able to maintain approval ratings between 50 percent and 56 percent throughout the rest of the year.¹⁵⁵ Moreover, his disapproval numbers were remarkably consistent, ranging between 29 percent and 33 percent.¹⁵⁶ On the eve of the November 2014 election, his favorable/unfavorable numbers were 52 percent to 33 percent.¹⁵⁷

The political situation was a bit more complicated in the California Legislature, where Republicans picked up seats in both chambers, denying the Democrats the two-thirds majority they had won in 2012. That victory had given the Democrats a supermajority in the legislature for the first time since the late 1800s. But they were unable to capitalize on their numbers during those two years, in part due to poorly timed vacancies in the senate and also a series of scandals that forced the state senate to suspend three different Democratic senators for allegations of corruption, arms-running, and living outside their district, respectively. The public’s poor assessment of the legislature throughout 2014 is illustrated in Figure 10. As a result, Republicans won three net seats in the assembly and two seats in the senate, which along with a special election victory Republicans won in 2013, denied the Democrats a two-thirds majority in either chamber.

Initiative campaigns were also important in 2014, as they usually are in California. The main events in the 2014 cycle were Propositions 1 and 2. As mentioned previously, Governor Brown spent most of his campaign funds not on his own re-election but on efforts to pass Propositions 1 and 2. Proposition 1 was the water measure discussed earlier that authorized \$7.12 billion in state bonds to pay for water infrastructure projects, including specific appropriations such as \$2.7 billion for water storage projects, dams, and reservoirs, and \$395 million for statewide flood management projects.¹⁵⁸ Proposition 2 was the legislatively referred state constitutional amendment, also discussed earlier, which mandated that more money be deposited into the state’s rainy-day fund. This was mainly to pay down state debt—the amendment required that half the funds in the account be used to repay state debts and unfunded liabilities—but also provided for an increased

¹⁵¹ January 30, 2015. *Los Angeles Times*. “Neel Kashkari Spent More Than Jerry Brown on Governor’s Race.”

¹⁵² Public Policy Institute of California (PPIC), 2015.

¹⁵³ January 30, 2015. *Los Angeles Times*. “Neel Kashkari Spent More Than Jerry Brown on Governor’s Race.”

¹⁵⁴ January 30, 2015. *Los Angeles Times*. “Neel Kashkari Spent More Than Jerry Brown on Governor’s Race.”

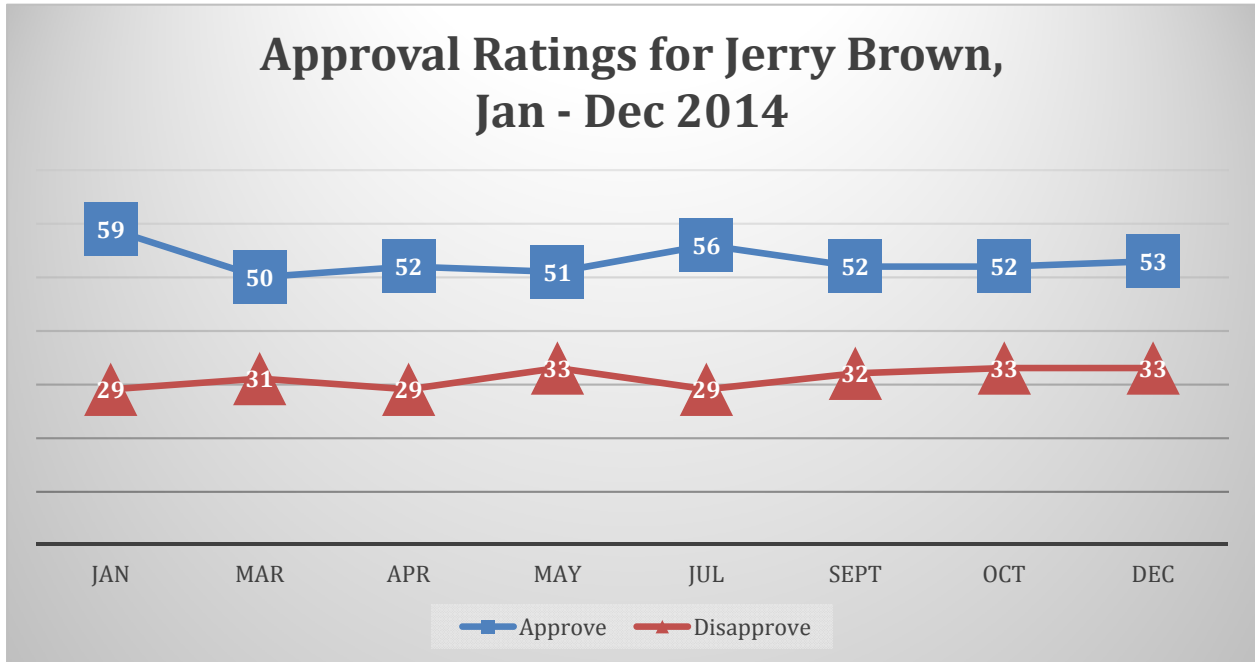
¹⁵⁵ Public Policy Institute of California (PPIC), 2015.

¹⁵⁶ Public Policy Institute of California (PPIC), 2015.

¹⁵⁷ Public Policy Institute of California (PPIC), 2015.

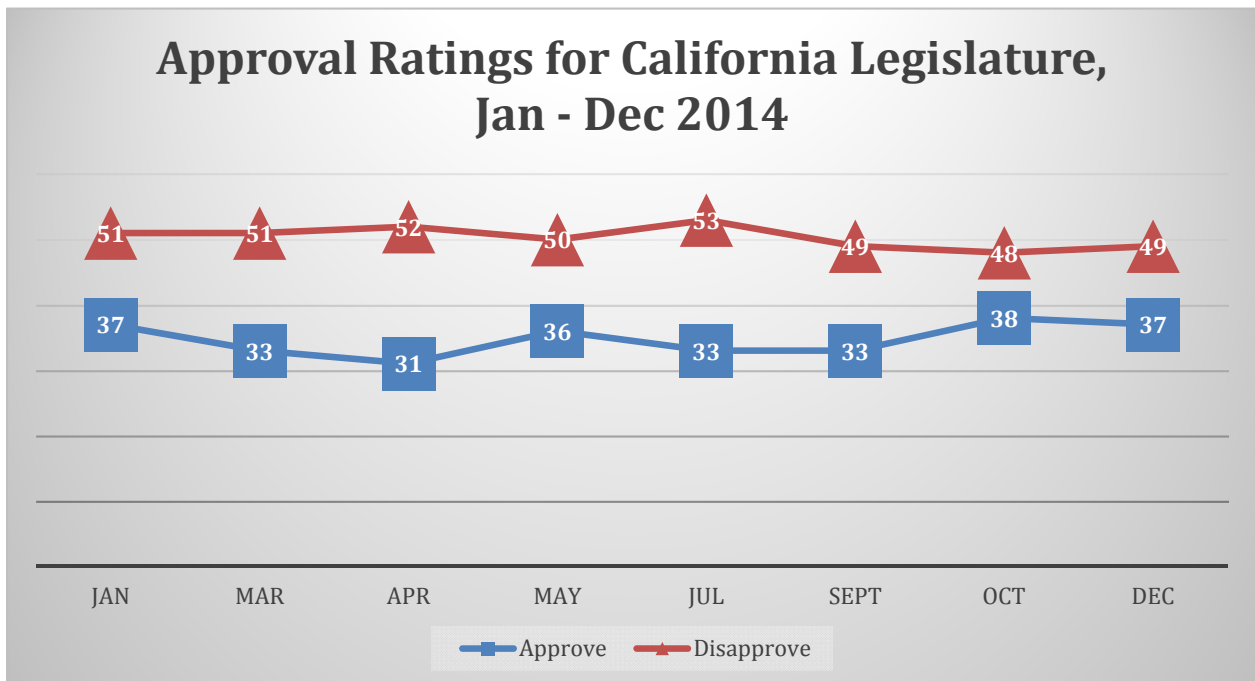
¹⁵⁸ *California Legislature*, “AB-1471 Water Quality, Supply, and Infrastructure Improvement Act of 2014.”

Figure 9.



Source: Public Policy Institute of California.

Figure 10.



Source: Public Policy Institute of California.

reserve of funds that the legislature could tap into in case of future budget shortfalls.¹⁵⁹ Both Propositions 1 and 2 passed easily. Proposition 1 passed 67 percent to 33 percent whereas Proposition 2 passed 69 percent to 31 percent. Throughout the year, polls tended to understate support for both propositions. Figure 11 displays polling data for Proposition 1 from March-October 2014, and Figure 12 does the same for Proposition 2 from September-October 2014.

While always showing both propositions comfortably ahead, the polls understated the level of support that Props 1 and 2 enjoyed on Election Day, perhaps suggesting that many undecided voters broke in favor of 1 and 2 when casting their ballots. The lack of any institutional opposition could have contributed to this result, as both the Democratic and Republican parties supported the measures. In fact, the Republican Party officially endorsed both propositions at their state party convention.¹⁶⁰

At the national level, Democrats lost 13 net seats in the House of Representatives in 2014, but actually picked up a seat in California, the 31st Congressional District in San Bernardino County. Republican Gary Miller decided to retire rather than face a Democrat in a district that voted for President Obama by 17 points in 2012. This was one of only three House seats in 2014 that swung from the Republicans to the Democrats. Moreover, Republicans failed to defeat any potentially vulnerable California freshman Democratic incumbents, including in closely watched battles in the Sacramento suburbs, California's Central Coast, Palm Springs, and the tony suburbs of San Diego.

Conclusion

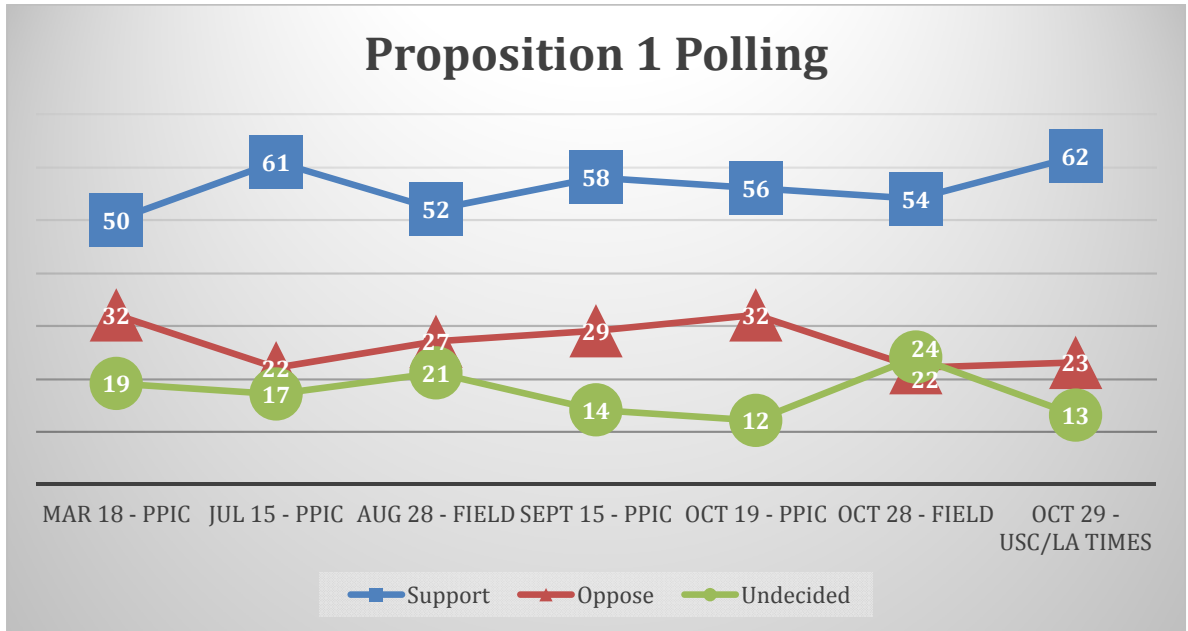
With 2014 at a close, the state's economic future was looking bright despite the fact that some major issues remained unresolved. With the economy improving, state revenue was increasing, and state debt was decreasing. Spending was up, although not as much as Democrats in the legislature would have liked. Education was gaining more resources, and so was Jerry Brown's train. With a confident and re-elected governor heading into 2015, Brown was looking forward to focusing on his two large infrastructure projects, the high-speed rail and the Delta Tunnel. This massive tunnel would divert excess northern California water away from the Sacramento Delta to the thirsty residents of the South.

Perhaps the only thing that could derail Brown now is a natural disaster. Unfortunately for the governor, those are all too common in the Golden State. As 2015 dawned, California was experiencing a historic drought. This will undoubtedly cause serious economic hardships in the state. What is less clear is the political fallout from this natural calamity.

¹⁵⁹ Official Voter Information Guide for November 4, 2014 Election, Ballot Title and Summary.

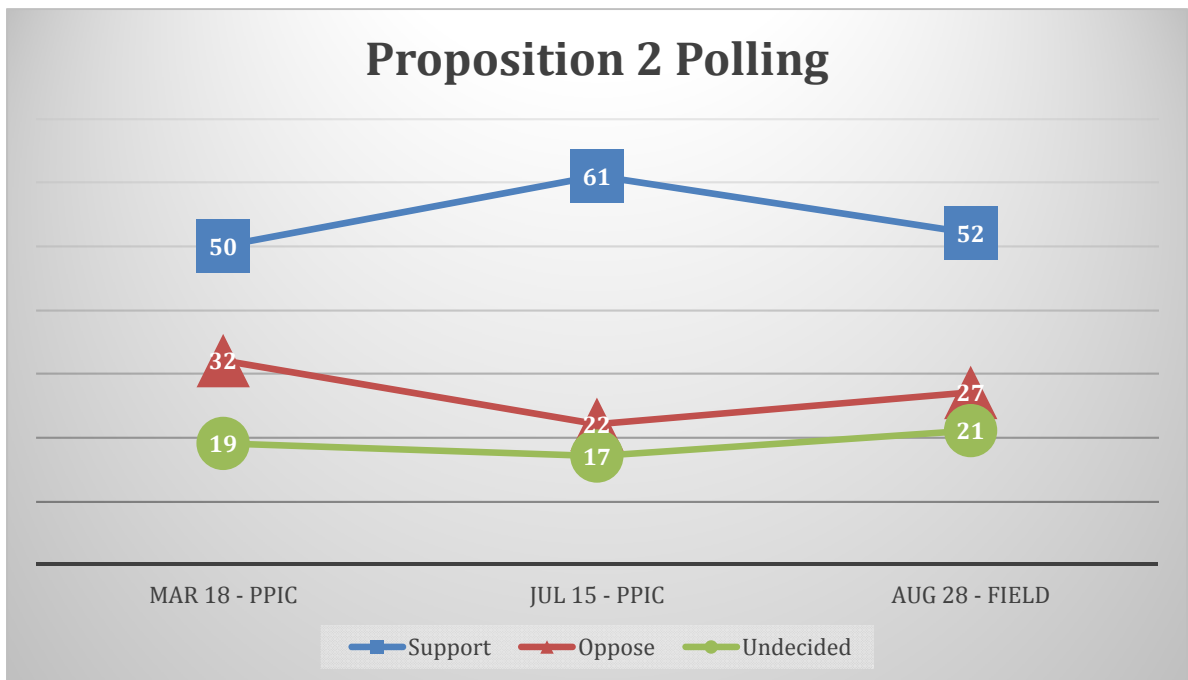
¹⁶⁰ September 22, 2014. *Santa Monica Mirror*. "State Republicans Vote to Back Two Measures on November Ballot, Oppose Two."

Figure 11.



Sources: Public Policy Institute of California; Field Poll; USC/Los Angeles Times.

Figure 12.



Sources: Public Policy Institute of California; USC/Los Angeles Times.