

**California's 2016–17 Budget:
Preparing for Gloom with a Rainy-Day Fund**

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California enters the 2016-2017 budget cycle in a far better position than it has in previous years. The state's unemployment rate is lower than in previous cycles, and steadily increasing revenues have led to higher levels of state spending. Democrats have unified control of the state's governing institutions, and Governor Jerry Brown enjoys wide popularity. Therefore, the major story this year is not budget cuts, but rather an intraparty struggle over spending priorities. While legislative Democrats favor additional funding for social programs cut during the recession, Governor Brown is sticking to his frugal and prudent course. Fearing another downturn, Brown wants to bolster the state's rainy-day fund, while many legislative liberals argue that the rain has never stopped for California's poor.

Background

Politics

In the past decade, California has shifted from a liberal state to a very liberal state, a place where Republicans are quickly becoming an endangered species. While pockets of Republicanism survive, even thrive, in the inland foothills, mountains, and valleys, the Republican brand is doing poorly with nonwhite and young voters, California's two fastest-growing groups. Democrats now make up nearly 45 percent of the state's 19.4 million registered voters. In contrast, Republicans make up just 26 percent, only a smidgen ahead of the 24 percent of voters who identify with no political party.¹ "California is a state that, all things being equal, wants to vote Democrat," said Jim Brulte, chair of the California Republican Party. "We are still adding Republican registration statewide, but the statewide Republican registration is being dwarfed by the Democratic registration increase."²

Demographics play a key part in determining the state's politics. "The decline in Republican Party registration in California parallels almost identically the decline in the white population in California," Brulte told the *New York Times*. "In 1988, the white population was just a hair under 60 percent. Today, it's under 40 percent. At the same time, Republican registration has gone from 38.5 percent to under 28 percent."³

¹ California Secretary of State. Report of Registration as of October 24, 2016.

² May 29, 2016. *New York Times*. *Success of Jerry Brown, and California, Offers Lesson to National Democrats*.

³ *Ibid.*

Another key to the Democrats' success is undoubtedly four-term Governor Jerry Brown. California's longest-serving governor, Brown is one of its few leaders, Democrat or Republican, to have seemingly cracked the code to successfully governing the enigma that is California. "When Jerry Brown is gone — and I say that as a candidate for governor, I'm not naive about this — it's going to be very hard to replicate," said Lieutenant Governor Gavin Newsom. "By no means am I suggesting blind optimism that we've figured it out. He's figured it out. The governor has proved you don't have to be profligate to be progressive. He has found that sweet spot."⁴

Demographics

To understand California, it is important to recognize the state's rapidly changing demographics. California has been a majority-minority state since the late 1990s. 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.⁵ However, based on updated information from the U.S. Census Bureau (through mid-2014), non-Hispanic whites currently account for only 38.5 percent of the state's population, while Latinos have achieved a narrow plurality of 38.6 percent.⁶ Based on Census Bureau projections, Latinos should form a solid plurality by 2020 (40.8 percent projected), with non-Hispanic whites declining to just 36.6 percent.⁷ As recently as 1980, non-Hispanic whites accounted for two-thirds of California's population.⁸ Figure 1 depicts the shifting makeup of the state from 1980 to 2020 (projected). California is one of the most diverse states in the nation, with African Americans, Asians, Latinos, and non-Hispanic whites all numbering more than five percent of the state's population.

Unemployment

Unemployment has also been a major issue in the state. In January 2008, the unemployment rate in California stood at 6.1 percent.⁹ By September 2010, less than three years later, that figure had doubled to 12.2 percent.¹⁰ 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.¹¹ Meanwhile, California's jobless rate continued to climb.

Since late 2010, California has 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.¹² In January 2014, California's unemployment rate stood at 8.1 percent in comparison to the national rate of 6.6 percent.¹³ By January 2016, however, California had reduced its unemployment rate down to

⁴ *Ibid.*

⁵ U.S. Census Bureau, 2016.

⁶ *Ibid.*

⁷ *Ibid.*

⁸ *Ibid.*

⁹ U.S. Bureau of Labor Statistics State Unemployment Database, 2016.

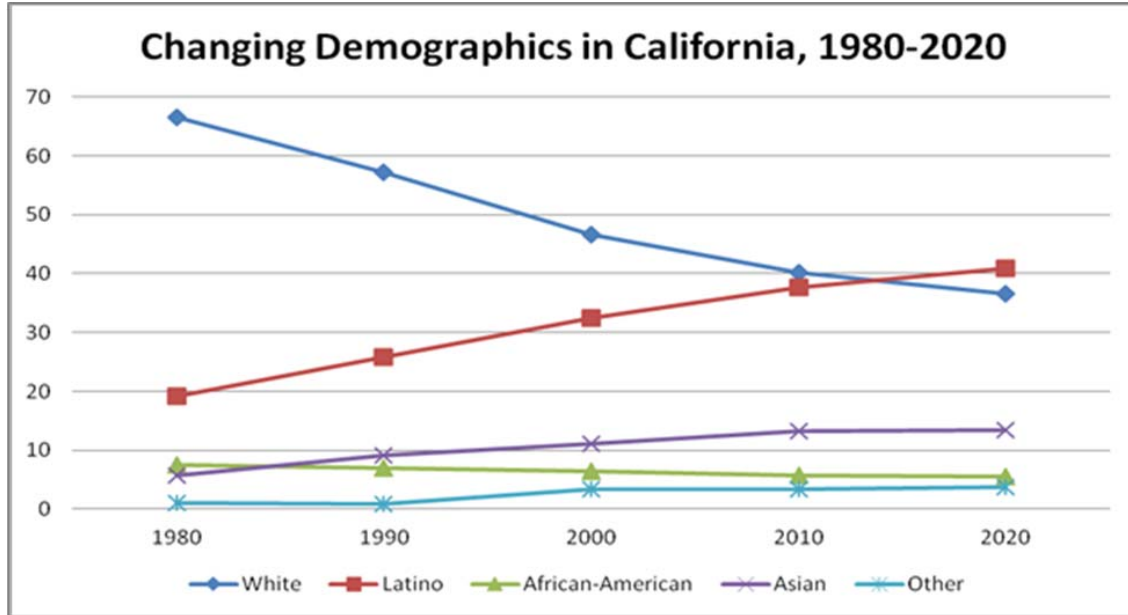
¹⁰ *Ibid.*

¹¹ *Ibid.*

¹² *Ibid.*

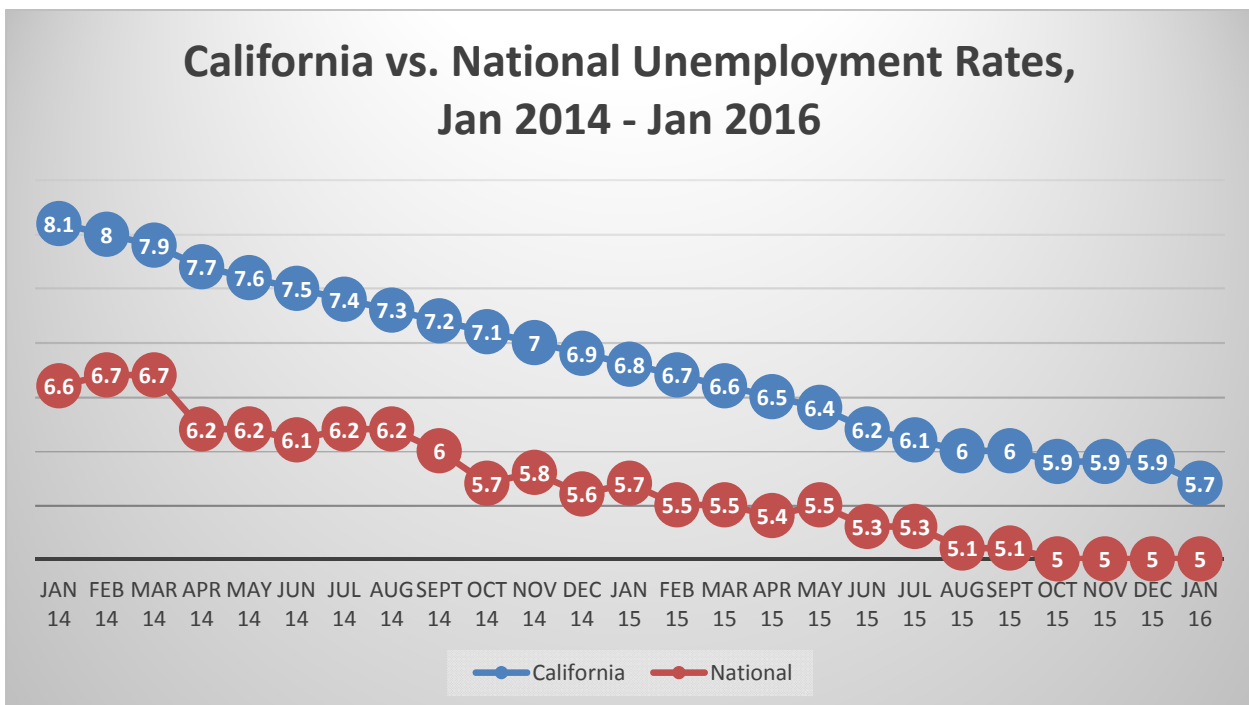
¹³ *Ibid.*

Figure 1.



Source: U.S. Census Bureau.

Figure 2.



Source: U.S. Bureau of Labor Statistics.

5.7 percent, while the national rate stood at 5 percent.¹⁴ Despite this dramatic improvement, the lingering effects of unemployment and underemployment continue to be a major issue in the state. Figure 2 depicts the California and national unemployment rates from January 2014 through January 2016.

The California Budget Process

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

The kick-off to budget season is the governor's January budget proposal, which must be submitted to the legislature by January 10 of each year, for the fiscal year beginning July 1. Once submitted 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 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 without tax increases require only a simple majority of both houses (41 in the Assembly and 21 in the Senate) to pass, as opposed to a previously required two-thirds vote. Tax increases still require a two-thirds vote of each chamber for passage (54 in the Assembly and 27 in the Senate). If approved, the budget is sent to the governor for his signature.

At that point, the governor may choose to exercise his line-item veto authority. The governor is not allowed to zero-out funding for agencies or programs mandated by law, but is allowed to zero-out other appropriations and to reduce spending levels across the board. 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 extremely rare. The last legislative veto override of a governor was in 1979 (coincidentally, Jerry Brown was serving his first stint in office), and it is unclear if the legislature has ever overwritten a gubernatorial budget veto before.

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 the politics. Since 2010, legislators must *pass* a budget by the constitutionally mandated deadline (that particular budget does not have to later be *enacted*, a potentially large loophole), or they will forfeit their pay until a budget is passed. Over the past few years, Proposition 25 has proven very effective in ensuring that a new budget is in place by July 1.

¹⁴ U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2016.

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 and capital gains tax revenue to fund its operations. This creates a boom-and-bust cycle giving the state large surpluses when times are good but huge deficits when times are bad. During difficult times, the state is forced to choose between tax increases opposed by Republicans and major spending cuts opposed by Democrats. Both options are politically unpopular.

Supermajority Requirements for Tax Increases: Over the past 60 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 vote in each house of the legislature in order to pass. This has given the Republican Party tremendous leverage over the budget-making process because they possess 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.¹⁵ On any given California ballot, voters can expect to decide the fate of five to fifteen different proposals. Very often, these proposals have significant fiscal impacts. California's reliance upon direct democracy complicates the job of the governor and state legislature in crafting a budget, because certain taxing and spending options are not available to them. For example, Proposition 98 mandates that 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, the voters' approval of Brown's temporary tax increases as Proposition 30 in 2012, and extended those taxes as Proposition 55 in 2016, might have signaled a significant change in the public's attitude. Perhaps the California electorate is becoming more willing to raise taxes for public investments, such as education, after years of harsh budget cuts. Time will tell.

New Legislative Leadership and What It Means to California

California passed Proposition 28 in 2012, revising legislative term limits. Lawmakers can now serve a maximum 12 years in Sacramento, and can serve them in either chamber, or a combination of both. Previously, members were restricted to three two-year terms in the Assembly and two four-year terms in the Senate, generating a never-ending game of political musical chairs. A large freshmen class swept into office in 2014, including almost half of the 80-member

¹⁵ Initiative & Referendum Institute, 2016.

Assembly. Most of these members will probably serve their entire legislative career in the Assembly, adding stability to a chamber that had lost much of its power to the governor and the Senate due to term limits and a decline of institutional knowledge.

The Assembly elected a new freshman Speaker in 2016, Anthony Rendon (D-Lakewood), to replace termed-out Toni Atkins (D-San Diego). Coming from a background that included leadership roles with environmental and early childhood services organizations, Rendon acknowledged the massive change Prop 28 will bring to the state. “When voters extended term limits . . . they did so because they believed that they would help the legislature be more thoughtful, more productive, and more deliberative. As a result, the era that has arrived before us is one that’s filled with great potential for the state and for this institution,” Rendon said, noting he is the first Speaker to serve under the longer limits. “The majority and the leadership of our institution will be represented by folks who are going to be here for some time,” Rendon told reporters after the preliminary floor vote in January.¹⁶ Rendon assumed the office in March, and could potentially serve until 2024.

Beating out more liberal Democratic rivals for the position, Rendon’s ascension heralds the increasingly important role of moderate, business-friendly Democrats in the Assembly. “As California politics begin to shift back toward the middle,” said Assemblywoman Nora Campos (D-San Jose), herself often identified as part of the loose-association of moderate Democrats, “I know that Speaker Rendon will bring us to the point where what matters is not whether the idea is sponsored by a Democrat or a Republican but rather by the substance of the ideas.”¹⁷

This notion of a moderate ascendancy in the legislature was heavily challenged, however, throughout the year by a flurry of successful liberal bills succeeding, like gun control, minimum wage increase, and severe tobacco restrictions. “Over the last few weeks, the notion of a moderate Democrat bloc has disappeared on the floor of the state Assembly,” said former Assembly Republican leader Kristin Olsen (R-Modesto), at the end of the session in August. “I have yet to see them stand together as a bloc in the last two months and either pass legislation or defeat legislation they believe will be harmful on Californians.” Other Republican legislators agreed. “In past years, there’s always been one or two major (liberal) bills,” said Sen. Joel Anderson (R-San Diego County). “This year was death by 1,000 cuts.”¹⁸

Whatever the influence of moderate Assembly Democrats on the legislature, Rendon’s election also illustrates California’s changing political demographics. Both he and Senate President Pro Tem Kevin de León (D-Los Angeles) are Latino. “For the first time in the history of our state, both houses in the California Legislature—in the eighth-largest economy in the world—will be led by two Latino Americans,” Assemblyman Luis Alejo (D-Watsonville), chair of the California Latino Legislative Caucus, told the Assembly as the chamber voted in Rendon as Speaker.¹⁹ Both legislative leaders also come from Los Angeles County, breaking an unwritten rule where one represents southern California, while the other represents northern California.

¹⁶ January 11, 2016. *Los Angeles Times*. Assembly Elects Anthony Rendon to Serve as Next Speaker.

¹⁷ January 11, 2016. *Sacramento Bee*. Anthony Rendon Formally Chosen as Next California Assembly Speaker.

¹⁸ September 1, 2016. *Sacramento Bee*. Democrats Dominating California Legislature Advanced a Broad Liberal Agenda.

¹⁹ March 7, 2016. *Sacramento Bee*. Anthony Rendon Sworn In as California Assembly Speaker, Praises State Aid.

The Big Four and the 2015–2016 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 account for nearly 90 percent of all state General Fund spending. In the previous FY 2015–2016 budget, K-12 education accounted for 42.8 percent, health and human services 27.6 percent, higher education 12.3 percent, and corrections 8.7 percent (see Figure 3).²⁰

K-12 education was the single largest expense facing California in 2015–2016, consuming nearly 43 percent of General Fund revenues in the FY 2015–2016 budget. Overall, the state was providing \$83.2 billion of funding to support primary and secondary education, with \$49.7 billion coming from the General Fund and \$33.5 billion from other funds.²¹

Health, welfare, and social service programs were the second-largest category of expenses in the 2015–2016 budget, accounting for 27.6 percent of all General Fund spending. The budget provided a total of \$140.1 billion for such programs, with \$31.9 billion coming from the General Fund and \$108.2 billion from other funds.²²

Higher education was the third-largest expense facing California in 2015–2016, consuming 12.3 percent of General Fund revenues in the 2015–2016 budget. Overall, the state was providing \$29.2 billion in funding, with \$16.6 billion coming from the General Fund and \$12.6 billion from other funds.²³

Finally, corrections was the fourth-largest category of expenses in the 2015–2016 budget, accounting for 8.7 percent of all General Fund spending. The budget provided a total of \$10.2 billion in funding, with \$9.9 billion coming from the General Fund and \$274 million from other funds.²⁴

Brown Introduces the 2016–2017 Budget

In early January 2016, Governor Jerry Brown introduced his \$170.7 billion state budget (\$122.6 billion General Fund), with modest increases in state services, but significant revenue tucked away into California’s new rainy-day fund. A more substantial emergency fund than the state has seen in several decades, it was negotiated by Brown and the legislature and then ratified by voters in 2014. The governor’s proposed plan would add \$2 billion more to the fund than required, \$3.5 billion in total. The governor told reporters he was preparing the state’s fiscal solvency for an eventual economic downturn. “If you don’t remember anything else, just remember, everything that goes up comes down,” Brown said, standing next to a wildly fluctuating revenue chart from earlier budgets. “Everybody thinks when we’re up here, it’s all wonderful,” Brown told reporters. “That’s what they thought before the dotcom [bust] and that’s what they thought before the mortgage meltdown. And so here we are again.”²⁵

²⁰ California Department of Finance. *California State Budget 2015–2016*.

²¹ *Ibid.*

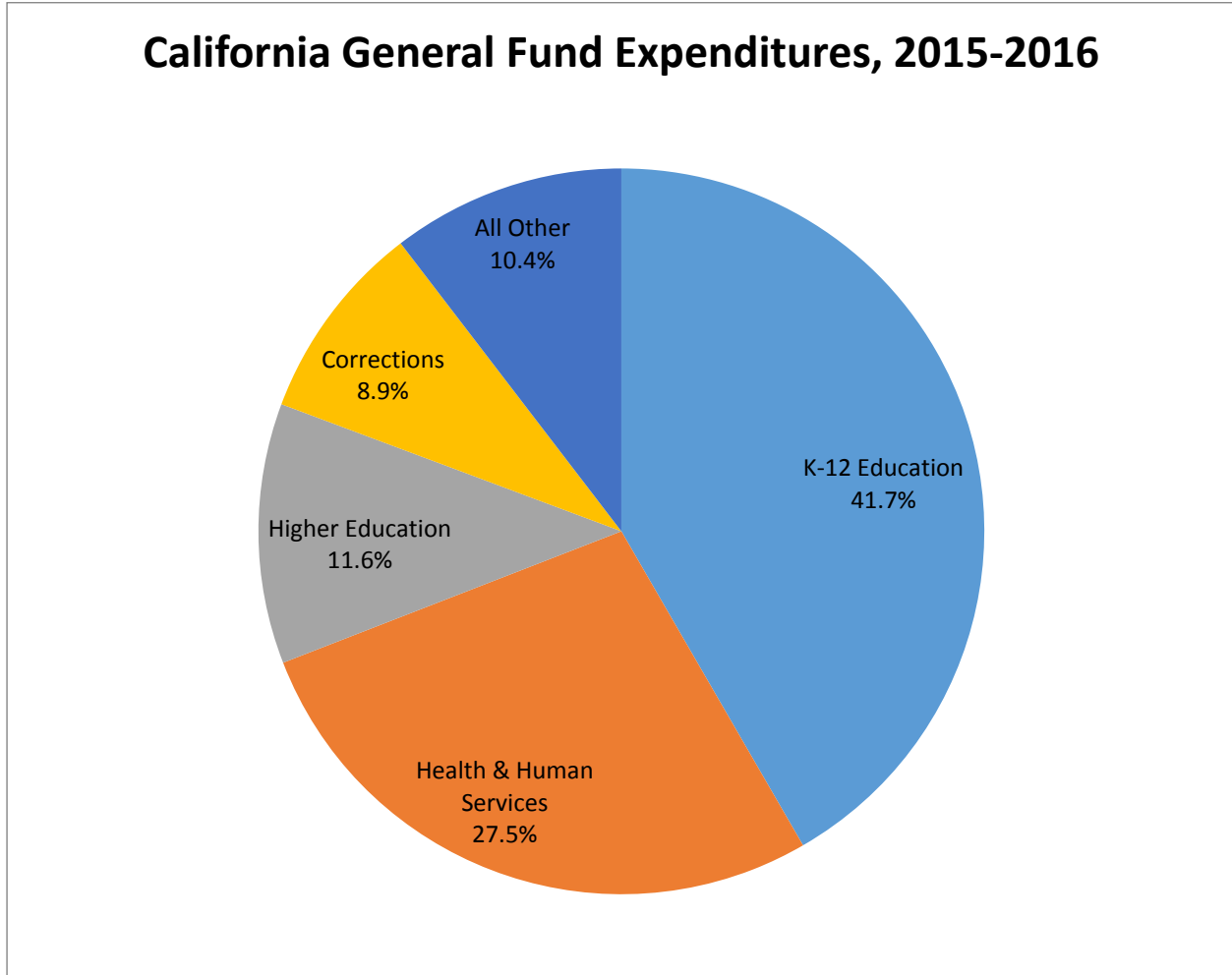
²² *Ibid.*

²³ *Ibid.*

²⁴ *Ibid.*

²⁵ January 7, 2016. *Los Angeles Times*. Gov. Jerry Brown’s Budget Helps Schools and the Poor—and Saves a Lot for a Rainy Day.

Figure 3.



Source: California Department of Finance.

Most of the spending increases came from political decisions made earlier, like an extra \$1.4 billion to cover the Medi-Cal expansion mandated by the federal Affordable Care Act; or cap-and-trade greenhouse emissions revenue distributed by a spending formula Brown worked out previously with the Democrats in the state legislature; or supplementary funding to the University of California and California State University systems to buy-out tuition increases, also previously negotiated.

But the governor insisted repeatedly that several years of rising tax revenue, including volatile capital gains taxes, did not justify significant social spending increases. “This is not a candy store where you can pick out whatever you want,” Brown said. “You’ve got to choose, and that’s what we’re going to do.”²⁶ As an example, when asked what his budget would do to address the

²⁶ *Ibid.*

lack of affordable housing throughout California, Brown “hemmed and hawed for a moment before replying, ‘Not much.’”²⁷

As they have throughout Brown’s second stint in office (and often in his first during the 1970s and ’80s), legislative Democrats disagreed with the governor’s fiscal stinginess, particularly with social spending. “While I appreciate the governor’s continued conservative approach reflected in his budget, we must discuss the needs of Californians still impacted by the deep cuts of the recession,” State Senator Mark Leno (D-San Francisco) replied in a statement.²⁸ Senate President Pro Tem de Leon echoed Leno’s sentiments. “We still have to take a closer look at strengthening our health care system for the poor and developmentally disabled that has been starved for far too long,” he said in a statement.²⁹ “A laundry list of critical needs” remains, said outgoing Assembly Speaker Toni Atkins (D-San Diego).³⁰

Liberal advocates also complained there was no proposed increase to CalWORKS, the state’s main welfare program. Yet the governor proposed the first cost-of-living increase to the aged, blind, and disabled in 10 years. His budget also set aside half a billion for deferred maintenance at state facilities, including to renovate a number of state government buildings. When asked by reporters if that money could be better spent on California’s poor than on state buildings, Brown argued that “maintenance is not dramatic,” but still a necessity. “There’s always a temptation to let the roof deteriorate while you take a vacation, send the kids to college, and go out to dinner,” the governor added.³¹

Many Republicans largely supported the governor’s cautious approach. “He is admonishing his Democratic colleagues to be restrained and prudent,” said Senator Jim Nielsen (R-Gerber), “and that’s where we need to be.”³² But Republicans also had their eyes on the state’s budget surplus too. “The backbone of California’s economic engine, agriculture and reliable energy, is suffering,” Senate Minority Leader Jean Fuller (R-Bakersfield) said. “Furthermore, we can’t take our roads and water delivery system for granted and must address these fundamental needs that are in distress.”³³

The largest area of partisan disagreement lies with revamping the tax on managed care organizations. As previously mentioned, any tax increase requires a two-thirds supermajority, making the largely irrelevant minority Republicans suddenly important again. California’s current health care tax had run afoul of the federal regulations, and unless replaced, the state would forfeit some of its federal matching funds for Medi-Cal, leaving the state to cover the \$1.1 billion gap. Brown proposed to broaden the tax, and then match it with various tax breaks for the health industry.

The governor believed that would both satisfy the federal government while also saving California health insurance companies approximately \$90 million per year. Admitting he was still negotiating the details with the insurance companies, Brown hoped to eventually sell the plan as

²⁷ January 7, 2016. *San Francisco Chronicle*. Brown’s \$122.6 Billion Budget Favors Education, Social Programs.

²⁸ January 7, 2016. *Los Angeles Times*. Gov. Jerry Brown’s Budget Helps Schools and the Poor—and Saves a Lot for a Rainy Day.

²⁹ January 7, 2016. *Associated Press*. Governor Proposes \$122.6 Billion California Budget.

³⁰ January 8, 2016. *Associated Press*. Democrats, Advocates Eye California’s Booming Revenues.

³¹ January 7, 2016. *San Francisco Chronicle*. Brown’s \$122.6 Billion Budget Favors Education, Social Programs.

³² January 7, 2016. *Sacramento Bee*. Jerry Brown’s \$171 Billion Budget Proposal Bolsters Reserves, School Spending.

³³ January 8, 2016. *Associated Press*. Democrats, Advocates Eye California’s Booming Revenues.

tax reform to legislative Republicans.³⁴ “I know it’s a heavy lift,” Brown admitted.³⁵ When asked by reporters for details, the governor shrugged them off. “It’s extremely complex,” he responded. “Very few people understand it, so I’m not going to try to explain it to you because I couldn’t explain it to you if I wanted to.”³⁶

During his budget press conference, Brown was inundated with questions about his positions on the plethora of initiatives gathering signatures for the Fall 2016 ballot. Many of the measures involved budgetary matters, including extending the temporary income tax increases successfully championed by Brown as Proposition 30 in 2012. Many of them did not, including two proposed ballot measures regarding legalizing marijuana and gun control. Brown remained largely non-committal. “All I would say is, don’t smoke marijuana when you’re using your gun,” the governor dryly told reporters.³⁷

“It’s a clear signal he wants to negotiate with the legislature rather than see these issues on the ballot—that’s always been his preferred approach and where he’s had the most success,” said Steve Maviglio, a Democratic strategist who served as spokesman for former Democratic Governor Gray Davis. “To have a popular governor oppose your ballot measure is never a place where you want to be.”³⁸

And the governor prefers to negotiate with the legislature, because one of Brown’s secret weapons in his budget fight the past few years is projecting tax revenues downward, minimizing the size of the future budget and thereby fiscally neutralizing requests to increase state spending. It’s something we have discussed in our previous budget analyses during this rare stretch of California budget surpluses, and something California political journalist John Myers noted during the last budget cycle in June 2015.³⁹ As we noted in last year’s budget analysis, Myers pointed out that Brown used the governor’s lower revenue estimates to dampen demand for greater social spending from the legislature.⁴⁰

“It’s wonky and it’s technical,” said Chris Hoene, executive director of the California Budget and Policy Center. “But the biggest decision is being made right out of the gates, and a lot of people are being left behind.” Liberal critics like Hoene accuse the governor of using conservative forecasts to avoid restoring social spending cuts enacted during the recession. “It’s sort of galling,” Hoene told Myers during this budget cycle, “that people who took cuts during the recession are still being told, ‘No, the state can’t afford it.’”⁴¹

³⁴ January 7, 2016. *Los Angeles Times*. Gov. Jerry Brown’s Budget Helps Schools and the Poor—and Saves a Lot for a Rainy Day.

³⁵ January 7, 2016. *Sacramento Bee*. Jerry Brown’s \$171 Billion Budget Proposal Bolsters Reserves, School Spending.

³⁶ January 11, 2016. *Los Angeles Times*. In the State Budget, Too Many Good Programs Can Sometimes Be Bad.

³⁷ January 8, 2016. *Sacramento Bee*. Brown’s Opinion Looms over Proposals for November Ballot.

³⁸ January 8, 2016. *Los Angeles Times*. Budget Reflects Brown Is Sour on Ballot Measures.

³⁹ Brian DiSarro and Wesley Hussey. 2017. “California’s 2015–2016 Budget: Fiscal Surpluses and Water Deficits.” *California Journal of Politics & Policy* (forthcoming); Brian DiSarro and Wesley Hussey. 2016. “California’s 2014–2015 Budget: Political Corruption Distracts the State.” *California Journal of Politics & Policy* (8)1; Brian DiSarro and Wesley Hussey. 2015. “California’s 2013–2014 Budget: Brown Turns the Tide.” *California Journal of Politics & Policy* (7)3.

⁴⁰ June 16, 2015. *KQED Public TV*. John Myers: State Budget Deal Struck, Governor Brown Concedes Little.

⁴¹ January 9, 2016. *Los Angeles Times*. Brown’s Budget Dominance Starts with Firm Grip on Revenue Forecasts.

During his past five budgets, Brown has refused to negotiate the budget's size with legislators, forcing lawmakers to abandon their own larger estimates. "He has been very insistent," said Senator Mark Leno (D-San Francisco), longtime chairman of the Senate's budget committee. Even when the state's budget eventually emerges larger than Brown first projected, the governor, Myers reported, "successfully branded" that increase as an anomaly, not a trend. "We're talking about the most experienced governor," acknowledged Leno. "He knows how to use the powers that the constitution affords him, and use them well."⁴²

Over the past three years, the LAO predicted tax revenues higher than Brown's estimates. And over the past three years, the legislative analyst has been more accurate. And yet each year, enacted budgets used the governor's lower revenues.⁴³

And right on cue, the California's Legislative Analyst called Brown's 2016–17 budget proposal "prudent," but argued the governor once again may have underestimated revenue. The LAO felt Brown's estimates for local property taxes were about \$1 billion too low, but the agency supported the governor's priority of boosting the state's reserve fund. "We believe this general approach is prudent as a large budget reserve is the key to weathering the next recession with minimal disruption to public programs," the LAO reported. While California has enjoyed "remarkable economic growth over the past year," the LAO acknowledged, the state "may be reaching the peak of a long economic expansion."⁴⁴

Governor's Proposed 2016–2017 Budget

K-12 Education

In January 2016, Governor Brown released his budget proposal for 2016–2017. Due to increased funding guarantees under Proposition 98, owing to increased General Fund revenues and local property taxes, overall spending on K-12 education was projected to rise by \$5.4 billion.⁴⁵ Due to this dramatic increase, per-pupil spending was projected to rise by \$366, from \$14,184 in 2015–2016 to \$14,550 in 2016–2017. This continues a trend of ever-rising per-pupil spending over the past several years (see Figure 4).⁴⁶

Health & Human Services

In Governor Brown's 2016–2017 budget proposal, funding for health and human services would decline to \$136 billion, from \$140.1 billion the year before, although the General Fund's contribution would rise to \$34 billion from \$31.9 billion the year before.⁴⁷

Higher Education

The proposed 2016–2017 budget would continue to restore funding to the University of California and California State systems that had been lost during the Great Recession. Overall, the

⁴² *Ibid.*

⁴³ *Ibid.*

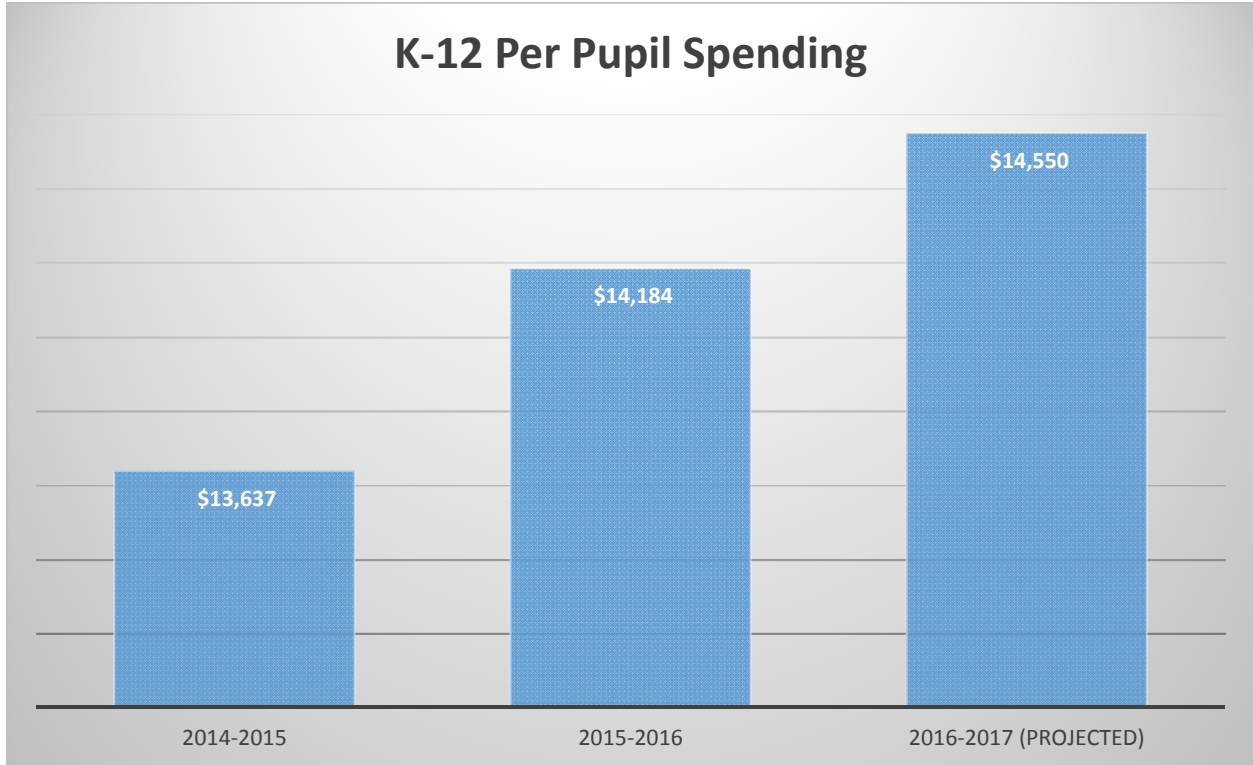
⁴⁴ January 11, 2016. *Sacramento Bee*. Analyst Calls Jerry Brown's Budget "Prudent."

⁴⁵ California Department of Finance. *Governor's Budget Summary 2016–2017*.

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*

Figure 4.



Source: California Department of Finance

governor proposed to spend \$30.4 billion on higher education in the state, with \$17.35 billion coming from the General Fund (\$6.9 billion to support the UC and Cal State systems; approximately \$10.45 billion to support community colleges and other programs).⁴⁸

Corrections

Finally, the proposed budget provided \$10.5 billion in funding for the California Department of Corrections and Rehabilitation (CDCR), with \$10.3 billion coming from the General Fund.⁴⁹ Included in that amount was a proposal by Governor Brown to give counties an additional \$250 million for jail construction. This would be a further investment in the state's jail infrastructure, coming on top of the \$2.2 billion the state has spent on new jails since 2007.⁵⁰

This became a minor controversy when the Legislative Analyst's Office urged lawmakers to reject the additional funds, citing falling inmate populations after the passage of Proposition 47 in 2014.⁵¹ Proposition 47 changed the law to allow reduced sentences for those convicted of certain nonviolent drug and property crimes. However, Brown argued that the additional money was

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*

⁵⁰ February 22, 2016. *Merced Sun-Star*. Analyst Says Lawmakers Should Reject \$250 Million for Jails.

⁵¹ *Ibid.*

needed to provide space for more rehabilitation programs. Department of Finance spokesman H.D. Palmer said, “Program and treatment space is critical to reducing recidivism.”⁵² The LAO also accused Brown of underestimating the overall savings from Proposition 47, arguing it should be about \$100 million more than Brown and the Department of Finance estimated. Prop 47 savings must be used for mental health, drug treatment, and victim services programs.⁵³

Some lawmakers also questioned why CDCR was receiving \$10.5 billion after years of successful efforts to reduce the prison population. California has 35,000 fewer inmates in 2016 than it did in 2006. State Sen. Loni Hancock (D-Berkeley) said, “The money’s going up, and the population’s going down. When do you start seeing the long-term savings?”⁵⁴

State of the State

Later in January, a few weeks after introducing his budget, Brown gave his annual State of the State address and urged the legislature to continue fiscal restraint. The governor painted the world as “profoundly uncertain” and argued California’s budget needed a strong emergency fund to cushion its heavy reliance on volatile income and capital gains taxes. “If we are to minimize the zigzag of spend, cut, spend that this tax system inevitably produces,” he said, “We must build a very large reserve.” His 20-minute address was so tightly focused on the budget that one political insider said, “It looks like somebody switched his budget address with his State of the State text.”⁵⁵

Brown said little about his two large pet infrastructure projects, California’s high-speed rail initiative or the twin tunnel plan to divert water around the San Joaquin Delta to 30 central and southern California farms and cities. In contrast, last year Brown pushed a plan to cut petroleum use in vehicles by as much as one-half within 15 years. But the plan died in the legislature due to opposition from the oil lobby and the defection of moderate Democrats in the Assembly.

As usual, the state’s legislative leadership responded to Brown’s budget proposals with guarded optimism, but also noted differences in legislative fiscal priorities. Senate President Pro Tem de León praised Brown’s focus on fiscal stability, but also told reporters, “We’ve got to make certain investments in the long run that will lift people out of poverty so they can become income earners and contribute to the state coffers.” Assembly Speaker Atkins noted that Brown “typically emphasizes austerity,” but responded, “The Assembly’s responsible approach to budgeting allows us to consider posterity, too.”⁵⁶

Brown jokingly acknowledged during his speech both his desire to stay as governor yet also the reality of term limits that forces him to leave office in early 2019. “Three more years to go,” the governor said. “That is, unless I take my surplus campaign funds and put a ballot initiative on the November ballot to allow four-term governors to seek a final, fifth term!” Throughout his

⁵² *Ibid.*

⁵³ February 12, 2016. *Sacramento Bee*. Analyst Estimates \$100 Million More in Prop. 47 Savings Than Brown.

⁵⁴ January 21, 2016. *Orange County Register*. California Prisons Defend \$3 Billion Budget Drop from Pledge.

⁵⁵ January 21, 2016. *Sacramento Bee*. Jerry Brown Charts Cautious Course in State of the State Address.

⁵⁶ *Ibid.*

speech, Brown continued his theme of restraint, telling the audience, “The challenge is to solve today’s problems without making those of tomorrow even worse.”⁵⁷

Only toward the end of the speech did Brown briefly let a loftier note slip in: “We dare to do,” he said, “what others only dream of.” Largely ignored by the California press, it caught the eye of a *Newsweek* reporter, who glowingly called it “an allusion to the fact that California is not only special but exceptional, a nation unto itself, the end point of Manifest Destiny, the golden place at the end of the land, the Bear Flag Republic in comparison to which all other states are mere cubs.”⁵⁸

The Legislature Reaches a Compromise on the Health Care Tax

In late February, California’s legislature approved the \$1.1 billion replacement health insurance tax, more than a year after Brown first proposed a revision to avoid losing federal matching funds for the state’s Medi-Cal program. The final deal required some Republican support, and a few Republican legislators eventually agreed to vote for the tax in exchange for various demands, primarily additional funding for autism and other developmental disabilities. The replacement health tax also included comparable tax offsets for the health insurance companies, negating the need to increase health premiums to consumers. Brown signed the tax and accompanying legislation into law the following day.

Assembly Minority Leader Chad Mayes (R-Inland Empire) called the compromise “good public policy” and said he trusted that the health insurance carriers will not use the increased taxes as an excuse to raise rates. The Howard Jarvis Taxpayers Association was neutral on the bill, while the Chamber of Commerce was in favor. A majority of Republicans still voted no in each chamber, however, opposing any new tax increase. Senator Jeff Stone (R-Inland Empire), whose granddaughter has been diagnosed with autism, also found the linkage between the tax and additional funding for developmental disability support “offensive.” “Is there anything written in this bill that would codify the fact there would be no increases to any citizens of California? No,” Stone said. “The bottom line is the consumer will get hurt with this bill.”⁵⁹

Only two Republican senators and 11 Republican assembly members voted for the tax, and most political observers doubt any Republican lawmaker will support another tax increase anytime soon. The Republican base in California is rabidly antitax, and the state is littered with former California Republican politicians thrown out of office for supporting any tax increase, for any reason. Not surprisingly then, legislative Republicans solidly rejected any attempts by Brown and the Democrats to increase fuel or transportation taxes to pay for infrastructure and road repair. “I’m not even going to have a conversation about that,” Mayes told the *Los Angeles Times*.⁶⁰

⁵⁷ January 21, 2016. *Los Angeles Times*. Gov. Brown Urges Steps to End “Zigzag of Spend-Cut-Spend” in California.

⁵⁸ April 14, 2016. *Newsweek*. How Jerry Brown Quietly Saved California.

⁵⁹ February 29, 2016. *Sacramento Bee*. California Legislature Approves Bills on Taxing Health Plans.

⁶⁰ March 2, 2016. *Los Angeles Times*. GOP Legislators Voting for Taxes? It’s Not Likely to Happen Again Anytime Soon.

Minimum Wage Compromise Reached

In January, California's minimum wage rose to \$10 an hour, the highest in the country. Brown budgeted \$250 million in his January budget to pay for the increase. Several labor unions and other liberal groups wanted to raise the wage to \$15, however, circulating petitions to place their various measures on the November ballot. But the governor cautioned against the increase, which would cost the state \$4 billion annually by 2021. "Raising the minimum wage can be good, but it has to be done very carefully," Brown said at his budget press conference. "It has to take into account what other programs can be cut to finance it. Or what taxes are going to be generated to pay for it."⁶¹

"These are all good things," Brown continued, "but too many goods too quickly become bad."⁶²

Yet in late May, a deal was reached between Brown, lawmakers, and labor unions. California would gradually raise its minimum wage to \$15 an hour by 2022, averting a costly ballot campaign and a nasty fight among Democrats and liberal groups. Small business would get an extra year to implement the wage increase, and future minimum wage increases would be tied to inflation. An estimated 5.6 million people would see their wages rise, or one-in-three California workers. California would keep the highest state minimum wage in the country, although several other states and cities are in the process of adopting the \$15 standard.

"I'm hoping that what happens in California will not stay in California, but spread all across the country," Brown said a news conference, surrounded by Democrats and labor union leaders. "It's a matter of economic justice. It makes sense."⁶³

The governor compromised and went along with an increase because statewide polls showed raising the minimum wage was popular with voters. Just a week before, labor unions qualified one of two ballot initiatives for the November ballot. New state rules allow proponents to withdraw their initiative if the legislature and governor pass similar legislation. Unions didn't like the slower timetable for the minimum wage to reach \$15, but were happy with the overall deal. "This agreement puts a better future in the grasp of average Californians," said Laphonza Butler, president of the statewide council of the Service Employees International Union.⁶⁴

Business groups complained about the wage increase and also grumbled that that they were shut out of negotiations. "What it comes down to is we had some late-night deal brokered, unknown, not necessarily all stakeholders in the room," said Ruben Gonzalez, senior advisor for strategic affairs at the Los Angeles Area Chamber of Commerce. "Everyone wants higher wages for folks, but if you can only raise prices so much . . . you're going to be forced to cut hours, cut employees, change your business model, and frankly, automate."⁶⁵

Brown acknowledged business concerns but noted the proposed initiatives would have risen the wage even quicker to \$15, while his plan allows the governor to temporarily suspend the increase in case of a recession. "Given the fact there's a more far-reaching \$15 minimum wage on the ballot already that can be taken off if this measure passes, I think there will be very few busi-

⁶¹ January 11, 2016. *Los Angeles Times*. In the State Budget, Too Many Good Programs Can Sometimes Be Bad.

⁶² *Ibid.*

⁶³ March 28, 2016. *Los Angeles Times*. Gov. Brown Hails Deal to Raise Minimum Wage to \$15 As "Matter Of Economic Justice."

⁶⁴ *Ibid.*

⁶⁵ *Ibid.*

nesspeople who lobby against this bill because it would just be cutting their own throat,” he said.⁶⁶

The legislature quickly passed the compromise on a partisan vote and Brown signed it into law a few days later. All but two Assembly Democrats voted for the increase and not a single Republican legislator voted yes.

The governor acknowledged the ongoing academic debate on the effectiveness of raising minimum wages at the bill’s signing ceremony in Los Angeles. “Economically, minimum wages may not make sense.” But Brown said work is “not just an economic equation,” calling labor “part of living in a moral community.”⁶⁷

May Revise

Tax collections in April fell more than \$1 billion short of projections, casting a pall over the governor’s May budget revise. Brown announced a revised \$122.2 billion general fund spending plan, \$400 million less than January. The state would avoid spending cuts by transferring less money into the rainy-day reserve than initially proposed in January. While the general fund would still rise more than \$400 million over the previous fiscal year, Brown continued his mantra of fiscal restraint. “The surging tide of revenue is beginning to turn, as it always does. That’s why it’s prudent and best that we prepare for a time of necessity,” the governor cautioned.⁶⁸ “In any scenario, there are no halcyon days ahead,” Brown said.⁶⁹

The governor also invoked Aesop’s fable of the ant and the grasshopper. “The notion is when you’re in the late summer, you should remember winter’s coming down the road,” a smiling Brown told reporters, giving out copies of the story.⁷⁰

California would face even steeper revenue losses if voters in November rejected the extension of Brown’s temporary tax increases. The governor declined to endorse the extension, however, even though he championed their passage in 2012 to help balance a multibillion-dollar deficit. “I’m leaving that to the people of California,” said Brown.⁷¹

Brown might have felt obligated to stay on the sidelines because he promised to limit their duration. “It will be my goal to make sure the state is in such fiscal health that we can keep gliding into the future without having to go back to the well for more taxes,” he told reporters the day after the 2012 election. His cagey noncommittal answer about backing their extension in 2016 annoyed his critics, who believed he was happy to let other Democrats and interests organize and fund a yes campaign, while Brown gets to avoid “backtracking on his promise that the taxes would be temporary.” “There’s a wink involved,” said Joel Fox, a conservative political

⁶⁶ March 28, 2016. *Sacramento Bee*. Jerry Brown: California Minimum Wage Plan “Careful and Responsible.”

⁶⁷ April 4, 2016. *Sacramento Bee*. Jerry Brown Signs \$15 Minimum Wage in California.

⁶⁸ May 13, 2016. *Sacramento Bee*. California Governor Proposes \$122.2 Billion Spending Plan.

⁶⁹ May 13, 2016. *Sacramento Bee*. Jerry Brown’s Budget Plan Predicts Slowdown in California Revenue.

⁷⁰ May 13, 2016. *Los Angeles Times*. Gov. Jerry Brown Sends Lawmakers Revised California Budget with Less Money to Spend on New Programs.

⁷¹ May 13, 2016. *Sacramento Bee*. Jerry Brown’s Budget Plan Predicts Slowdown in California Revenue.

consultant and former president of the Howard Jarvis Taxpayers Association who campaigned against the taxes in 2012.⁷²

Back to the May revise, Assembly Minority Leader Mayes and legislative Republicans supported the governor's fiscal restraint, urging the state to focus on one-time spending projects and putting additional revenue into the state's rainy-day fund. "Saving for the future and addressing more than \$200 billion of existing budgetary debts and unfunded liabilities is the right thing to do," Mayes said in a statement.⁷³

In contrast, legislative Democrats wanted to increase spending on child care and eliminate the 1994 rule that limited families on welfare from receiving additional governmental funding if they had another child. "Given the unacceptably high number of Californians living in poverty, we must make targeted reinvestments in education, health, and social service programs that help lift up the most vulnerable residents of our state," said Sen. Mark Leno (D-San Francisco), chair of the Senate budget committee.⁷⁴

Brown was asked by a reporter why he didn't spend more on child care, a demand of the Legislative Women's Caucus. "Child care has been rising in these budgets every year," he responded. "It's a matter of priorities. If you want to do that, then you should [cut] something. . . . They're all good. Housing is good. Child care is good. Dental care is good. Everything is good."⁷⁵

The governor continued, "But the question is unless you can convince the taxpayers or get two-thirds of the legislature and the governor, you don't have enough revenue. And the revenue means more taxes. . . . We have to temper our enthusiasm to the mood, to what people are willing to pay for."⁷⁶

Brown did endorse a plan put forward by Senate Democrats, however, to create additional housing for the mentally ill by shifting \$2 billion in funding from Proposition 63, an income surtax on millionaires passed in 2004 to combat mental illness. That would require Republican support, since altering ballot measures requires a two-thirds legislative vote. Republicans later agreed to the plan and provided enough votes for the provision to pass. "We have the money, and it's a serious problem," Brown said. Democrats were pleased. "Homelessness plagues communities across our state," said Senate Pro Tem de León, one of the original authors of the Senate Democratic plan. "To have the governor's support provides a huge boost."⁷⁷ He was informed of the governor's plan only a half-hour before Brown announced it, just another example of how close Brown plays his budget cards.⁷⁸

⁷² July 3, 2016. *Los Angeles Times*. Can Gov. Jerry Brown Keep the Promises He Made with Proposition 30?

⁷³ May 13, 2016. *Sacramento Bee*. California Governor Proposes \$122.2 Billion Spending Plan.

⁷⁴ *Ibid.*

⁷⁵ May 16, 2016. *Los Angeles Times*. At Budget Time, Gov. Jerry Brown Cashes in on His Penny-Pinching Reputation.

⁷⁶ *Ibid.*

⁷⁷ May 13, 2016. *Los Angeles Times*. Gov. Jerry Brown Sends Lawmakers Revised California Budget with Less Money to Spend on New Programs.

⁷⁸ May 16, 2016. *Los Angeles Times*. At Budget Time, Gov. Jerry Brown Cashes in on His Penny-Pinching Reputation.

Final Negotiations

In early June, Brown and the legislature reached a budget agreement, with legislative Democrats getting \$100 million more for child care and a repeal of the child limitation welfare rule. In exchange, the governor was able to keep his \$2 billion additional deposit into the rainy-day reserve. Talks continued on how to parcel out the remaining unallocated revenue generated by the cap-and-trade program. “We have a lot to be proud of,” said Assemblyman Phil Ting (D-San Francisco), chair of the Assembly Budget Committee, as the budget conference committee met. The budget plan also included \$1.3 billion of Brown’s proposed \$1.5 billion to fund three state office buildings in Sacramento, including a potential revision to the state Capitol.⁷⁹

The additional spending on child care will eventually grow to more than a half billion in a few years, in part due to the increase of the minimum wage. “An investment in child care is prudent, keeps children learning and parents working and prevents costly academic interventions later on,” said Senator Hannah-Beth Jackson (D-Santa Barbara), chair of the California Legislative Women’s Caucus.⁸⁰

Although largely pleased with the budget, Senate Budget Chair Mark Leno (D-San Francisco) argued Democrats could prepare for an eventual recession or economic downturn while also increasing social spending. Leno pointed to the \$8 billion that will sit in the rainy-day fund after the end of 2016–17 fiscal year. “In the 14 years I’ve been here in Sacramento, I’ve never experienced our being as prepared for a downturn as we currently are,” he said.⁸¹

A Budget Is Signed

The legislature passed a \$122.5 General Fund budget less than a week later with Republican Senator Anthony Cannella (Ceres) the only Republican in either house to vote yes, calling it “a good budget.” He admitted, “It’s got lots of things that my district needs that I fought to get in there.” Other Republicans criticized the new spending, warning of future budget imbalances. “My biggest concern is the level of state spending,” said Assemblyman Jay Obernolte (R-Big Bear Lake), who added later in a statement that “unsustainable higher expenditure levels that will inevitably trigger another budget crisis.”⁸²

Legislative Democrats were ultimately satisfied with the compromise worked out with Brown. “We pushed hard to make sure we make investments in the most vulnerable communities in California,” de León said. The budget reserves help ensure “that no matter what happens, we’ll be in a good place,” noted Assembly Speaker Anthony Rendon (D-Lakewood). Brown tweeted his approval Wednesday evening: “Good work from the state legislature: we’re building reserves and investing in CA.”⁸³

Brown signed the budget into law about two weeks later, a few days before the July 1 start of the new fiscal year. The budget reserved \$400 million for affordable housing, but only if the governor and legislature reach a deal on streamlining local zoning regulations for building new

⁷⁹ June 9, 2016. *Sacramento Bee*. California Budget Deal Builds Reserve, Changes Welfare Rule.

⁸⁰ June 9, 2016. *The Mercury News*. California Budget: Gov. Jerry Brown, Top Democrats Strike Deal on Spending Plan.

⁸¹ June 15, 2016. *KQED News*. Democrats Push Social Policy Agenda in Good Budget Times.

⁸² June 15, 2016. *Sacramento Bee*. California Lawmakers Approve Budget Bill—On Deadline.

⁸³ June 15, 2016. *Los Angeles Times*. California Legislature Approves \$171 Billion State Budget.

homes. In addition, negotiations still continued with legislative leaders on how the state should spend cap-and-trade revenue (a compromise was eventually reached in late August), and how to fund infrastructure and road repairs (an impasse remained with Republicans throughout the rest of the legislative session). “This solid budget makes responsible investments in California and sets aside billions of dollars to prepare for the next recession,” Brown said in a statement.⁸⁴

Breaking with political practice, Brown decided not to veto any part of the budget. Even when a budget deal is finally completed, governors typically veto spending in the millions, occasionally into the billions. The *Sacramento Bee* noted, “Sometimes the budget agreement has included an agreed upon amount of vetoes—so lawmakers can take credit for approving the spending in the first place and the governor can taking credit for eliminating it.” The last time a governor signed a budget with no vetoes was in 1982, during Jerry Brown’s first tenure as governor. Before that, it was back in 1970, with Governor Ronald Reagan. Jon Coupal, president of the Howard Jarvis Taxpayers Association, argued the absence of line-item vetoes shows “there are no stopgaps in spending. . . . Apparently the deals have already been cut. And I think they’ve been cut behind closed doors.”⁸⁵

2016–2017 Budget, By the Numbers

In the final FY 2016-2017 budget, K-12 education accounted for 41.9 percent of General Fund expenditures, health and human services 27.1 percent, higher education 11.9 percent, and corrections 8.6 percent (see Figure 5).⁸⁶ Both K-12 and higher education saw their share of General Fund expenditures increase compared to FY 2015–2016, while health and human services and corrections saw slight decreases.⁸⁷

K-12 Education

K-12 education is the single largest expense facing the state of California, and is consuming nearly 42 percent of General Fund revenues in 2016–2017. Overall, the state is providing \$88.3 billion of funding to support primary and secondary education, with \$51.6 billion coming from the General Fund and \$36.7 billion from other funds.⁸⁸ Compared to the previous year, the 2016–2017 budget increased spending on K-12 education by \$5.1 billion, with \$1.9 billion of that increase coming from the General Fund.⁸⁹ This increase was \$400 million more than the governor’s original proposal in January.⁹⁰

Health and Human Services

Health, welfare, and social service programs are the second-largest expense in the 2016–2017 budget, accounting for 27.1 percent of all state spending. The budget provides a total of \$141 billion for such programs, with \$33 billion coming from the General Fund and \$108 billion from

⁸⁴ June 27, 2016. *Los Angeles Times*. Gov. Jerry Brown Signs \$171 Billion State Budget.

⁸⁵ June 27, 2016. *Sacramento Bee*. Jerry Brown Signs \$167 Billion California Budget, Makes No Cuts.

⁸⁶ California Department of Finance. *California State Budget 2016–2017*.

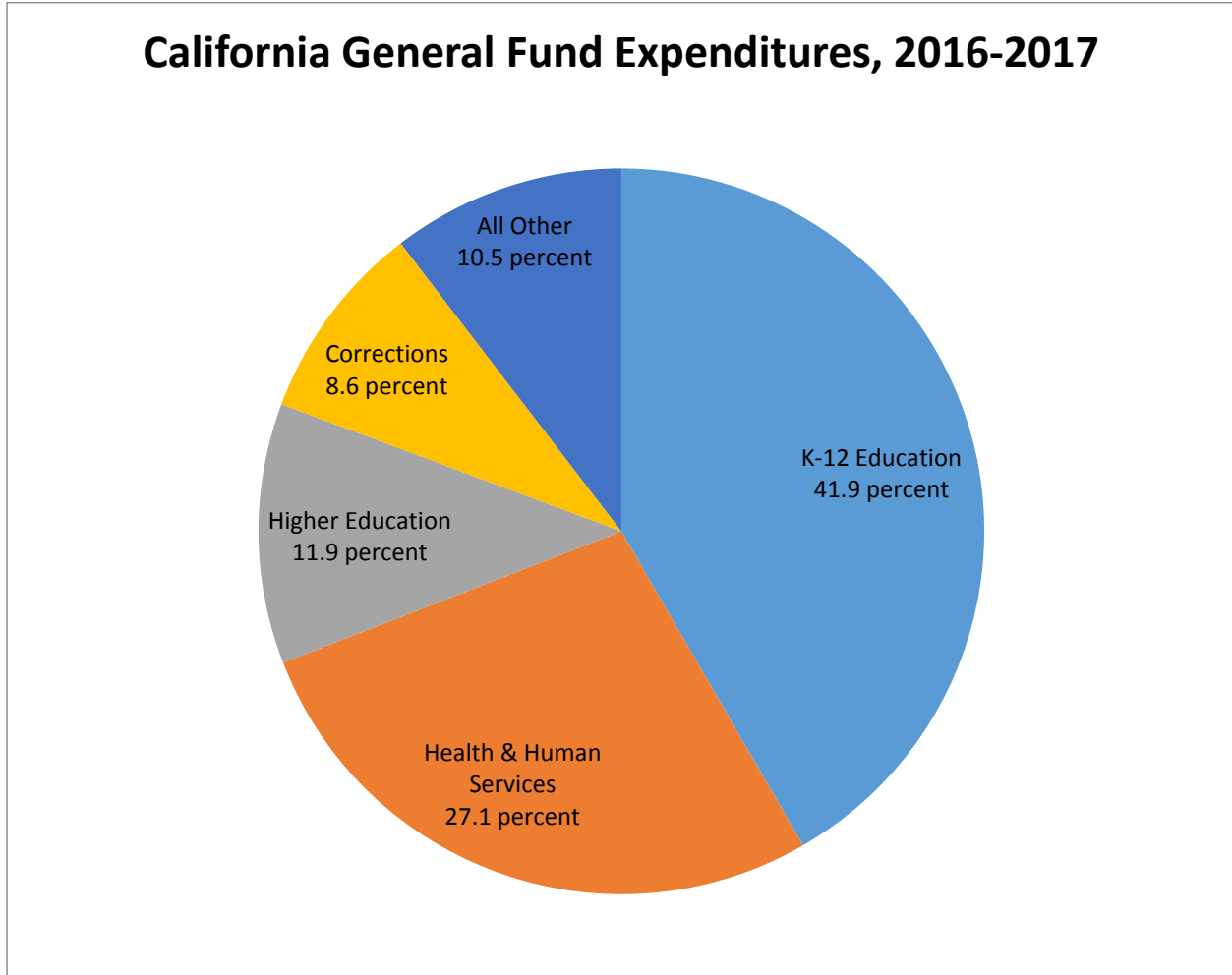
⁸⁷ *Ibid.*

⁸⁸ *Ibid.*

⁸⁹ *Ibid.*

⁹⁰ California Department of Finance. *Governor’s Budget Summary 2016–2017*.

Figure 5.



Source: California Department of Finance

other funds.⁹¹ The \$33 billion General Fund expenditure was \$1 billion less than the governor requested in his January budget proposal, although overall expenditures on HHS rose by \$900 million.⁹²

There were also some important policy changes made in the final budget deal between Brown and legislative Democrats. Specifically, lawmakers repealed the welfare rule known as the maximum family grant, which prevented families on welfare from collecting additional governmental aid if they had additional children. With this provision removed, families will receive an additional \$136 per month per child, and analysts expect 130,000 California children, residing in 95,000 families, to benefit.⁹³ “It’s the difference between making a rent payment or being put

⁹¹ California Department of Finance. *California State Budget 2016–2017*.

⁹² California Department of Finance. *Governor’s Budget Summary 2016–2017*.

out on the street,” said Frank Mecca, executive director of the County Welfare Directors Association of California. “For a family living on or below the edge, it’s going to make a huge difference.”⁹⁴

Higher Education

Higher Education is the third-largest area of state spending in 2016–2017, consuming 11.9 percent of General Fund revenues. Overall, the state is providing \$30 billion in funding, with \$17 billion coming from the General Fund and \$13 billion from other funds.⁹⁵ Compared to the previous year, the 2016–2017 budget increased spending on higher education by \$800 million, with \$400 million of that increase coming from the General Fund.⁹⁶ The increase in funding for the University of California (UC) system is contingent upon a cap being placed on out-of-state enrollment.⁹⁷

Corrections

Corrections is the last of the “big four,” with funding for the California Department of Corrections and Rehabilitation (CDCR) accounting for 8.6 percent of the 2016–2017 General Fund budget. Overall, CDCR received a total of \$10.6 billion in funding, with \$10.3 billion coming from the General Fund and \$248 million from other funds.⁹⁸ This represents an overall increase of \$400 million from the previous year’s budget, with all of the increase coming from the General Fund.⁹⁹ The final appropriations for corrections were very similar to the governor’s January budget proposal.¹⁰⁰

2016 Elections

While most analysts and observers were shocked by Donald Trump’s presidential victory over Hillary Clinton, California remained true to form. Amidst a sea of red, California continued to turn a deeper shade of blue. Clinton defeated Trump by a landslide margin of 30 percentage points, 62.3 percent to 31.9 percent. This victory was far larger than even President Obama’s comfortable margins in 2008 and 2012 (24 points and 23 points, respectively). For the first time since 1936, conservative Orange County—the heart of Reagan country—voted Democratic. Moreover, tiny Del Norte county in the state’s northwestern corner was the only California county touching water—the Pacific Ocean or the San Francisco Bay—to vote for Trump. Figure 6 shows the depth and breadth of Clinton’s victory in California.

Democratic presidential candidates have been steadily increasing their vote percentages in California over recent decades. In the postwar period, the nadir of Democratic presidential per-

⁹³ June 9, 2016. *Los Angeles Times*. Gov. Jerry Brown and Lawmakers Strike California Budget Deal That Adds Money for Housing and Child Care.

⁹⁴ *Ibid.*

⁹⁵ California Department of Finance. *California State Budget 2016–2017*.

⁹⁶ California Department of Finance. *California State Budget 2015–2016*.

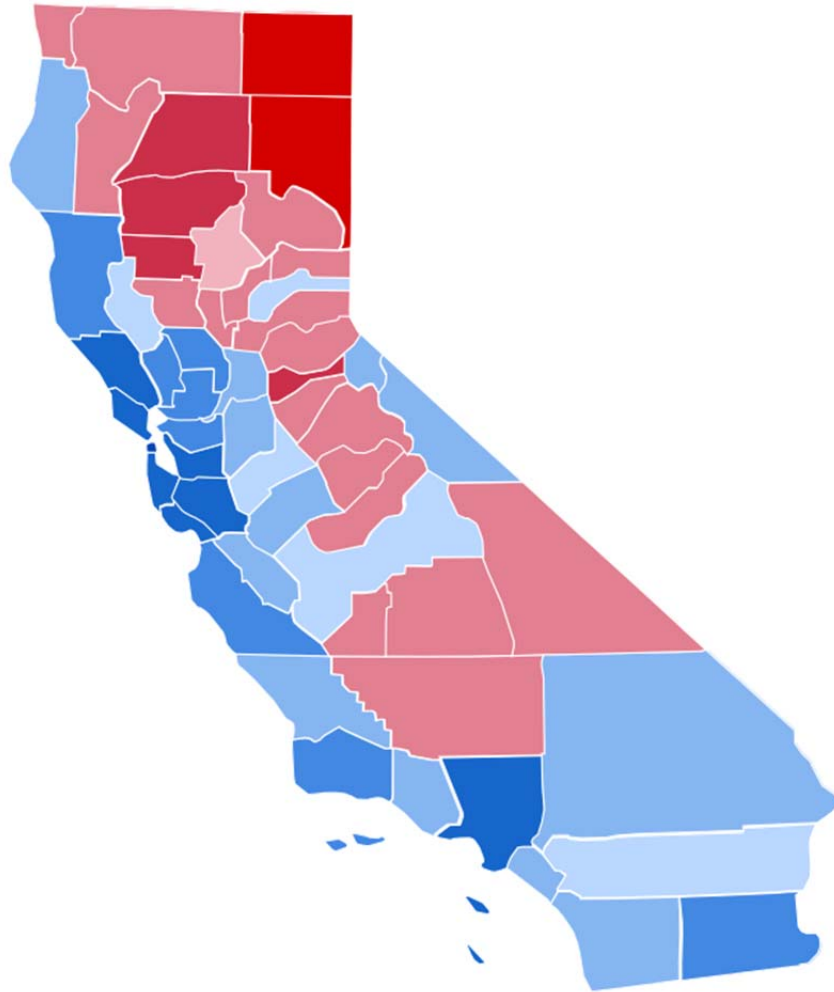
⁹⁷ June 9, 2016. *Los Angeles Times*. Gov. Jerry Brown and Lawmakers Strike California Budget Deal That Adds Money for Housing and Child Care.

⁹⁸ California Department of Finance. *California State Budget 2016–2017*.

⁹⁹ California Department of Finance. *California State Budget 2015–2016*.

¹⁰⁰ California Department of Finance. *Governor’s Budget Summary 2016–2017*.

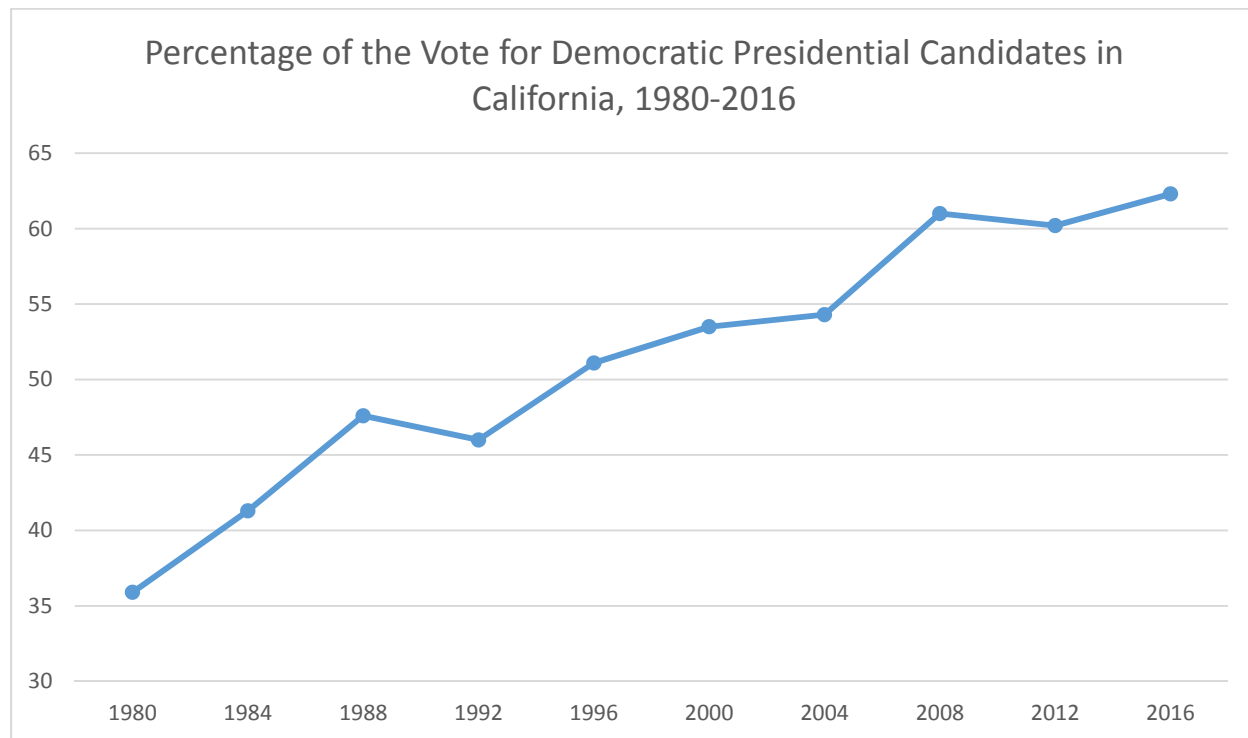
Figure 6.



Source: California Secretary of State.

formance in the state came in 1980 when Jimmy Carter lost to Ronald Reagan, winning only 35.9 percent of the vote. As Figure 7 illustrates, Democrats have been steadily improving since, partly owing to shifting demographics. Against this backdrop, President Obama's performance was quite impressive. He twice won California with over 60 percent of the vote, outperforming both John Kerry and Al Gore by more than five percentage points and Bill Clinton by 10–15 percentage points (although the three-way race in 1992 partly explains that). Obama even outperformed Lyndon Johnson, who won the state in his 1964 landslide with 59 percent of the vote. Yet, Hillary Clinton was able to improve even upon Obama's numbers. She captured 62.3 percent of the vote while her opponent fell below one-third. No Democrat has done that well since Franklin Roosevelt in 1936.

Figure 7.



Source: California Secretary of State.

In the U.S. Senate race, California Attorney General Kamala Harris (D) easily defeated U.S. Congresswoman Loretta Sanchez (D), 61.6 percent-38.4 percent. Filling the seat of retiring U.S. Senator Barbara Boxer (D), Harris carried every county in the state except for Glenn in the north and Imperial in the south. Owing to California’s “top two” primary system, both Harris and Sanchez advanced to the general election because they were the top two vote-getters in the primary, despite the fact they are both Democrats. Harris won 39.9 percent of the primary vote to Sanchez’s 18.9 percent. No Republican candidate was able to win more than 7.8 percent of the vote.

In U.S. House elections, Democrats maintained their 39–14 advantage in California’s congressional delegation. In two races of note, incumbent Democrat Ami Bera was able to hold off Republican Scott Jones in the 7th congressional district. Meanwhile, in the 49th congressional district, Democrat Doug Applegate fell short of unseating incumbent Republican Darrell Issa.

The 7th District, comprising the eastern suburbs of Sacramento, is one of the most competitive congressional districts in the country. Bera first won his seat in 2012 over incumbent Republican Dan Lungren by slightly over 9,000 votes. The 2014 race was even closer, with Bera barely holding on over Republican challenger Doug Ose by less than 1,500 votes. This time Bera had a slightly more comfortable win of 7,000 votes over Jones. Still, this was the smallest margin of victory for any House Democrat in the state.¹⁰¹ The campaign was marred by character attacks

¹⁰¹ November 24, 2016. *Sacramento Bee*. Ami Bera’s tough path to re-election in 2016.

on both sides. Over the summer, Bera's father was sentenced to federal prison on charges of election fraud. Meanwhile, Jones faced repeated allegations of sexual harassment. Both sides tried to make hay over their opponents' alleged ethical shortcomings. In the end, however, the 7th remained true to form and Bera won another narrow victory.

The 49th District, comprising a stretch of southern California coast from Dana Point to La Jolla (Orange and San Diego Counties), and including the Camp Pendleton Marine Corps base, normally tilts Republican. Issa (R) has held the seat for 14 years and has never won re-election with less than 58 percent of the vote. In 2016, however, he faced a strong challenge from Applegate (D), but managed to hold on by less than 10,000 votes. The unpopularity of Donald Trump in the district played a major role. Whereas Romney defeated Obama by nearly seven points in the 49th in 2012, Clinton bested Trump by nearly the same margin in 2016. Ultimately, however, it was not enough to unseat Issa and pick up another House seat for the Democrats.

Democrats had more luck in state legislative races. There, they were able to gain a two-thirds supermajority in both houses of the legislature, effectively giving them total control of state government. In the Assembly, Democrats picked up three seats to win a 55–25 majority. In the Senate, they picked up one to win a 27–13 majority. This allows Democrats to raise taxes and place constitutional amendments on the ballot without Republican support. However, the growing split between liberal and moderate Democrats in the legislature could hamper any dramatic action by the new Democratic supermajority.¹⁰² Former Senate President Pro Tem (and current Sacramento Mayor) Darrell Steinberg said, "It's not a magic wand. You have differences within the caucus. It can be a bit overrated when it comes to passing a lot of two-thirds bills."¹⁰³ California League of Conservation Voters lobbyist Jena Price put it more colorfully when she said, "If you put 56, 57 dog lovers in a room, they're not going to all come out saying they love the corgi."¹⁰⁴

Nonetheless, Democratic gains in the state were remarkable when juxtaposed with Donald Trump's presidential victory and the maintenance of Republican majorities in the U.S. House and Senate. The day after the election, Assembly Speaker Anthony Rendon and Senate President Pro Tem Kevin de Leon released a joint statement saying, "We woke up feeling like strangers in a foreign land, because yesterday Americans expressed their views on a pluralistic and democratic society that are clearly inconsistent with the values of the people of California"¹⁰⁵

In addition to that remarkable statement, another hallmark of California elections in 2016 was the high number of ballot propositions. Seventeen propositions appeared on the November ballot, covering such hot-button topics as gun control, marijuana legalization, the death penalty, taxes, and bilingual education. Proposition 51, which passed by a 55–45 percent margin, authorized the issuance of \$9 billion in bonds to fund new construction and improvements for K-12 schools and community colleges. Governor Brown opposed the measure, saying, "I'm against the developers' \$9 billion bond. It's a blunderbuss effort that promotes sprawl and squanders money that would be far better spent in low-income communities."¹⁰⁶ Nonetheless, the measure passed comfortably.

¹⁰² November 29, 2016. *Sacramento Bee*. 'Mod Squad' Growth Offsets Democratic Super-majorities.

¹⁰³ November 28, 2016. *Sacramento Bee*. California Democrats Got Their Supermajority. Now What?

¹⁰⁴ *Ibid*.

¹⁰⁵ November 9, 2016. *Los Angeles Times*. California Legislative Leaders on Trump's Win: "We Woke Up Feeling Like Strangers in a Foreign Land."

¹⁰⁶ February 14, 2016. *Los Angeles Times*. Gov. Jerry Brown Opposes \$9 Billion School Bond Measure.

Proposition 55, which enjoyed broad support across the state, extended state income tax increases first introduced in 2012 on those making more than \$250,000 per year, for 12 more years. The added revenue, between \$4 billion and \$9 billion each year, would mostly benefit K-12 schools and community colleges.¹⁰⁷ The measure passed 63–37 percent. Proposition 63 stiffened gun control laws by prohibiting the possession of large-capacity ammunition magazines and requiring background checks to purchase ammunition. It also passed by a 63–37 percent margin. Proposition 64 legalized recreational marijuana in the state. It passed by a narrower, but still comfortable, 57–43 percent margin. California voters were faced with two contradictory ballot measures related to the death penalty. Proposition 62 would repeal it, while Proposition 66 would streamline the appeals process for death penalty convictions. The repeal effort failed 47–53 percent, while the second proposition narrowly passed 51–49 percent. California voters also upheld a state law banning single-use plastic bags (Proposition 67) 53–47 percent, and overturned a 1998 proposition, which banned bilingual education in California schools by a landslide margin of 74–26 percent.

Conclusion

Even Brown felt the crush of the 17 ballot measures. “I had a problem just figuring out those damn propositions,” the governor told reporters after dropping off his ballot. “Some of them are bordering on incomprehensible. . . . I still have some serious questions even this morning.” Reminded that Brown himself signed a 2011 bill shifting most ballot measures onto only the November election ballot, the governor acknowledged, “Maybe we ought to think about that.”¹⁰⁸

Brown again refused to say how he voted on Proposition 55, which would extend the temporary tax increases. “It’s a secret ballot,” he replied. The governor also cautioned political observers not to misread the mood of the state. “Make no mistake, Californians don’t like taxes that much,” he warned. “And they are always ready to throw the bums out. So any time you think California is going left, watch out because they are just about to turn right in the next year or two.”¹⁰⁹

“So, what comes next?” Brown added. “Only a fool would hazard a guess.”

¹⁰⁷ November 8, 2016. *California Secretary of State*. Official Voter Information Guide.

¹⁰⁸ November 8, 2016. *Los Angeles Times*. With So Many Ballot Measures, Jerry Brown Ponders Further Reforms.

¹⁰⁹ *Ibid.*