

California's 2015-16 Budget: Fiscal Surpluses and Water Deficits

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In 2014-2015, California's budget politics were temporarily sidetracked by an increasingly severe statewide drought. This occupied the media and public's attention, and eventually the political class felt compelled to take action. Elsewhere, the Democrats lost their supermajority in both the Assembly and Senate after the 2014 elections, but they still largely ignored the Republican minority since they the Democrats had more than enough votes to pass the budget and most legislation by themselves. Moreover, the majority legislative Democrats elected new leadership, who like their predecessors, argued the state should dramatically increase social spending, in contrast to fellow Democrat Governor Jerry Brown, legendarily frugal.

The major clash this budget year centered around California's booming economy, and what to do with the state's large projected tax revenue. The legislature wanted to spend the surplus, while the governor wanted to downplay the estimates and squirrel away any extra money into the state's new rainy-day fund. Brown also sparred with the University of California over decreasing state financial support, and the UC's increasing reliance on out-of-state students to fund the university, making it harder for California students to enroll.

Background

Demographics

To understand California, it is important to recognize its 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.¹ But, based on updated information from the U.S. Census Bureau (through mid-2014), non-Hispanic whites accounted for only 38.5 percent of the state's population, while Latinos achieved a narrow plurality of 38.6 percent.²

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.³ As recently as 1980, 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).

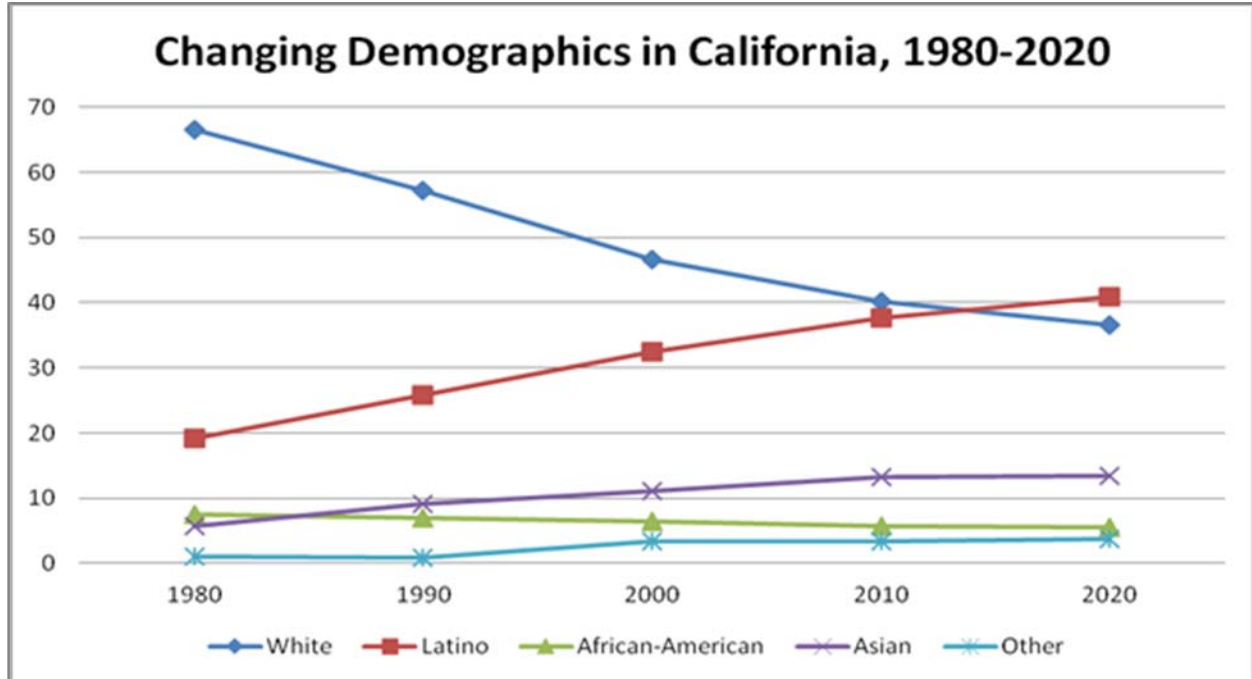
¹ U.S. Census Bureau, 2016.

² U.S. Census Bureau, 2016.

³ U.S. Census Bureau, 2016.

⁴ U.S. Census Bureau, 2016.

Figure 1.



Source: U.S. Census Bureau

Unemployment

Unemployment has been a major issue in the state. 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 it 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 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.⁸ In January 2014, California's unemployment rate stood at 8.1 percent in comparison to the national rate of 6.6 percent.⁹ By July 2015, California had reduced its unemployment rate by two full points to 6.1 percent (the same level as in January 2008), while the national rate stood at 5.3 percent.¹⁰

⁵ U.S. Bureau of Labor Statistics State Unemployment Database, 2016.

⁶ U.S. Bureau of Labor Statistics State Unemployment Database, 2016.

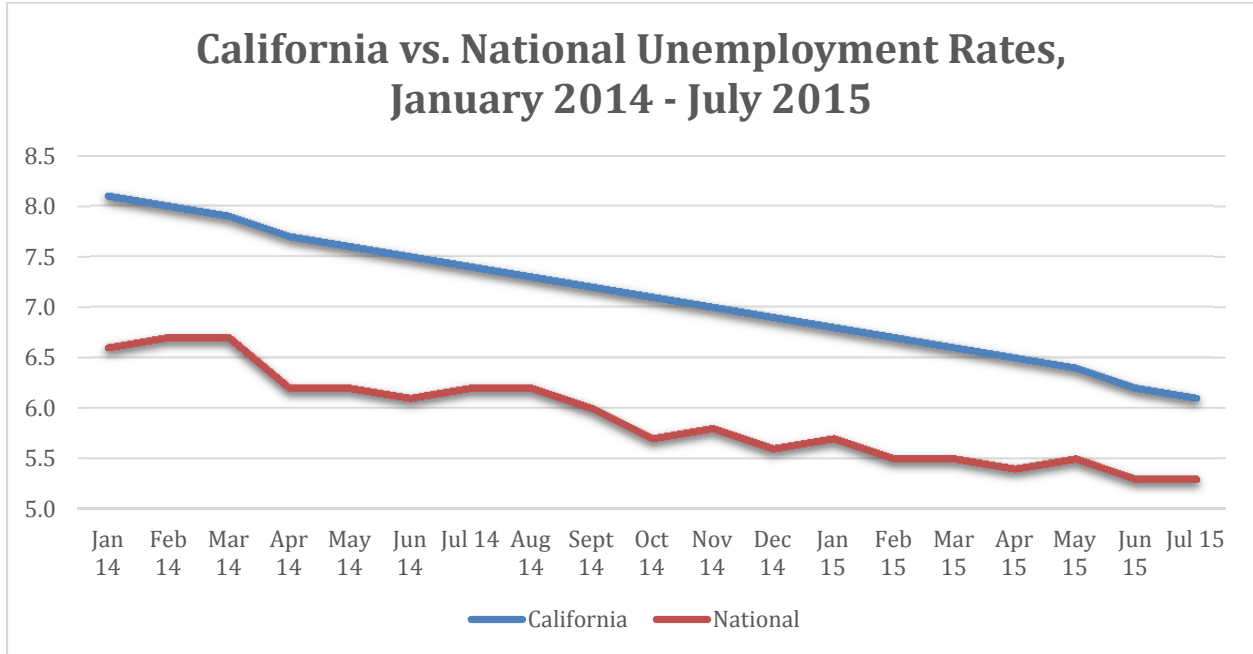
⁷ U.S. Bureau of Labor Statistics National Unemployment Database, 2016.

⁸ U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2016.

⁹ U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2016.

¹⁰ U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2016.

Figure 2.



Source: U.S. Bureau of Labor Statistics

Despite this dramatic improvement, the lingering effects of unemployment and underemployment continued to be a major issue in the state. Figure 2 depicts the California and national unemployment rates from January 2014 through July 2015.

The California Budget Process

Budget-making in California is a constant and ongoing process. Throughout the year, numerous state agencies analyze 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 budget season is the governor’s January budget proposal, which must be submitted to the legislature by January 10 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 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 to craft 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). 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 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 reduce spending levels across the board. The governor is not empowered to increase spending on any line-item. Line-item vetoes—like regular vetoes—can be overridden by a two-thirds vote of both houses of the legislature, but 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 the constitutionally mandated deadline (that particular budget does not have to later be *enacted*, a potentially large loophole), or they will forfeit their pay until a budget is passed. Over the past few years, Proposition 25 has proven very effective in ensuring that a new budget is in place by July 1.

Perennial Obstacles to California Budget Making

California faces a series of structural and political challenges that always 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. Unlike most states, California relies disproportionately on 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 Assembly majority twice since 1958. Senate Republicans have won the majority only once since 1956. 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 budget-making 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.¹¹ On any given California ballot, voters can expect to decide the fate of five to 15 proposals. Very often, the proposals have significant fiscal impacts. California's reliance on direct democracy complicates the job of the governor and state legislature in crafting a budget because certain taxing and spending options are not available to them. For example, Proposition 98 mandates that 40 percent of the state 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" tends to produce structural deficits 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 Proposition 30 in 2012 might have signaled a sea change in the public's attitude, at least temporarily. 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.

2014 Elections

Despite sweeping Republican victories nationwide in 2014, California continued its contrarian politics and voted Democratic. Democrats swept all seven partisan statewide executive races, including Jerry Brown who won a historic fourth term as governor. Brown defeated Republican Neal Kashkari 60–40 percent, the largest Democratic margin in California history, surpassing even his father's historic margin in 1958. Kashkari was pro-choice, in favor of same-sex marriage, and even voted for Barack Obama in 2008. He outspent Brown seven million to six, including three million of his own money. But it didn't matter, and Kashkari, a former federal treasury official in George W. Bush's administration, never had a chance in solid blue California.

Democrats lost 13 net seats in the House of Representatives in 2014. Republican Gary Miller decided to retire rather than face a Democrat in a district that voted for Obama by 17 points in 2012. This was one of only three House seats in 2014 that swung from the Republicans to the Democrats. Republicans failed to defeat any potentially vulnerable California freshman Democratic incumbents.

The situation was more complicated in the legislature, where Republicans picked up seats in both chambers, denying the Democrats the two-thirds majority they had won in 2012. That victory gave 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, due in part to vacancies in the chamber, but also to a series of scandals that forced the Senate to suspend three different Democratic senators for allegations of corruption, arms-running, and living outside their district, respectively. In 2014, Republicans won three net seats in the Assembly and two in the Senate, which, along with a special election victory in 2013 denied Democrats a two-thirds majority in either chamber.

New Legislative Leadership

Term limits forced the legislature to select new leadership in 2014. The Senate replaced termed-out Senate Pro Tempore Darrel Steinberg (D-Sacramento) with Kevin de Leon (D-Los Angeles) in October 2014. De Leon, elected to the Senate in 2010, had earlier lost a battle for the

¹¹ Initiative & Referendum Institute, 2015.

California Assembly Speaker to John Perez (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. After losing to Perez, de Leon ran for the Senate and quickly rose to chair the Senate Appropriations Committee.

Brown 2.0 Inaugurated for a Fourth Term

Reelected handily in 2014, Jerry Brown stands as California's longest-serving and oldest-sitting governor. Barred by term limits from running in 2018, California's former boy governor has said he will not run for president in 2016 despite three earlier attempts to win the Democratic nomination in 1976, 1980, and 1992. Instead, the governor will enter his fourth and final term with strong approval ratings and a budget surplus largely shepherded by Brown himself.

Brown's inaugural in early January highlighted two main issues: addressing climate change and fixing California's ailing infrastructure. "We must demonstrate that reducing carbon is compatible with an abundant economy and human well-being," Brown told a joint session of the legislature.¹² He advocated policies that would reduce petroleum use and increase renewable sources of electricity.

Brown pushed two large legacy infrastructure projects: twin tunnels to divert water around the Sacramento Delta, and a high-speed rail system. Brown traveled to Fresno the following day for a ceremonial groundbreaking of the rail project. He faced vocal opposition, as many Californians oppose the rail project. Even with voter-approved bonds and future revenue from California's cap-and-trade carbon program, the project will need additional revenue to fund its estimated \$68 billion price tag. "Everything big runs into opposition," Brown said at the groundbreaking.¹³

Earlier at the inauguration, Brown compared California's current rosy economic forecasts to the situation four years earlier when he assumed office for a second time. Brown had urged "courage and sacrifice" at the time, as the state suffered through large spending cuts before the governor successfully convinced voters to pass temporary tax increases to eliminate the remaining deficit. California's General Fund has increased approximately 25 percent in the past four years. "In 2011, we were handed a mess, and through solid, steady work, we turned it around," Brown told the legislature and guests. "While we have not reached the Promised Land, we have much to be proud of."¹⁴ He said the state still needed to address several structural budget challenges, including long-standing retirement and health care obligations.

Brown faces pressure from many groups to increase funding, including fellow Democrats. Lt. Governor Gavin Newsom pointed out California's uneven economic recovery. Legislative Republicans remained cautious. "At what point does being on the leading edge of environmental reform impact our ability to create jobs?" asked Senate Minority Leader Bob Huff.¹⁵ Assembly Republican Leader Kristin Olsen thought Brown should focus more on improving the economy and creating jobs. "I am disappointed that here in his fifth year, Gov. Brown still has not put forward a comprehensive plan strategic plan for economic growth," Olsen told reporters.¹⁶

¹² January 5, 2015. *Sacramento Bee*. Gov. Jerry Brown takes fourth oath, targets climate change.

¹³ January 7, 2015. *Sacramento Bee*. Groundbreaking at Fresno for California high-speed rail.

¹⁴ January 5, 2015. *Sacramento Bee*. Gov. Jerry Brown takes fourth oath, targets climate change.

¹⁵ January 6, 2015. *New York Times*. Gov. Jerry Brown Begins Last Term with a Bold Energy Plan.

¹⁶ January 5, 2015. *Los Angeles Times*. Gov. Brown's speech evokes praise, trepidation among lawmakers.

Brown remains a committed futurist. “We are at a crossroads,” he said. “With big and important new programs now launched and the budget carefully balanced, the challenge is to build for the future, not steal from it, to live within our means and to keep California ever golden and creative, as our forebears have shown and our descendants would expect.”¹⁷

Brown Releases the Budget

A few days after his inauguration, Brown released his \$164.7 billion budget, including a \$113.3 billion General Fund, a 5.4 percent increase from the previous year. He called for paying down California’s long-term debt and increasing the state budget reserve to \$2.8 billion by the end of the fiscal year in June 2016. “I want to build up the rainy-day fund,” Brown said. “I want to use it sparingly.”¹⁸ Due to funding guarantees under Proposition 98, K-14 spending would increase by nearly \$8 billion. “We have a carefully balanced budget, more precarious than I’d like, but it is balanced,” Brown said. He advocated restraint, arguing, “It’s not a time for exuberant overkill in our budget spending.”¹⁹ Brown’s proposed budget lacked funding for highway repairs and other infrastructure needs, but he promised to work with the legislature to create a comprehensive plan.

The budget estimates the state’s cap-and-trade auction program will generate approximately \$1 billion, with about a fourth of that allocated to high-speed rail. Social advocacy groups organized rallies in several cities, arguing that California should do more to reduce poverty and income inequality. California has the highest poverty rate in the nation after adjusting for the state’s high cost of living; nearly a quarter of the state’s 38 million residents fall below the poverty line. Anthony Wright, executive director of Health Access California, complained that the budget continues cuts made in the recession to health and human services.

Brown’s plan includes small increases in social spending, an expansion of Medi-Cal, and small increases in monthly grants for disabled and elderly participants. He noted about one-third of the budget already goes for programs to help low-income people. Brown held steady on funding for the University of California, increasing funding by only the \$120 million he had promised earlier. But he threatened to withhold even that increase if UC raises tuition and fails to curb the growth of nonresident enrollment. Out-of-state and international students pay additional tuition fees generating extra revenue, but recently their increase in the UC system means fewer spots for California students.

“The University of California is created by the people of California,” Brown said. “Yes, it’s good to have foreign students and out-of-state people, but I don’t think that should be a financial mechanism. It should be more the intellectual environment of the school.” UC President Janet Napolitano said she was disappointed in Brown’s proposal. “Public universities require public support. On a per-student basis, the state is paying far less than it did in 1991,” she said. “These are the realities that drove the regents’ tuition decision and the key facts that should underlie our continued work with Sacramento.”²⁰

¹⁷ January 5, 2015. *Sacramento Bee*. Gov. Jerry Brown takes fourth oath, targets climate change.

¹⁸ January 9, 2015. *Sacramento Bee*. California budget plan stays largely same for health, social services.

¹⁹ January 9, 2015. *Los Angeles Times*. Gov. Brown releases \$164.7-billion budget plan, calls for restraint.

²⁰ January 9, 2015. *Sacramento Bee*. Brown adds out-of-state enrollment cap to UC budget proposal.

The Big Four & the 2014–2015 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 state services account for nearly 90 percent of all state General Fund spending. In the FY 2014–2015 budget, K-12 Education accounted for 41.65 percent, Health & Human Services 27.45 percent, Higher Education 11.6 percent, and Corrections 8.9 percent (see Figure 3).²¹

K-12 education is the single largest expense facing the state of California and consumed nearly 42 percent of General Fund revenues in the 2014–2015 budget. Overall, the state was 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.²² 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.²³

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.²⁴ This level of expenditure represented an increase of \$23.2 billion from the previous year’s budget, with \$1.5 billion of that increase coming from the General Fund.²⁵

Higher Education accounted for the third largest area of state spending, consuming 11.6 percent of General Fund revenues in the 2014–2015 budget. Overall, the state was providing \$26.2 billion in funding, with \$14.7 billion coming from the General Fund.²⁶ This represented 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.²⁷

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.²⁸ This represented an increase of \$900 million from the previous year’s budget, with \$700 million of that coming from the General Fund.²⁹

²¹ California Department of Finance. *California State Budget 2014–2015*.

²² California Department of Finance. *California State Budget 2014–2015*.

²³ California Department of Finance. *California State Budget 2013–2014 & California State Budget 2014–2015*.

²⁴ California Department of Finance. *California State Budget 2014–2015*.

²⁵ California Department of Finance. *California State Budget 2013–2014 & California State Budget 2014–2015*.

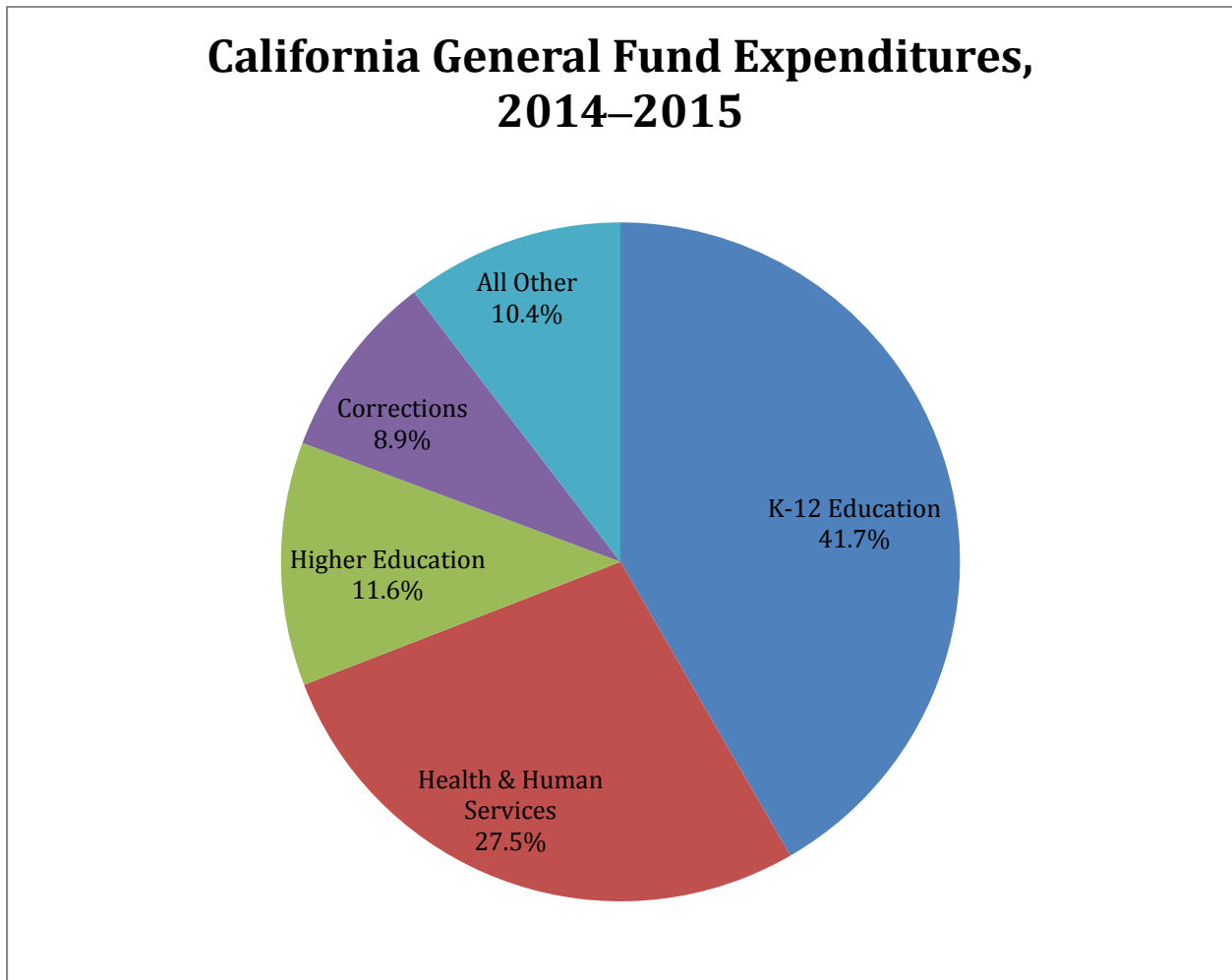
²⁶ California Department of Finance. *California State Budget 2014–2015*.

²⁷ California Department of Finance. *California State Budget 2013–2014 & California State Budget 2014–2015*.

²⁸ California Department of Finance. *California State Budget 2014–2015*.

²⁹ California Department of Finance. *California State Budget 2013–2014 & California State Budget 2014–2015*.

Figure 3.



Source: California Department of Finance, *California State Budget 2014–2015*.

Governor’s Proposed 2015–2016 Budget: K-12 Education

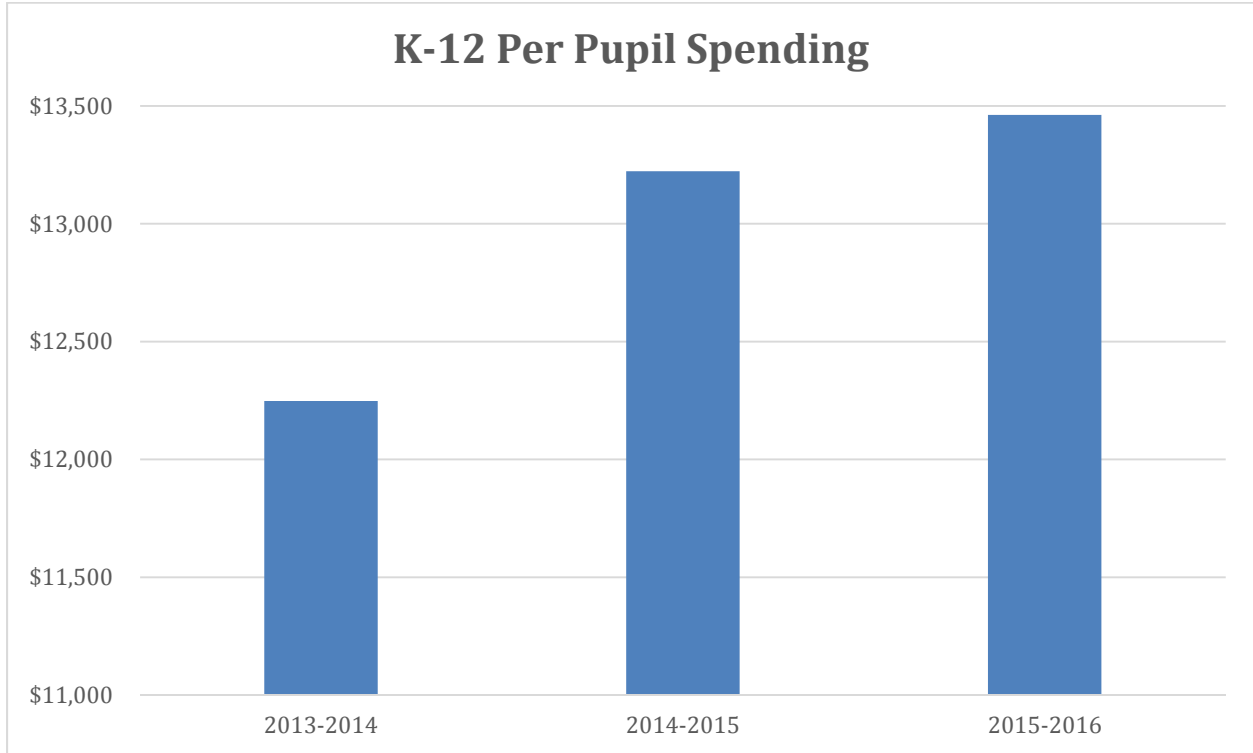
In January 2015, Governor Brown released his budget proposal for 2015–2016. Due to the funding guarantees under Proposition 98, overall spending on K-12 education was projected to rise by \$7.8 billion.³⁰ Due to this dramatic increase, per-pupil spending was projected to rise by \$239, from \$13,223 in 2014–2015 to \$13,462 in 2015–2016. This continues a trend of ever rising per-pupil spending over the past several years (see Figure 4).³¹

This may have understated the total amount of revenue that will flow to K-12 education in the next budget year. The governor likes to be cautious about revenue projections so that budget-

³⁰ California Department of Finance. *Governor’s Budget Summary 2015–2016*.

³¹ Legislative Analyst’s Office. *The 2013–2014 Budget: Overview of the Governor’s Budget*.

Figure 4.



Source: California Legislative Analyst’s Office, *The 2013–2014 Budget: Overview of the Governor’s Budget*.

makers do not rely on money that fails to materialize. As a result, the Department of Finance is known to project conservative estimates of expected state revenue. Consequently, the Legislative Analyst’s Office expected state revenues to be significantly higher than the DOF’s projection. Specifically, they estimated that “2014–2015 state revenues could exceed the administration’s estimate by \$1 billion to \$2 billion.”³² This is significant for education because, “any 2014–2015 revenue above the administration’s January estimate would result almost dollar for dollar in an increase in the 2014–2015 Proposition 98 minimum guarantee, which, in turn, would increase the 2015–2016 minimum guarantee regardless of whether 2015–2016 revenues are higher.”³³

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 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. This is known as Test 2. In years of weaker economic growth, state spending on education must equal the previous year’s level of spending plus an increase of 0.5 percent, plus adjustments for enrollment growth and increases in per capita General Fund revenues. This is known as Test 3.

³² Legislative Analyst’s Office. *The 2015–2016 Budget: Proposition 98 Education Analysis*.

³³ Legislative Analyst’s Office. *The 2015–2016 Budget: Proposition 98 Education Analysis*.

The LAO wrote, “Because Test 2 or Test 3 is likely to be operative in 2015–16, the 2015–16 minimum guarantee very likely will build off the prior-year Proposition 98 funding level. That is, any increase in the 2014–15 minimum guarantee likely will increase the 2015–16 guarantee. The state’s obligation to fund Proposition 98 at this higher level would remain even if the increase in 2014–15 were the result of a temporary stock market surge or other one-time revenue. For example, if the state were to experience a \$2 billion revenue spike in 2014–15, with none of the revenue increase sustained in 2015–16, the minimum guarantee would increase by about \$1.9 billion in 2014–15 and \$1.3 billion in 2015–16.”³⁴

The LAO cautioned that if this were to happen the state would be required to spend an additional \$3.2 billion with only \$2 billion in added revenue to cover it, which would put a strain on other parts of the state budget.³⁵ Nevertheless, Proposition 98 would mandate the spending. The LAO advised the legislature to devise ways to spend the additional education funding.³⁶ The governor is likely to remain cautious until the additional revenue actually materializes.

Governor’s Proposed 2015–2016 Budget: Health and Human Services

In Brown’s 2015–2016 budget proposal funding for health and human services would rise to \$142 billion, with \$31.9 billion coming from the General Fund.³⁷ 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. It 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 tried to balance its books. Funding for welfare-to-work and child care services fell by over \$375 million between 2009–2010 and 2011–2012.³⁸ At the same time, eligibility for cash assistance was reduced from 60 months to 48 months. Maximum aid payments (MAPs) were reduced by four percent in 2009, and an additional eight percent in 2011.³⁹ 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.⁴⁰ In order to remain eligible for cash assistance for an additional 24 months, participants had to meet federal work participation requirements.⁴¹

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.⁴² The governor’s budget assumes an average monthly caseload of 543,557 in 2014–2015, falling to 533,335 in

³⁴ Legislative Analyst’s Office. *The 2015–2016 Budget: Proposition 98 Education Analysis*.

³⁵ Legislative Analyst’s Office. *The 2015–2016 Budget: Proposition 98 Education Analysis*.

³⁶ Legislative Analyst’s Office. *The 2015–2016 Budget: Proposition 98 Education Analysis*.

³⁷ California Department of Finance. *Governor’s Budget Summary 2015–2016*.

³⁸ California Department of Finance. *Governor’s Budget Summary 2013–2014*.

³⁹ California Department of Finance. *Governor’s Budget Summary 2013–2014*.

⁴⁰ California Department of Finance. *Governor’s Budget Summary 2013–2014*.

⁴¹ California Department of Finance. *Governor’s Budget Summary 2013–2014*.

⁴² Legislative Analyst’s Office. *The 2015–2016 Budget: Analysis of the Human Services Budget*.

2015–2016.⁴³ Despite the projected reduction in caseload, the governor proposed to increase CalWORKs’ budget by 2 percent over 2014–2015 levels, to try to restore some of the funding cut during the recession.⁴⁴ In addition, the governor also called for a substantial increase in the In-Home Supportive Services program. The governor proposed \$2.45 billion in spending on this program for 2015–2016, representing a 9.1 percent increase from the previous year’s budget of \$2.25 billion.⁴⁵

Governor’s Proposed 2015–2016 Budget: Higher Education

The proposed 2015–2016 budget would restore funding to the University of California and California State systems that had been lost during the Great Recession. Overall, the governor proposed to spend \$28.7 billion on higher education, with \$16.3 billion coming from the General Fund (\$6.3 billion to support the UC and Cal State systems; approximately \$10 billion to support community colleges and other programs).⁴⁶

Figure 5 depicts General Fund spending on the UC and CSU systems from 2007–2008 through 2014–2015. While both systems recovered from funding lows during the Great Recession, both were 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 provided \$3 billion.⁴⁷ In 2007–2008, the CSU system received \$3.26 billion from the General Fund, while the 2014–2015 budget provided \$2.97 billion.⁴⁸

To fill the gap, tuition and fees rose sharply. Annual in-state tuition and fees at University of California schools rose from \$6,636 to \$12,192 between 2007–2008 and 2014–2015, an increase of 84 percent.⁴⁹ 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.⁵⁰ Figure 6 depicts the rising cost of tuition and fees at UC and CSU schools, although tuition and fees have been frozen since 2011–2012.

Brown proposed keeping the tuition freeze in place in 2015–2016, particularly for the UC system. To that end, he included a proviso in his budget that the UC system would not receive its additional \$119.5 million from the General Fund unless it maintained its tuition at 2011–2012 levels.⁵¹ The system must also take steps to reduce nonresident enrollment.⁵² UC schools have been enrolling an increasing number of out-of-state students that pay much higher tuition than in-state students. The governor wanted UC schools to educate more native California students. These issues led to a very public dispute with University of California President Janet Napolitano.

In November 2014, the UC Board of Regents approved a plan to raise tuition and fees by five percent per year through 2019–2020, unless the state provided the UC system with enough addi-

⁴³ Legislative Analyst’s Office. *The 2015–2016 Budget: Analysis of the Human Services Budget*.

⁴⁴ Legislative Analyst’s Office. *The 2015–2016 Budget: Analysis of the Human Services Budget*.

⁴⁵ Legislative Analyst’s Office. *The 2015–2016 Budget: Analysis of the Human Services Budget*.

⁴⁶ California Department of Finance. *Governor’s Budget Summary 2015–2016*.

⁴⁷ Legislative Analyst’s Office. *The 2014–2015 Budget: California Spending Plan*.

⁴⁸ Legislative Analyst’s Office. *The 2014–2015 Budget: California Spending Plan*.

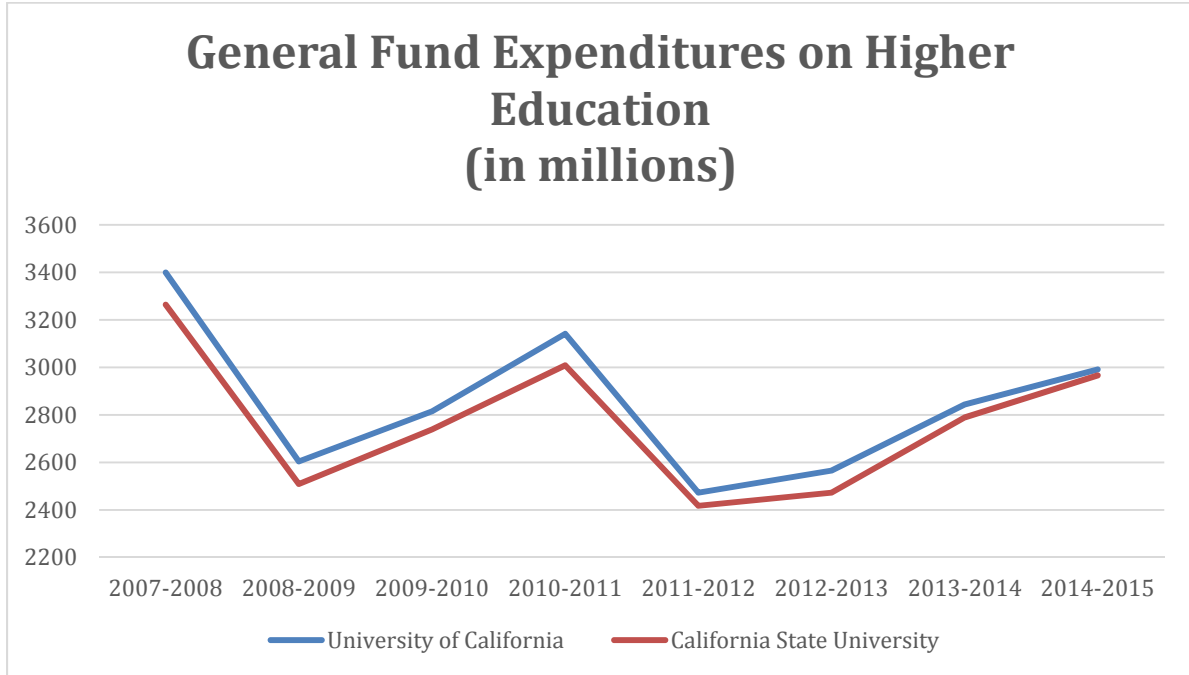
⁴⁹ California Department of Finance. *Governor’s Budget Summary 2015–2016*.

⁵⁰ California Department of Finance. *Governor’s Budget Summary 2015–2016*.

⁵¹ California Department of Finance. *Governor’s Budget Summary 2015–2016*.

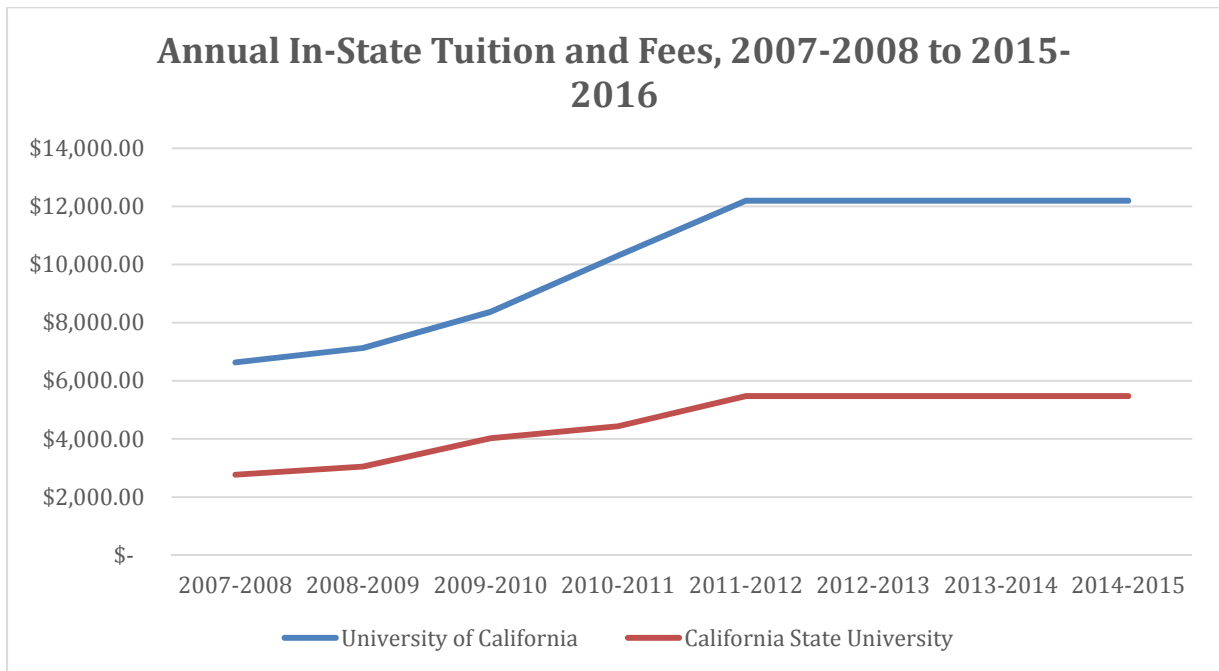
⁵² California Department of Finance. *Governor’s Budget Summary 2015–2016*.

Figure 5.



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

Figure 6.



Source: California Department of Finance, *Governor's Budget Summary 2015–2016*.

tional revenue to offset the increases.⁵³ Under Brown’s proposal, if the UC system followed through with that plan they would lose more money in state revenue than they would gain by raising tuition.⁵⁴ President Napolitano and the regents argued that the system was still trying to recover from the massive budget cuts it faced during the recession. Brown responded, “I think the university can be a fine university living within the funds that we’ve appropriated,” and, “The \$120 million is not chump change. It’s real money.”⁵⁵

Governor’s Proposed 2015–2016 Budget: Corrections

The proposed budget provided \$10.3 billion in funding for the California Department of Corrections and Rehabilitation (CDCR), with \$10.08 billion coming from the General Fund.⁵⁶ This represented a slight increase of \$162 million from the 2014–2015 funding level of \$9.846 billion.⁵⁷ The governor proposed to use \$71 million of that increase for increases in salary and benefit costs for CDCR employees.⁵⁸

The Tax Man Cometh

The temporary income and sales tax increases were a significant reason Brown’s budget balanced without spending cuts. The California Department of Finance estimates Proposition 30 tax revenues will total more than \$23 billion by the summer of 2016. But the state could face a serious budget deficit again when those taxes start expiring. Asked whether those taxes might be extended, the governor told reporters, “I said that’s a temporary tax, and that’s my position.” Brown was governor when Proposition 13 passed in 1978, and he remains skeptical about voter support for tax increases in general. The California Federation of Teachers urged otherwise. “We need to make this progressive tax and its success permanent, build on it, and the governor should lead the way,” union President Joshua Pechthalt said.⁵⁹

Public support for extending the temporary taxes is generally positive, but lukewarm. A January 2015 Public Policy Institute of California poll showed 52 percent of likely voters in favor of continuing the Prop 30 tax increases, including a surprising 32 percent of Republicans. “Whenever you’re talking about taxing the voter, to have majority support is noteworthy,” said Mark Baldassare, PPIC’s president and pollster.⁶⁰ These numbers barely budged by March, but when asked more specific questions, PPIC found support dropped from 51 to 35 percent when voters were asked if they supported making the tax increases permanent, rather than just extending them.

⁵³ January 9, 2015. *San Jose Mercury News*. California Higher Ed Funding: Brown Holds Firm on UC Tuition Freeze.

⁵⁴ January 9, 2015. *San Jose Mercury News*. California Higher Ed Funding: Brown Holds Firm on UC Tuition Freeze.

⁵⁵ January 9, 2015. *San Jose Mercury News*. California Higher Ed Funding: Brown Holds Firm on UC Tuition Freeze.

⁵⁶ California Department of Finance. *Governor’s Budget Summary 2015–2016*.

⁵⁷ Legislative Analyst’s Office. *The 2015–2016 Budget: Governor’s Criminal Justice Proposals*.

⁵⁸ Legislative Analyst’s Office. *The 2015–2016 Budget: Governor’s Criminal Justice Proposals*.

⁵⁹ January 9, 2015. *San Jose Mercury News*. Gov. Brown’s California budget calls for record \$113 billion in spending.

⁶⁰ January 28, 2015. *KQED News*. Poll: Californians Willing to Extend Prop. 30 Taxes.

One idea batted around Sacramento would submit the tax extension to the 2016 November ballot, but drop the sales tax increase and replace it with a more popular tax, such as increasing the income tax rate on wealthier filers or increasing the tax on oil production or tobacco. Putting a measure on the ballot requires a two-thirds vote of the legislature, compelling Democrats to corral at least a few Republican votes, which seems unlikely.

There is a growing movement to restructure California taxes and expand the sales tax to services, a growing component of the state economy. Controller Betty Yee plans to study various proposals, but is concerned that talk of raising taxes piecemeal might undermine systematic reform. Senator Robert Hertzberg proposed extending the sales tax to services and cutting personal income tax rates. Brown is skeptical, "Taxing new people is always difficult." But California's 30 percent voter turnout in 2014 (the lowest in state history) means fewer signatures are necessary to qualify initiatives, which could mean more initiatives will qualify. One group has already filed language to place a \$9 billion school construction bond on the ballot.⁶¹

LAO Analysis

The California Legislative Analyst's Office released an encouraging preliminary analysis of Brown's budget soon after its release. "The governor's budgeting philosophy continues to be a prudent one for the most part," the LAO said in its overview, noting that Brown may have underestimated state revenue by several billion dollars. "Even bigger gains of a few billion dollars more are possible."⁶² Revenues are largely directed by constitutional formulas to K-14 school spending, so little of the money would be available for other programs.

For the past few years Brown's budget has underestimated revenue, reflecting a reluctance to account for additional revenue that may not materialize. Legislators want to use any extra money to increase spending. The governor's hesitancy to increase spending "Could help avoid a return to the boom-and-bust budgeting of the past," the LAO noted encouragingly.⁶³

In addition, the LAO warned that California's drastic revenue increases the past few years may have reached an end. "State revenue collections now may be peaking, due largely to surging stock prices in 2014," the report noted. "History cautions that this level of peak revenue will not persist for long." California's over-dependence on capital gains taxes puts the state's fiscal stability at the mercy of the stock market. Even Brown's new robust rainy-day fund would offer "little protection [from] budgetary shortfalls that can reemerge with little warning."⁶⁴

The Analyst's Office questioned the administration's lack of detail in tackling \$71.8 billion in unfunded retiree health care obligations. Brown's budget advocates bargaining with employee groups to close that gap, but with few specifics.

⁶¹ January 25, 2015. *Associated Press*. Fight over taxes looms between Democrats, Gov. Jerry Brown.

⁶² January 14, 2015. *Sacramento Bee*. Fiscal analyst offers early take on "prudent" Jerry Brown budget.

⁶³ January 13, 2015. *Los Angeles Times*. Legislative analysts have praise, warnings for California budget.

⁶⁴ January 13, 2015. *Los Angeles Times*. Legislative analysts have praise, warnings for California budget.

Silent Budget, Noisy Drought

As California entered a fourth year of drought, water and water policies dominated Sacramento's attention in March and April, pushing the standard budget battles to the back burner. In mid-March, Brown and the legislature announced \$1.1 billion in emergency funding for flood protection and drought relief. California had its driest January in recorded history, and state regulators ordered local water agencies to limit the number of days each week people could water their lawns. Many of the actions were optics since most large urban water districts already had restrictions in place, and all but \$27.4 million of the proposed funding came from previous bond measures or Brown's earlier budget proposal. The bulk of the legislation was for infrastructure initiatives that could take years to complete.⁶⁵ Yet, within eight days of Brown's announcement, both chambers had passed the bill and it was signed by the governor.

Why the hoopla? According to a February Field Poll, 94 percent of California voters considered the drought situation in California "serious," with nearly 70 percent calling it "extremely serious." "For the public, an increasingly large proportion is becoming alarmed," said Mark DiCamillo, director of the Field Poll. "The governor is taking actions which make him at least appear to the public to be attending to the problem."⁶⁶

Brown wanted to get out in front of the issue. "I'm not going to second-guess (state water regulators), but I would share your urgency that we step it up in the weeks and months ahead," the governor said when announcing the \$1 billion water package. He stood with both Democratic and Republican legislative leaders, although Republicans were only made aware of the announcement at the last minute. In his typical flippant manner, Brown dismissed the timing of their involvement as a "narrative that's not particularly interesting."⁶⁷

But Brown did more than just repackage previously allocated bond money. On April 1, the governor ordered a 25 percent cut in urban water use, the first mandatory statewide rationing in California's history. Standing in a dry alpine field usually covered in snow, Brown told reporters the state failed to meet the previous year's 20 percent voluntary water reduction, so more drastic action was necessary. "We're standing on dry grass," Brown said. "We should be standing on five feet of snow."⁶⁸

State workers revealed the Sierra Nevada snowpack was at only five percent of normal, the lowest in state records going back to 1950. With the Sierra snowpack accounting for a third of the entire state's water supply, there would be little snowmelt in the months to come to replenish already dwindling reservoirs. The governor emphasized the drought could persist for many years, and Californians need to permanently modify their water consumption. "It's a different world," Brown said. "We have to act differently."⁶⁹ The governor's executive order only targeted urban water consumers, with most of the enforcement burden falling to the state's more than 3,000 lo-

⁶⁵ March 27, 2015. *Los Angeles Times*. Gov. Jerry Brown OKs \$1 billion to tackle drought, other water issues.

⁶⁶ March 19, 2015. *Sacramento Bee*. Jerry Brown, lawmakers propose \$1.1 billion drought relief bill amid increasing tension.

⁶⁷ March 19, 2015. *Sacramento Bee*. Jerry Brown, lawmakers propose \$1.1 billion drought relief bill amid increasing tension.

⁶⁸ April 1, 2015. *Los Angeles Times*. Brown orders California's first mandatory water restrictions: "It's a different world."

⁶⁹ April 1, 2015. *Los Angeles Times*. Brown orders California's first mandatory water restrictions: "It's a different world."

cal water districts and agencies. Agriculture, which consumes approximately 80 percent of all the water used in California was not affected. Farmers argued they already had reduced their water intake, since they would likely not receive their annual water allocation from the federal Central Valley Project. Brown tried to minimize the urban-rural dispute. “Some people want to say, ‘What about the farmers?’ And farmers want to say, ‘What about those people watering their lawns?’” Brown said. “We all have something to do, and we can all do a little better.”⁷⁰

This is not the first time Brown has faced a drought. The state experienced a then-record-breaking drought during Brown’s first term. But that drought lasted only two years compared to at least four currently, and led to voluntary water decreases, not mandatory cuts. “This executive order is done under emergency power and it has the force of law. It’s very unusual and it’s requiring action and changes in behavior from the Oregon border all the way to the Mexican border,” Brown noted on ABC’s *This Week*. “It will really test California’s ability to work as a state.”⁷¹

The governor acknowledged the complexities of the water situation were tied to legal protections for farmers and other senior water holders built into the state constitution. “Some people have a right to more water than others. That’s historic. That’s built into the legal framework of California,” he said in an ABC interview. “If things continue at this level, that’s probably going to be examined, but as it is, we do live with an archaic water law situation.”⁷²

Back to the Budget

By May, Sacramento’s political attention had shifted back to the budget, waiting for Brown’s May Revise. A week before the governor announced his budget revisions, Assembly Speaker Atkins projected the state would have an additional \$6–8 billion in unexpected revenue, and pledged to allocate that financial windfall into higher per-pupil educational spending as well as a “laundry list” of social spending priorities. “We know we’re not going to get everything we want,” the speaker admitted. “No one ever does.” While the vast majority of the revenue would fall to public schools due to Proposition 98 restrictions, Democrats in the legislature believed they would have about a billion dollars of additional taxes to spend.⁷³

But due to the complexities of the Prop 98 spending formula, some feared that all of the extra revenue would either wind up in K-14 spending, or in the state rainy-day fund adopted by voters in 2014. “It’s hard to understand and explain to people how it is that the state is getting billions of dollars in new revenue, and there may not be one penny for low-income families,” said Mike Herald, a lobbyist for the Western Center on Law and Poverty.⁷⁴ While some in Sacramento were willing to discuss ways to tweak Proposition 98’s calculations, any change would be staunchly opposed by the education lobby, including the powerful 325,000-member California

⁷⁰ April 1, 2015. *Los Angeles Times*. Brown orders California’s first mandatory water restrictions: “It’s a different world.”

⁷¹ April 5, 2015. *ABC News*. California Gov. Jerry Brown Defends Farms’ Water Use, Warns Changes May Come.

⁷² April 5, 2015. *ABC News*. California Gov. Jerry Brown Defends Farms’ Water Use, Warns Changes May Come.

⁷³ May 7, 2015. *San Jose Mercury-News*. California’s budget surplus soars to new heights; schools to benefit.

⁷⁴ May 11, 2015. *Los Angeles Times*. Public education stands to benefit most from increased state funds.

Teachers Association (CTA). The CTA authored Prop 98, got it on the ballot in 1988, and campaigned hard for its passage. Opposed by then-Governor George Deukmejian (R) and many others, Proposition 98 narrowly won with 50.7 percent of the vote, passing in only 10 of California's 58 counties. The funding formulas are so complex that Prop 98's author later joked he made the proposition so complicated so that Sacramento would need to hire him to explain it.⁷⁵

The governor released a cautious revised budget in mid-May projecting \$6.7 billion more in taxes since his initial January proposal, with \$5.5 billion directed to schools and community colleges. He also increased the amount of funding for drought response by more than \$500 million. In all, Brown proposed to spend \$169 billion in Fiscal 2015–2016, with a record \$115.3 General Fund. Despite a new \$380 million tax credit for the working poor, legislative Democrats made their annual plea for even more social spending. “To what degree are we going to be able to restore everything that was cut during the recession? I doubt it,” said Assembly Speaker Toni Atkins. “Do we have to try? Absolutely.”⁷⁶

Brown defended his budget and cautious allocations, noting previous overspending that later forced governors to make deep cuts. “I don't want to get caught in the jaws of the persistent fiscal instability of the state government of California,” he told reporters at a press conference. “We have to learn from history and not keep repeating the mistakes.”⁷⁷ The governor admitted many “good programs” won't get enough funding next year, and acknowledged he wanted to protect his legacy as a spending hawk. “When a governor leaves town with a big deficit,” he said, “they're going to be more scorned than praised.”⁷⁸

With Proposition 25 passing in 2010, Republicans have become largely irrelevant in budget negotiations, since it now only takes a legislative majority to pass the budget. But they were largely supportive of Brown's proposal. State Senator Jim Nielsen, vice-chair of the Senate Budget Committee, said Brown's proposed budget “exceeded my expectations.” He thought Brown's biggest fight would continue to be with legislative Democrats. “It's a shot across the bow to the majority party,” Nielsen said of Brown's proposal. “[Republicans] don't want a spending spree.”⁷⁹

Higher Education Compromise

On the same day the governor released his May Revise budget, an important compromise was announced between Jerry Brown and Janet Napolitano in the long-running dispute over University of California funding and tuition increases. In exchange for a two-year tuition freeze and a commitment to increase the number of transfer students UC schools admitted from California community colleges, Governor Brown agreed to allow UC schools to increase tuition beginning in 2017–2018 by up to five percent per year for three years.⁸⁰ In addition, the state would provide \$436 million over three years to shore up UC's underfunded pension fund, which

⁷⁵ May 15, 2015. *Sacramento Bee*. Prop. 98 makes schools budget winner, but is it still fair?

⁷⁶ May 14, 2015. *Associated Press*. Brown's budget boosts spending for schools, adds tax credit.

⁷⁷ May 14, 2015. *Sacramento Bee*. Jerry Brown's new budget plan freezes UC tuition, offers new tax credit for poor.

⁷⁸ May 14, 2015. *Sacramento Bee*. California budget: Gov. Jerry Brown unveils state earned income tax credit and UC tuition deal.

⁷⁹ May 14, 2015. *San Jose Mercury News*. Jerry Brown's new budget plan freezes UC tuition, offers new tax credit for poor.

⁸⁰ May 14, 2015. *San Francisco Chronicle*. UC president, governor agree to freeze tuition for 2 years.

was running a multi-billion-dollar deficit.⁸¹ In exchange, Napolitano agreed to give new UC employees hired after July 2016 the choice of a defined contribution retirement plan or a less generous defined-benefit plan to lower long-term pension costs.⁸²

The contentious issue of out-of-state students was also addressed. Governor Brown had long criticized the UC for admitting too many out-of-state students and not doing enough to educate native Californians. The problem was particularly acute at the UC's two flagship campuses, Berkeley and UCLA. The *Sacramento Bee* reported, "While the overall number of freshmen at UC has increased slightly in recent years, acceptance rates have plummeted to historic lows. Enrollment at individual campuses varies from year to year, but five schools had fewer resident freshmen [in 2014] than in 2007."⁸³

Napolitano and other UC leaders argued that more out-of-state students were necessary in order to make up for shortfalls in state funding since the beginning of the Great Recession. While in-state students paid \$12,192, those from out-of-state paid nearly three times as much, at \$35,070. Under the compromise, Napolitano agreed to cap out-of-state enrollment at Berkeley and UCLA in exchange for being able to enroll more out-of-state students at other UC campuses. Brown also agreed to allow an increase in the out-of-state tuition rate to \$46,233 by 2019–2020.

The compromise was almost derailed when the Assembly Budget Subcommittee on Education discovered that UC had spent \$32 million in 2014 to provide financial aid to out-of-state students, who were supposed to be self-sustaining. Assemblyman Kevin McCarty was outraged, saying, "There are plenty of fish in the sea that can pay full freight. We're not elected to expand education for low-income kids from Nevada. We're elected to help expand access for Californians."⁸⁴ McCarty later said the \$32 million should have been spent on financial aid for needy California students instead.⁸⁵ Despite the kerfuffle, both Brown and Napolitano seem pleased with the deal and the long-running dispute was resolved.

Revise, Revenue Estimates, and Political Rumbings

The real political clash remained between Brown and legislative Democrats. Democratic lawmakers released their own spending plan two weeks after Brown, with additional funding for social spending. Leaders in the Senate and Assembly seized on larger revenue projections from the LAO. The governor and his administration demurred, warning the state's economic recovery wouldn't last forever. "Things can turn on a dime," a spokesman for the state's Department of Finance said. "We can see, and have seen, dramatic turnarounds in a very short period of time."⁸⁶

To complicate matters, small but significant budget differences emerged between the two chambers. Senators had prioritized public healthcare, with the Assembly focused on child care and other social services. The two legislative leaders, Assembly Speaker Atkins and Senate Pro Tem de León, had gone out of their way to avoid public criticism of each other or the rival budg-

⁸¹ May 14, 2015. *San Francisco Chronicle*. UC president, governor agree to freeze tuition for 2 years.

⁸² May 14, 2015. *San Francisco Chronicle*. UC president, governor agree to freeze tuition for 2 years.

⁸³ May 13, 2015. *Sacramento Bee*. California legislators blast UC over financial aid for out-of-state students.

⁸⁴ May 13, 2015. *Sacramento Bee*. California legislators blast UC over financial aid for out-of-state students.

⁸⁵ May 13, 2015. *Sacramento Bee*. California legislators blast UC over financial aid for out-of-state students.

⁸⁶ May 26, 2015. *Los Angeles Times*. Brown, Democratic lawmakers divided on budget estimates.

et plans throughout this period. And while the differences were less than two percent of the General Fund, legislators eventually clashed at the joint budget committee hearing in early June. Assemblywoman Shirley Weber expressed skepticism over the Senate's plan to spend \$67 million to restore dental care for low-income residents, saying, "It's a question of resources." In response, Senator Mark Leno later questioned the Assembly's plan to spend more than \$200 million to reverse cuts in Medi-Cal payments to doctors.⁸⁷

Much of the negotiating between the two chambers took place away from the public, and eventually a compromise was reached between the Assembly and Senate a few days before the June 15 constitutional deadline. Lawmakers agreed to spend \$325 million to create new child care and preschool options for parents, while increasing reimbursement rates for providers. The state would also restore hours for homecare workers, and give \$70 million more to the California State University system than the governor proposed. Lawmakers wanted to spend an additional \$750 million, including, and over strong Republican objections, enrolling illegal immigrant children in Medi-Cal. Brown had earlier opposed this, largely due to the \$130 million annual price tag.

The legislature passed a preliminary \$117.5 billion budget a few days later. "Our state is on firm financial footing, and that stability gives us an opportunity which has been rare in recent years," Atkins said. De Leon acknowledged that negotiations were continuing with Brown. "We do not submit ourselves to the executive branch and say whatever it is you want, we'll do it," he said. "This is not a monarchy."⁸⁸ Republicans united against the legislative budget, claiming Democrats cared more about keeping their legislative pay rather than passing a finished budget. As part of Proposition 25, lawmakers have to pass a budget by June 15 or forfeit their pay until they do. "It's not a budget bill," said Assemblywoman Melissa Melendez. "It's the legislative paycheck-protection act."⁸⁹

The budget passed with only Democratic votes, with a mistaken preliminary yes vote by Republican Assemblyman Scott Wilk, who said he was distracted by Facebook. He later switched his vote to no. Wilk told reporters he accidentally voted for the bill in the Capitol while opposing it on Facebook. He posted on Twitter "My wife is right — I can't multitask!"⁹⁰

The Democratic leadership acknowledged that a compromise budget with Brown would eventually follow. "Is this going to be our final budget?" asked Kevin de León, the Senate president pro tem. "Unlikely." Despite their differences with the governor, legislative Democrats acknowledged the gap between them and Brown was relatively narrow with far less tension than in previous years. Senator Mark Leno, chair of the Joint Legislative Budget Committee, admitted, "We are in agreement about 99.2 percent of the overall discussion here."⁹¹

The further negotiations dragged out over one additional day, as legislative leaders decided to abandon their budget proposal for the governor's plan. Democratic lawmakers agreed to a General Fund of \$115.4 billion, only \$61 million more than Brown's May revision, in contrast to the \$750 million more Democrats had sought. "This is a sound and well-thought-out budget," Brown

⁸⁷ June 1, 2015. *Los Angeles Times*. Lawmakers air differences in budget debate in Capitol.

⁸⁸ June 15, 2015. *Associated Press*. California Legislature passes record \$117.5 billion budget.

⁸⁹ June 15, 2015. *Sacramento Bee*. Lawmakers send Jerry Brown incomplete budget.

⁹⁰ June 15, 2015. *Associated Press*. Distracted Republican lawmaker from Santa Clarita accidentally OKs California budget.

⁹¹ June 15, 2015. *Sacramento Bee*. Lawmakers send Jerry Brown incomplete budget.

said at a Capitol news conference joined by legislative leaders.⁹² The governor felt the state should use his office’s fiscal estimates, not the legislature’s or LAO’s.

“If we start fiddling” with the system of predicting revenue, said Brown, “we get subjective, political, and I’m not prepared to do that.”⁹³ Political journalist John Myers pointed out that Brown’s quest for “state budget mastery” includes using the governor’s lower revenue estimates, thereby dampening demand for greater social spending from the legislature—just part of “the governor’s unique ability to control the master political narrative in Sacramento.”⁹⁴

Asked how the budget deal was struck with legislative Democrats, Brown described it as “a gradual unfolding of deeper understanding.” He declined to say whether he threatened to veto the Democrats’ budget. “I don’t issue threats,” the governor said. “I engage in frank and honest conversations.”⁹⁵

The governor agreed to expand Medi-Cal for illegal immigrant children, but only starting in May 2016, limiting the FY2015–2016 budget cost to \$40 million, though that will grow to \$132 million in future years. Despite its later start, de León still called the health care expansion “a historic accomplishment.” “It’s both a powerful act of compassion and a prudent economic approach,” he said, because it invests in “preventative and primary care now instead of much more expensive health care later.” Atkins admitted, “We didn’t get everything we wanted accomplished in this budget.” Still, she acknowledged, “other than the budget the Assembly and Senate passed yesterday, this is the best budget we have seen in years.”⁹⁶

Not every Democrat was in a compromising mood. “It is morally and ethically wrong that we haven’t done what we should as legislative leaders to pull children out of deep poverty,” said Senator Holly Mitchell. “There is nothing in this budget that does that.”⁹⁷ “I guess we’re in the business of picking winners and losers,” she added. “It seems poor people and their children always end up at the bottom.”⁹⁸ Mitchell was not the only Democrat upset with Brown’s compromise budget, but she was the only Democrat to ultimately vote no.

So why did the legislature back down so quickly and completely? “Governors virtually always get what they want,” said Steve Merksamer, Governor George Deukmejian’s (R) chief of staff in the mid-1980s. “The governor, at the end of the day, wields the ultimate authority because he has the blue pencil [line-item veto], and he can knock out programs he thinks are overfunded.” By collaborating with Brown, legislators gained certainty that their programs would not be line-item vetoed later. In contrast to Brown’s earlier time in office, Brown 2.0 rarely uses his veto pencil.⁹⁹ For example, he cut just \$1.3 million out of FY2015–2016’s \$115.4 billion General Fund, the smallest amount since 1982.

⁹² June 16, 2015. *Sacramento Bee*. Democratic lawmakers largely give in to Jerry Brown on budget.

⁹³ June 16, 2015. *KQED Public TV*. John Myers: State Budget Deal Struck, Governor Brown Concedes Little.

⁹⁴ June 16, 2015. *KQED Public TV*. John Myers: State Budget Deal Struck, Governor Brown Concedes Little.

⁹⁵ June 16, 2015. *Los Angeles Times*. California budget deal grants health coverage to children in U.S. illegally.

⁹⁶ June 16, 2015. *Sacramento Bee*. Democratic lawmakers largely give in to Jerry Brown on budget.

⁹⁷ June 16, 2015. *Sacramento Bee*. Democratic lawmakers largely give in to Jerry Brown on budget.

⁹⁸ June 16, 2015. *Los Angeles Times*. California budget deal grants health coverage to children in U.S. illegally.

⁹⁹ June 19, 2015. *Sacramento Bee*. California governors tend to win state budget fights.

The legislature quickly passed the budget agreement three days later, with the governor approving it a few days after that, a week shy of California’s July 1 constitutional deadline. There was little fanfare to the signing ceremony, unlike the previous year, which was used to promote Brown’s reelection campaign. The governor tweeted a photograph of him meeting with Atkins and de Leon. “Budget signed,” he added. “Onto the health care & transportation special sessions.”¹⁰⁰

Final 2015–2016 Budget

In the final FY 2015–2016 budget, K-12 Education accounted for 42.8 percent of General Fund expenditures, Health and Human Services 27.6 percent, Higher Education 12.3 percent, and Corrections 8.7 percent (see Figure 7).¹⁰¹ The first three categories increased their share of General Fund expenditures compared with FY 2014–2015, while Corrections saw a slight decrease (declining from 8.9 percent of total expenditures in 2014–2015 to 8.7 percent in 2015–2016).¹⁰²

K-12 Education

K-12 education, the single largest expense facing California, consumed nearly 43 percent of General Fund revenues in 2015–2016. Overall, the state provided \$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.¹⁰³ Compared to the previous year, the 2015–2016 budget increased spending on K-12 education by \$6.6 billion, with \$4.4 billion of that increase coming from the General Fund.¹⁰⁴ This total increase was less than the \$7.8 billion originally projected in January, but still a substantial infusion into the state’s educational system.¹⁰⁵

Health and Human Services

Health, welfare, and social service programs were the second largest expense in the 2015–2016 budget, accounting for 27.6 percent of state 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.¹⁰⁶ This level of expenditure represented an increase of \$3.4 billion from the previous year’s budget, with \$2.3 billion of that increase coming from the General Fund.¹⁰⁷ The \$31.9 billion in General Fund expenditures for HHS is exactly what Governor Brown requested in his January budget proposal, although total HHS appropriations in the final budget were down \$1.9 billion from initial projections (\$142 billion vs. \$140.1 billion).¹⁰⁸

¹⁰⁰ June 24, 2015. *Sacramento Bee*. Jerry Brown signs \$115.4 billion General Fund budget.

¹⁰¹ California Department of Finance. *California State Budget 2015–2016*.

¹⁰² California Department of Finance. *California State Budget 2015–2016*.

¹⁰³ California Department of Finance. *California State Budget 2015–2016*.

¹⁰⁴ California Department of Finance. *California State Budget 2015–2016*.

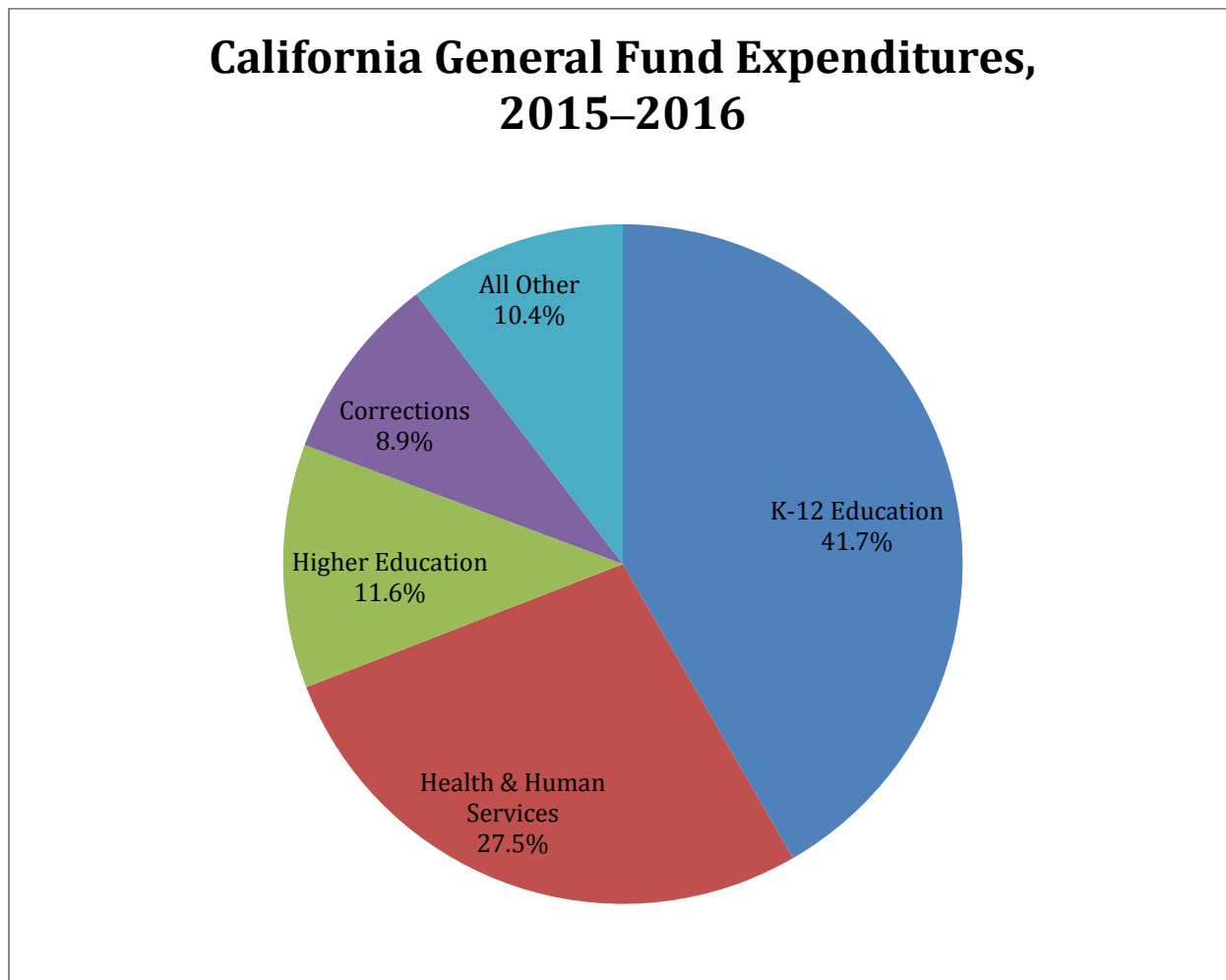
¹⁰⁵ California Department of Finance. *Governor’s Budget Summary 2015–2016*.

¹⁰⁶ California Department of Finance. *California State Budget 2015–2016*.

¹⁰⁷ California Department of Finance. *California State Budget 2015–2016*.

¹⁰⁸ California Department of Finance. *Governor’s Budget Summary 2015–2016*.

Figure 7.



Source: California Department of Finance, *California State Budget 2015–2016*

The governor was able to secure increases in both the CalWORKs and In-Home Supportive Services (IHSS) budgets. CalWORKs funding rose to \$697.7 million in 2015–2016, while the budget for IHSS rose to \$2.93 billion.¹⁰⁹ The IHSS funding represented an increase of \$680 million over the governor’s initial budget request, which was already a substantial increase over 2014–2015 funding levels.¹¹⁰

Higher Education

Higher Education was the third largest area of state spending in 2015–2016, consuming 12.3 percent of General Fund revenue. Overall, the state provided \$29.2 billion in funding, with \$16.6

¹⁰⁹ Legislative Analyst’s Office. *The 2016–2017 Budget: Analysis of the Human Services Budget*.

¹¹⁰ Legislative Analyst’s Office. *The 2015–2016 Budget: Analysis of the Human Services Budget*.

billion coming from the General Fund and \$12.6 billion from other funds.¹¹¹ Compared to the previous year, the 2015–2016 budget increased spending on higher education by \$3 billion, with \$1.9 billion of that increase coming from the General Fund.¹¹²

This includes special incentives, like the ongoing increase in appropriations of \$216.5 million for the California State system. The governor expects CSU campuses to use this money “to increase enrollment by 10,400, increase the number of full-time faculty, and make significant progress towards improving time-to-degree and graduation rates.”¹¹³ As discussed earlier, the budget incorporates the compromise struck between Governor Brown and UC President Napolitano over tuition increases, faculty/staff retirement plans, and the admittance of community college and out-of-state students to the UC.

Corrections

Corrections is the last of the “big four,” with funding for the California Department of Corrections and Rehabilitation (CDCR) accounting for 8.7 percent of the 2015–2016 General Fund budget. Overall, CDCR received a total of \$10.2 billion in funding, with \$9.9 billion from the General Fund and \$274 million from other funds.¹¹⁴ This is an overall decrease of \$1.8 billion from the previous year’s budget, but an increase of \$300 million from the General Fund.¹¹⁵

Special Legislative Sessions

Brown agreed to call two special legislative sessions, one to address health care costs and the other California’s crumbling infrastructure. The governor wanted to address the billions in unfunded road repairs annually, in part due to an insufficient fuel tax. “We have massive underfunding of our road maintenance program, and one way or another, we’re going to have to find some solutions,” Brown said.¹¹⁶

One of the emerging issues will be whether Brown continues his pledge to only raise taxes with voter approval. He made the promise running for governor in 2010 and initially refused to support legislative tax increases, instead backing Proposition 30 which passed in 2012, and temporarily increased the sales tax and income taxes on higher incomes. But those increases expire after 2016. Asked if he would be willing to sign tax increases without voter approval, Brown told reporters that is an “open question.” “I ran for office when this state had a \$27 billion deficit, and I said I wasn’t going to raise taxes unless the people said that’s what they wanted through an initiative, and I kept my promise,” the governor noted. “But when I ran the second time I didn’t say that, and you didn’t ask me.”¹¹⁷ When a reporter suggested they could ask him now, Brown said, “Too late. I’m already elected. . . . It wasn’t part of the contract.”¹¹⁸

In fact, as the *Sacramento Bee* pointed out, Brown was specifically asked before his reelection in 2014, but declined to answer. “There’s a lot of issues and relevant issues, some less so,

¹¹¹ California Department of Finance. *California State Budget 2015–2016*.

¹¹² California Department of Finance. *California State Budget 2015–2016*.

¹¹³ California Department of Finance. *California State Budget 2015–2016*.

¹¹⁴ California Department of Finance. *California State Budget 2015–2016*.

¹¹⁵ California Department of Finance. *California State Budget 2015–2016*.

¹¹⁶ June 16, 2015. *Sacramento Bee*. Democratic lawmakers largely give in to Jerry Brown on budget.

¹¹⁷ June 16, 2015. *Sacramento Bee*. Democratic lawmakers largely give in to Jerry Brown on budget.

¹¹⁸ June 16, 2015. *Sacramento Bee*. Fact check: Jerry Brown was asked about tax pledge last year.

some more so,” Brown told the *Bee*’s editorial board when asked about tax increases. “There’s a lot of things on the ballot. And there’s a lot of things in the legislature. And there’s a lot of things that will pop up between now and November [2014] and now and January, but . . . I’m going to be restrained in my commentary going forward.”¹¹⁹ Brown’s shift is important, because both special sessions will inevitably tackle potential tax increases, on health care plans to help fund Medi-Cal, or raising the fuel tax to tackle deferred road maintenance.

Any proposed transportation tax would face stiff resistance from Republicans, and tax increases still require a two-thirds legislative vote. “We have to do something; I think everyone agrees with that,” said Assemblywoman Melissa Melendez. “The question is how do we get there.” Melendez told reporters she is not prepared to vote for a new transportation tax and, “There’s great hesitancy on the part of many to vote for any type of tax increase or tax measure.” But, she acknowledged, “We are going to have to come to some sort of compromise because the roads are not going to pay for themselves.”¹²⁰

The state’s gas tax was last increased in 1994, and revenue has shrunk as Californians have shifted to more fuel-efficient vehicles. Brown’s administration estimates the gas tax only funds about \$2.3 billion in road repairs per year, producing an annual shortfall of \$5.7 billion. Each one cent increase in the tax (gasoline plus diesel) would generate an estimated \$180 million per year.¹²¹

Republicans argue the state should first pay off loans the state took from transportation accounts during the recession before increasing taxes. Assembly Republicans proposed using revenue from existing funds, including the state’s cap-and-trade carbon emission program. “We are trying to be the voice of our taxpayers and the voice of our drivers,” said Assemblyman Jim Patterson (R-Fresno). “They’re saying we pay enough.” Rob Lapsley, president of the California Business Roundtable, and in favor of some new taxes with conditions, was ultimately skeptical of a compromise. “I think, at best, it’s 50–50, and I will be surprised if, at the end of the day, it comes together,” he said.¹²² By the end of 2015, nothing significant had emerged from either special session.

Epilogue

In early August, California finally paid off the \$14.2 billion in budget-balancing bonds passed by the electorate in 2004 and heavily backed by Governor Arnold Schwarzenegger (R) and legislative Democrats. The state ultimately paid \$4.8 billion in interest and administrative costs in addition to the nearly \$15 billion of bonds authorized by voters to balance the state’s budget without additional cuts or tax increases. At the ceremony, then-State Controller John Chiang chastised the state’s leaders for going to the public with the proposition. “Obviously we were in crisis but I think we needed to present the full plate of alternatives to the electorate, so they understood . . . that if we’re going to borrow on our credit card, go out and borrow up to \$15 billion in shaky markets . . . what is it going to cost in the long term?” Chiang said. “Instead of making the difficult decisions in 2003, 2004, unfortunately they decided to take an attitude of ‘let’s borrow today and pay later.’”¹²³

¹¹⁹ June 16, 2015. *Sacramento Bee*. Fact check: Jerry Brown was asked about tax pledge last year.

¹²⁰ June 16, 2015. *Sacramento Bee*. Democratic lawmakers largely give in to Jerry Brown on budget.

¹²¹ July 9, 2015. *Sacramento Bee*. Tax increases back on California’s agenda.

¹²² July 9, 2015. *Sacramento Bee*. Tax increases back on California’s agenda.

¹²³ August 5, 2015. *Sacramento Bee*. Budget-balancing bonds of 2004 finally paid off.

Largely seen now as an imprudent decision, Proposition 57 passed with 63.4 percent of the vote, winning all but five counties, and was endorsed by politicians across the state and political spectrum, including then-Oakland Mayor Jerry Brown. “Deficit spending is what you do in the middle of a recession,” Brown told the *Oakland Tribune* a few weeks before the 2004 election. “When you’re in a soft economy, borrowing money to stimulate jobs makes sense.”¹²⁴

In October, the governor received another piece of good news: due to the robust California economy, the LAO estimated the state could have as much \$7.2 billion tucked away in the rainy-day fund by June 2017, and \$4.3 billion available in the General Fund. The budget battles of Fiscal Year 2016–2017 might again be a fight during years of plenty. But the LAO also warned a recession will return at some point, and California needs to be prepared. Such is the case in the Golden State of boom and bust.

¹²⁴ August 5, 2015. *Sacramento Bee*. Budget-balancing bonds of 2004 finally paid off.