

## **California: Taxing Times in the Sanctuary State**

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### **Abstract**

California passed a fairly uncontentious 2017–2018 budget as the state focused more on President Donald Trump, and on Governor Jerry Brown’s ultimately successful attempt to corral the state legislature into passing a new gas tax. Legislative Democrats specifically targeted Trump’s immigration policies, focusing on a bill that would make California a “sanctuary state.” Meanwhile, Brown worked diligently to marshal support for the new tax, which required a two-thirds supermajority vote. Even with a largely unified Republican opposition, Democrats held together their legislative supermajority won in 2016 and approved a rare tax increase in the Golden State. They followed it by passing the budget, as well as an extension of California’s cap-and-trade system designed to reduce greenhouse gas emissions. Collectively, Democratic California has positioned itself in diametric opposition to a Republican Trump Administration.

### **Introduction**

With California enacting a largely uneventful 2017–2018 budget, much of the political attention in the state shifted towards two other issues: President Donald Trump, and Governor Jerry Brown’s effort to pass a gas tax increase. The election of Donald Trump horrified much of largely Democratic California, and its elected political class has spent much of their attention focused on opposing the new Trump administration. On the top of the list is Trump’s immigration policies. California’s legislative Democratic leadership attempted to shepherd through a bill that would make California a “sanctuary state,” where local government, including police, would ignore or oppose any attempts to work with the federal government to identify undocumented/illegal immigrants. Senate Bill 54 quickly passed in the state Senate, but approval took much longer in Assembly, dragging into mid-September. Brown expressed serious concerns about the bill, but ultimately agreed to approve the measure after the legislature agreed to amendments from law enforcement. Ultimately the bill became as much a rejection of Donald Trump as it is protection for California’s unauthorized residents.

In contrast to the legislature, Governor Brown has spent much of his time tackling the state’s long-term structural budget deficit and legacy projects such as the state’s proposed high-speed train. In spring 2017, he pushed the legislature to approve new transportation funding, which it had failed to enact in an earlier special legislative session. Much of the revenue would come from increasing the state’s gas tax, which has not increased since 1991. Tax increases in the Golden State require a two-thirds legislative vote due to Proposition 13, but the Democrats won a

two-thirds supermajority in both chambers in the 2016 election. So even with a largely unified Republican opposition, Brown and the legislative Democrats were ultimately able to hold together their fragile supermajority and approve a rare tax increase in California.

## Trump vs. California

Beyond just the sanctuary bill, California's Legislature has put the Trump administration on notice. Opening their first session after the 2016 election, the legislature quickly passed a resolution rejecting Trump's immigration policies. "We have all heard the insults, we have all heard the lies, and we have all heard the threats," said Assembly Speaker Anthony Rendon (D-Los Angeles County), noting California's illegal/undocumented immigrant population is the nation's largest. "If you want to get to them, you have to go through us." Senate President Pro Tempore Kevin de León (D-Los Angeles) echoed those sentiments as he opened his chamber's business. He urged President Trump and the Republican-controlled Congress to "treat immigrant families and children humanely, with a modicum of dignity and respect."<sup>1</sup>

Brown fiercely attacked Trump in his State of the State address, promising to confront the president whenever California disagreed with the administration. Just four days after the president's inauguration, Brown told a joint session of the California Legislature "This is a time which calls for courage and for perseverance, and I promise you both." Brown called California a place where immigrants could "realize their dreams," and the governor promised to defend state measures that protect illegal immigrants. "We may be called to defend those laws, and defend them we will," Brown declared.<sup>2</sup>

The governor kept at it, casting California as "beacon of hope to the rest of the world," and contrasting the Golden State with Washington, D.C. "This morning, it's hard for me to keep my thoughts just on California," Brown said. "We've seen the bald assertion of 'alternative facts,' whatever those are. We've heard the blatant attacks on science. Familiar signposts of our democracy—truth, civility, working together—have been obscured or even swept aside."<sup>3</sup>

But there were also some successes in the awkward relationship between California and the Trump administration. Early in the year, the administration declared several disaster areas in California due to winter storms, freeing up federal aid in more than a dozen counties. Although the administration initially stalled a \$650 million grant to electrify commuter rail in the Bay Area, Transportation Secretary Elaine Chao later approved the project after meeting with several California officials, including Brown. Despite the willingness to confront Trump, John Burton, outgoing chair of the California Democratic Party, admitted that negotiating with the federal government is better than railing against it. "[Trump's] got you by the nuts," said Burton. "What are you going to say, 'Go f--- yourself? You try to do something. . . . You go in and try to, you know, grab what you can.'"<sup>4</sup>

When Brown visited Washington in March, most observers felt the series of meetings with congressional and administration officials went well and were largely professional. Former GOP speechwriter and political aide Bill Whalen, now a research fellow at Stanford's Hoover Institution, admitted Brown's current lack of interest in running for president was a helpful factor.

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<sup>1</sup> December 5, 2016, "California Lawmakers to Trump: 'If You Want to Get to (Immigrants), You Have to Go through Us,'" *Sacramento Bee*.

<sup>2</sup> January 24, 2017, "Jerry Brown Delivers Anti-Trump Manifesto," *Politico*.

<sup>3</sup> *Ibid.*

<sup>4</sup> March 26, 2017, "Trump Delivers Surprise to California," *Politico*.

“This is not the old Jerry Brown who goes to Washington to beat the drum about running for president. This is the second version of Jerry Brown who has to go to Washington to defend California.”<sup>5</sup>

## 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 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.<sup>6</sup> Even in conservative areas, Republicans are struggling. An example of this can be seen in the conservative Sacramento suburb of Folsom. Since 2000, the percentage of Republicans has fallen from 52 percent to 41 percent, while Democrats have held steady around 30 percent and “no party preference” has grown.<sup>7</sup> Figure 1 depicts similar statewide changes in party registration from 1996 to 2016.

Over the past two decades, Republicans went from being a majority in 66 of California’s cities to just 14 today, with many of those being the smallest cities in the state.<sup>8</sup> Moreover, Republicans can only claim a majority of voters in one of California’s 58 counties, rural Modoc County in the state’s remote northeastern corner.<sup>9</sup> By contrast, Democrats are the majority in 140 California cities<sup>10</sup> and nine of the state’s counties (Los Angeles County and most of the counties comprising the highly populated Bay Area).<sup>11</sup>

“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.”<sup>12</sup>

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.”<sup>13</sup>

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<sup>5</sup> Ibid.

<sup>6</sup> October 24, 2016, “Report of Registration,” *California Secretary of State*.

<sup>7</sup> June 9, 2017, “Just a Handful of California Cities Still Have a Majority of Republican Voters,” *Sacramento Bee*.

<sup>8</sup> Ibid.

<sup>9</sup> February 10, 2017, “Odd-Numbered Year Report of Registration,” *California Secretary of State*.

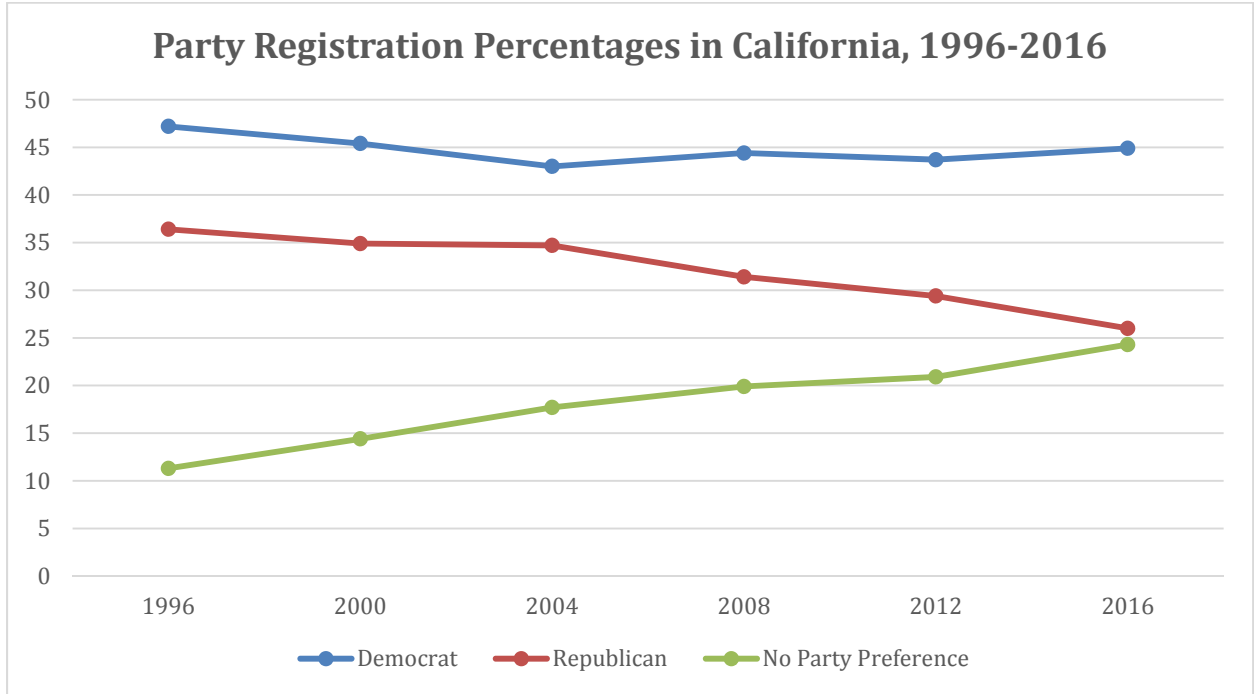
<sup>10</sup> June 9, 2017, “Just a Handful of California Cities Still Have a Majority of Republican Voters,” *Sacramento Bee*.

<sup>11</sup> February 10, 2017, “Odd-Numbered Year Report of Registration,” *California Secretary of State*.

<sup>12</sup> May 29, 2016, “Success of Jerry Brown, and California, Offers Lesson to National Democrats,” *New York Times*.

<sup>13</sup> Ibid.

**Figure 1.**



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

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.”<sup>14</sup>

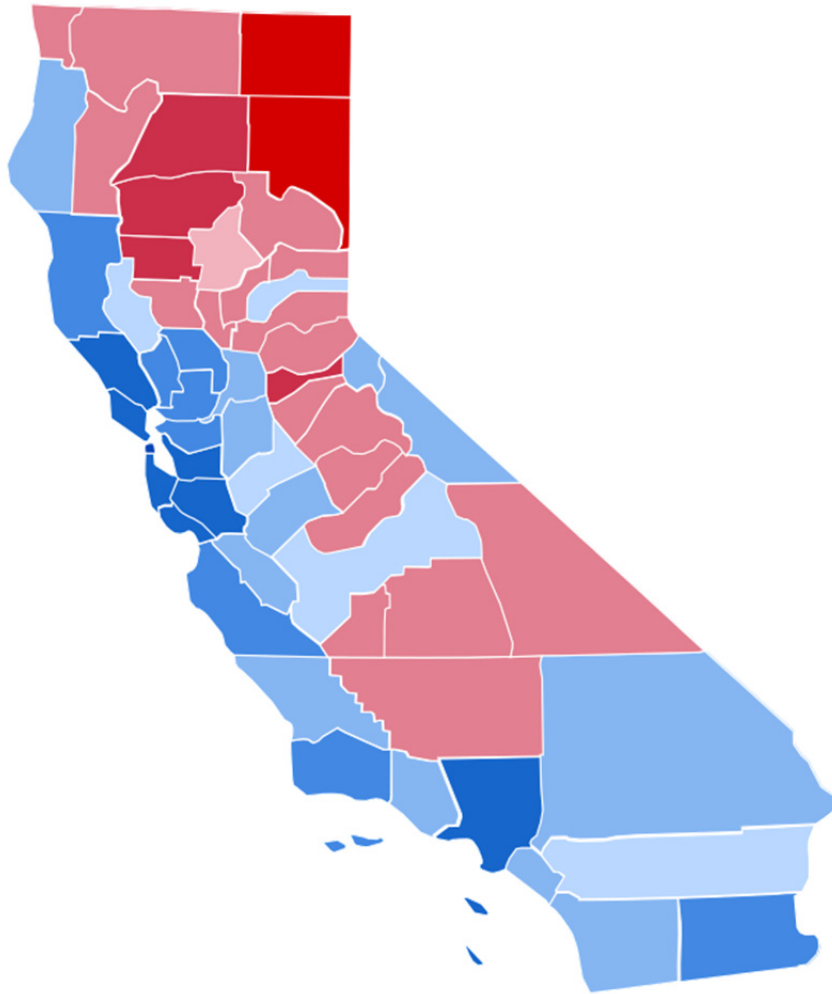
## 2016 Elections

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. For the first time since 1936, conservative Orange County—the heart of Reagan country—voted Democratic. Figure 2 shows the depth and breadth of Clinton’s victory in California.

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 Sen-

<sup>14</sup> Ibid.

**Figure 2.**



Source: California Secretary of State

Note: Darker colors indicate higher vote percentages for Hillary Clinton (blue) and Donald Trump (red)

ate, 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.<sup>15</sup> Former Senate President Pro Tempore (and current Sacramento mayor) Darrell Steinberg said, “It’s not a magic wand. You have differences within the

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<sup>15</sup> November 29, 2016, “‘Mod Squad’ Growth Offsets Democratic Supermajorities,” *Sacramento Bee*.

caucus. It can be a bit overrated when it comes to passing a lot of two-thirds bills.”<sup>16</sup> 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.”<sup>17</sup>

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 Tempore 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”<sup>18</sup>

## 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.<sup>19</sup> However, based on updated information from the U.S. Census Bureau, non-Hispanic whites currently account for only 38.0 percent of the state’s population, while Latinos have achieved a narrow plurality of 38.8 percent.<sup>20</sup> 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.<sup>21</sup> As recently as 1980, non-Hispanic whites accounted for two-thirds of California’s population.<sup>22</sup> Figure 3 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 each numbering more than five percent of the state’s population.

## Unemployment

Historically, unemployment has also been a major issue in the state. California is a boom-and-bust state and often experiences unemployment rates that are higher or lower than the nation at large. When recessions hit, California is often more severely impacted and takes longer to recover than other parts of the country. For example, the national unemployment rate hit its recent zenith in October 2009 at 10 percent, after which it slowly began to recede.<sup>23</sup> Meanwhile, California’s jobless rate continued to climb to 12.2 percent in the early months of 2010, before slowly falling.<sup>24</sup>

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<sup>16</sup> November 28, 2016, “California Democrats Got Their Supermajority. Now What?” *Sacramento Bee*.

<sup>17</sup> *Ibid.*

<sup>18</sup> November 9, 2016, “California Legislative Leaders on Trump’s Win: ‘We Woke Up Feeling Like Strangers in a Foreign Land,’” *Los Angeles Times*.

<sup>19</sup> U.S. Census Bureau, 2017.

<sup>20</sup> *Ibid.*

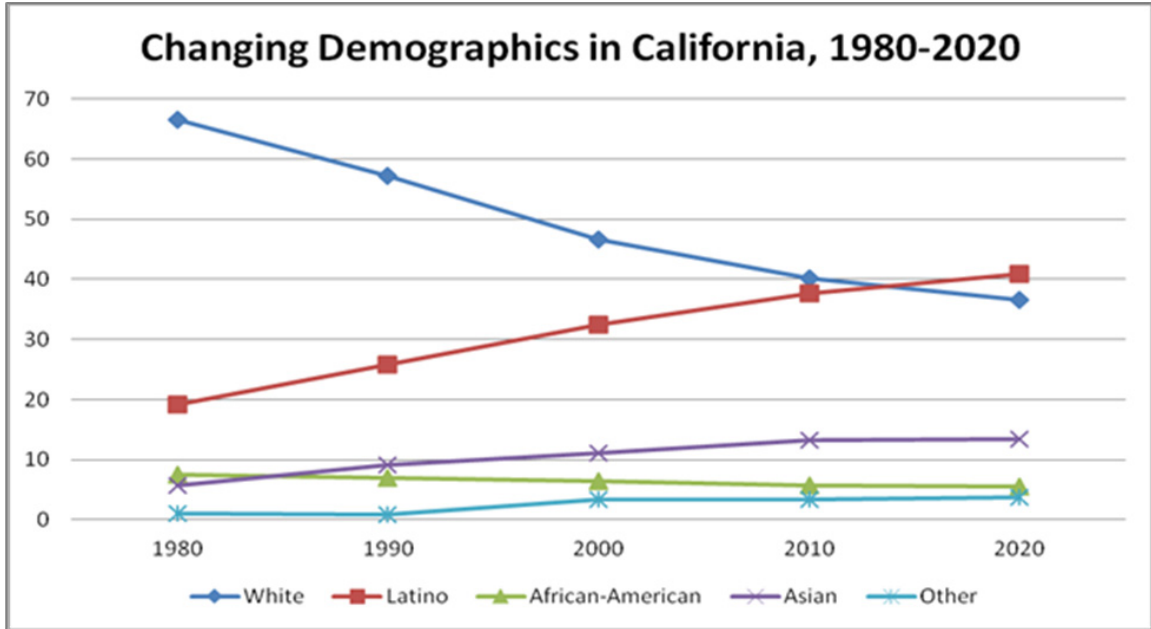
<sup>21</sup> *Ibid.*

<sup>22</sup> *Ibid.*

<sup>23</sup> U.S. Bureau of Labor Statistics National Unemployment Database, 2017.

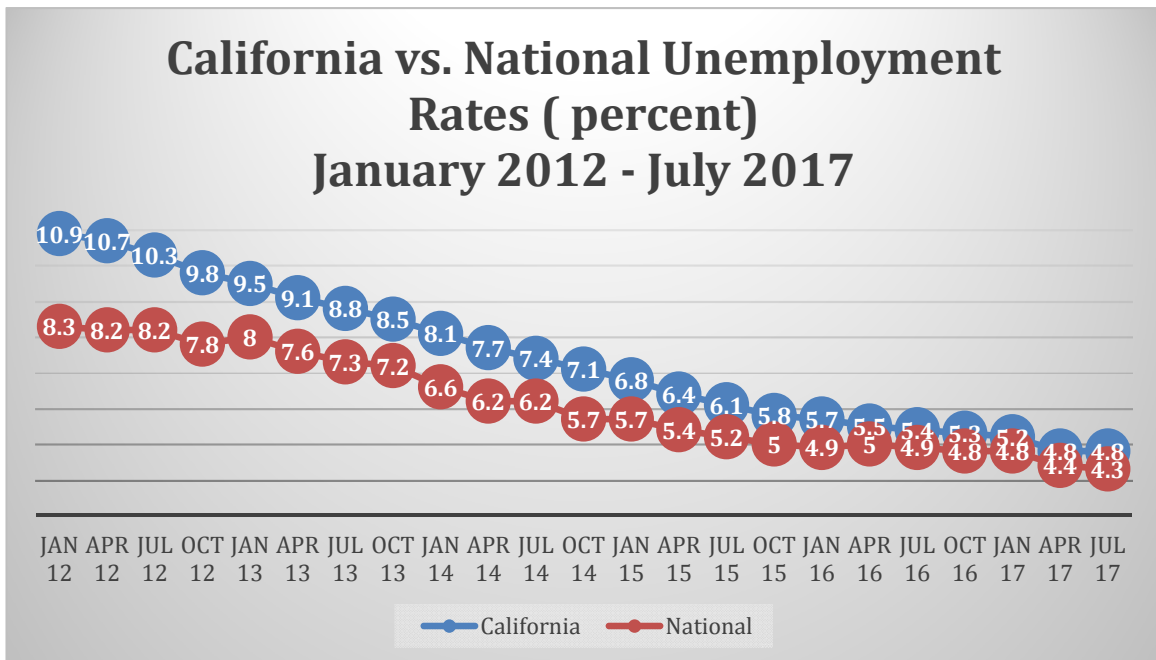
<sup>24</sup> *Ibid.*

Figure 3.



Source: U.S. Census Bureau (Percentage of California's population).

Figure 4.



Source: U.S. Bureau of Labor Statistics

As recently as January 2012, California’s unemployment rate was 2.6 percent higher than the national average.<sup>25</sup> However, the state slowly recovered and by July 2017, the state’s unemployment rate stood at only 4.8 percent in comparison to a national rate of 4.3 percent.<sup>26</sup> Figure 4 depicts the California and national unemployment rates from January 2012 through July 2017.

## The California Budget Process

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 several detailed reports 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. The action then shifts to the Assembly Budget and Senate Budget and Fiscal Review Committees, before eventually proceeding to the Assembly and Senate floors for consideration. During this legislative review, the Department of Finance issues a revision to the governor’s budget numbers in May (colloquially 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 the 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). Once 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 can zero-out appropriations and other provisions without vetoing the entire budget. 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 exceptionally rare in California. The last successful veto override took place in 1979, with coincidentally Jerry Brown serving his first stint in office. Lawmakers haven’t even voted on a veto override since 2003.<sup>27</sup>

The California Constitution requires the legislature to adopt a budget by June 15, and the governor to affirm his signature by July 1, 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 political calculus. Since 2010, legislators must pass a budget by the constitutionally mandated deadline (that specific budget does not have to be eventually enacted, a potentially large loophole), or they will forfeit their pay until a budget is passed. Since its passage in 2010, Proposition 25 has proven very effective in ensuring that California has its new budget in place by July 1.

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<sup>25</sup> U.S. Bureau of Labor Statistics State & National Unemployment Databases, 2017.

<sup>26</sup> Ibid.

<sup>27</sup> October 27, 2015, “Will California Lawmakers Ever Again Override A Veto?” *Capital Public Radio*.



## 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. Several of these perennial obstacles to California budget-making are:

*The Balanced Budget Requirement and Boom-and-Bust Budgeting.* Like most states, California is constitutionally required to produce a balanced budget every year. However, unlike most states, California is 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 a majority in the Assembly twice since 1958; Senate Republicans have controlled the chamber only once since then as well. However, state tax increases in California require a two-thirds legislative supermajority, due to Proposition 13, which passed in 1978. This gave the minority Republicans tremendous leverage over the budget-making process because they possessed an effective veto over tax policy. In recent elections, however, the Democrats have begun to frequently win a two-thirds majority in the legislature, threatening to permanently snatch away the minority party's last major influence in state politics.

*Ballot Box Budgeting:* Of all the states that employ direct democracy, Californians make use of their initiative, referendum, and recall procedures more than citizens of any other state.<sup>28</sup> 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 approximately 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 Jerry Brown's temporary tax increases (Proposition 30) in 2012, and the extension of those taxes (Proposition 55) in 2016, might have signaled a significant change in the public's attitude. Perhaps the demographically shifting California electorate is becoming more willing to raise taxes after years of budget cuts. Time will tell.

## The Big Four and the Previous 2016–2017 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

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<sup>28</sup> Initiative & Referendum Institute, 2017.

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 2016–2017 budget, K-12 education accounted for 41.9 percent, health and human services 27.1 percent, higher education 11.9 percent, and corrections 8.6 percent (see Figure 5 below).<sup>29</sup>

K-12 education was the single largest expense facing California in 2016–2017, consuming nearly 42 percent of General Fund revenues. Overall, the state provided \$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.<sup>30</sup>

Health, welfare, and social service programs were the second-largest expense in the 2016–2017 budget, accounting for 27.1 percent of all state spending. The budget provided a total of \$141 billion for such programs, with \$33 billion coming from the General Fund and \$108 billion from other funds.<sup>31</sup>

Higher education was the third-largest area of state spending in 2016–2017, consuming 11.9 percent of General Fund revenues. Overall, the state provided \$30 billion in funding, with \$17 billion coming from the General Fund and \$13 billion from other funds.<sup>32</sup>

Finally, corrections was the fourth-largest category of state expenditure in the 2016–2017 budget, accounting for 8.6 percent of General Fund spending. Overall, the California Department of Corrections and Rehabilitation received a total of \$10.6 billion in funding, with \$10.3 billion coming from the General Fund and \$248 million from other funds.<sup>33</sup>

In its November 2016 report, the Legislative Analyst’s Office estimated that the state would end the 2016–2017 budget year with \$7.5 billion in reserves.<sup>34</sup> While this is a very sizable sum for most states, it is \$1 billion less than the budget act projected. There are three main reasons for this. First, the LAO revised downward its estimate of the amount of money the state had on hand entering the budget year. Specifically, they found prior years’ revenue to be \$159 million lower than their earlier forecasts and prior years’ minimum funding obligations to K-12 schools and community colleges to be \$351 million more.<sup>35</sup> This accounted for \$510 million of the shortfall. The other half-billion is explained by a combination of \$1.7 billion in lower revenue collections in 2015–2016 and 2016–2017, offset by \$1.2 billion in lower expenditures during the same period.<sup>36</sup> Specifically, the LAO estimated that the sales and use tax (SUT) and corporation tax (CT) would fall \$2.6 billion lower than expected over those two fiscal years, with an additional shortfall in personal income tax revenues of \$923 million in 2015–2016.<sup>37</sup> However, this would be partially offset by increased personal income tax revenue of \$1.7 billion in 2016–2017.<sup>38</sup> On the expenditure side, lower state revenues and higher local property taxes in 2015–2016 caused the state to spend \$640 million less to fund Proposition 98.<sup>39</sup> In addition, \$400 million was saved on

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<sup>29</sup> California Department of Finance. *California State Budget 2016–2017*.

<sup>30</sup> *Ibid.*

<sup>31</sup> *Ibid.*

<sup>32</sup> *Ibid.*

<sup>33</sup> *Ibid.*

<sup>34</sup> November 16, 2016, *The 2017–2018 Budget: California’s Fiscal Outlook*, Legislative Analyst’s Office.

<sup>35</sup> *Ibid.*

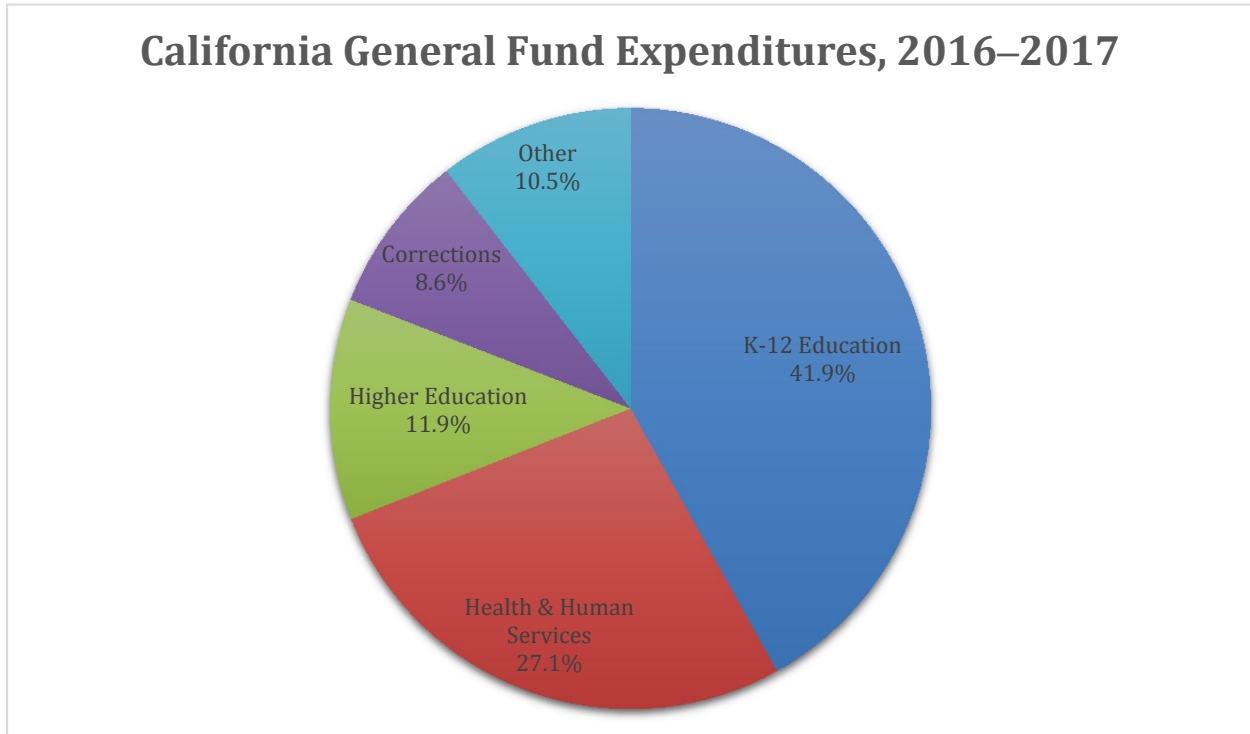
<sup>36</sup> *Ibid.*

<sup>37</sup> *Ibid.*

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*

**Figure 5.**



Source: California Department of Finance

affordable housing in 2016–2017 because changes in state law to implement the expenditures were never made.<sup>40</sup>

### **Brown Introduces the 2017–2018 Budget**

Brown introduced a \$179.5 billion budget in early January, joining the LAO in estimating the state will collect less revenue than projected the previous year. The governor also acknowledged the state might have less federal money available, but refused to provide specifics. “We can’t budget something that hasn’t happened yet,” he told reporters at his budget press conference. “That’s why we have to hang onto our hat here,” he later advised. “It’s going to be a rough ride. And we cannot tell where we will be in a few months.”<sup>41</sup>

California relies on more than \$100 billion in federal aid, particularly Medicaid, known as Medi-Cal in California. Although congressional Republicans were initially unable to repeal Obama’s Affordable Care Act, the state receives more than \$15 billion from Washington to cover the optional Medi-Cal expansion. Repealing that program would force California to come up with the money itself or roll back health coverage for 3.8 million adults. While Brown acknowl-

<sup>40</sup> Ibid.

<sup>41</sup> January 10, 2017, “Jerry Brown Braces for Budget Changes under Trump: ‘It’s Going to Be a Rough Ride,’” *Sacramento Bee*.

edged Republican attempts to dismantle “Obamacare,” the governor was unsure if they would succeed. “I know the Republicans are on that track, but the reality is going to be far more difficult and far more disruptive than they are now expecting,” Brown told reporters.<sup>42</sup>

The governor’s proposed budget included funding for Brown’s twin legacy projects: \$375 million for the state’s planned high-speed rail, and legislative enactment of California’s cap-and-trade program. Designed to help mitigate the effects of climate change, the program needs a two-thirds legislative vote to continue beyond its initial 2020 mandate.

Perhaps the biggest proposed fight is between Brown’s gloomier economic outlook, and the more rosy estimate projected from the state’s legislative analyst. In November 2016, The LAO estimated a \$6.4 billion projected surplus at the end of the of current 2016–2017 fiscal year.<sup>43</sup> Brown only projected a \$3.4 billion surplus.

The governor dedicated his budget to his late dog Sutter, and included a page with a paw print and the quote, “Save some biscuits for a rainy day.” Brown wanted to put his projected smaller surplus into the state’s recently adopted reserve fund. Also in contrast to the LAO, Brown warned without fiscal changes, the state would also face a small deficit of \$2 billion by the end of FY 2017–2018. The governor warned, “The downturn is inevitable.”<sup>44</sup>

Yet nodding to upcoming budget talks, Brown acknowledged, “I realize in the whole legislative process, spending tends to be at a higher level than I think prudence would allow, or which I am going to go along with.”<sup>45</sup> But the governor believed additional revenue should be squirreled away in the rainy-day fund to soften an inevitable economic downturn. “You’ve got to save your money or you’re going to lose the farm,” Brown said.<sup>46</sup>

Legislative Democrats, who dominate the two chambers, saw Brown’s budget as a typical example of the governor’s cautious fiscal conservatism. Senate Budget Chair Holly Mitchell (D-Los Angeles) called the proposal “conservative but not surprising,” while Assembly Speaker Anthony Rendon (D-Southeast Los Angeles County), cast Brown’s budget as “typically cautious.”<sup>47</sup>

## **Governor’s Proposed 2017–2018 Budget**

Overall, the governor proposed a \$179.5 billion budget for FY 2017–2018. The Department of Finance estimated total General Fund revenues of \$124 billion, with approximately \$85.8 billion (69 percent) coming from personal income taxes.<sup>48</sup> From the General Fund, Brown proposed to spend \$122.5 billion.<sup>49</sup> In addition, the budget also included \$54.6 billion in special fund expenditures and an additional \$2.4 billion in bonds.<sup>50</sup>

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<sup>42</sup> Ibid.

<sup>43</sup> November 16, 2016, *The 2017–2018 Budget: California’s Fiscal Outlook*, Legislative Analyst’s Office.

<sup>44</sup> January 10, 2017, “Jerry Brown Braces for Budget Changes under Trump: ‘It’s Going to Be a Rough Ride,’” *Sacramento Bee*.

<sup>45</sup> January 10, 2017, “California Girds for Trump amid Budget Shortfall,” *Politico*.

<sup>46</sup> January 10, 2017, “Brown, Legislature Differ Sharply on California Budget,” *Associated Press*.

<sup>47</sup> January 10, 2017, “Jerry Brown Braces for Budget Changes under Trump: ‘It’s Going to Be a Rough Ride.’” *Sacramento Bee*.

<sup>48</sup> California Department of Finance. *Governor’s Budget Overview 2017–2018*.

<sup>49</sup> Ibid.

<sup>50</sup> Ibid.

## K-12 Education

Due to the funding guarantees under Proposition 98, General Fund spending on K-12 education was projected to rise by \$1 billion in the governor’s budget, with overall spending rising by \$2.35 billion.<sup>51</sup> Due to this dramatic increase, per pupil spending was projected to rise by \$396, from \$14,816 in 2016–2017 to \$15,212 in 2017–2018.<sup>52</sup> This continued a trend of ever rising per pupil spending over the past several years (see Figure 6 below).<sup>53</sup>

While some education advocates were displeased with the size of the increase, State Superintendent of Public Instruction Tom Torlakson praised the governor’s budget for its commitment to public education funding, despite warning signs of a looming recession. Torlakson said, “In a year where California’s overall revenue is down, this is still another positive step forward for California’s 6.2 million public school students.”<sup>54</sup>

## Health and Human Services

The proposed 2017–2018 budget would have also increased funding for Health and Human Services to \$154.6 billion, up from \$141 billion the year before. Medi-Cal spending would have comprised \$102.6 billion of the total, with most of those funds coming from the federal government.<sup>55</sup> Under the governor’s proposal, total General Fund spending on HHS would have risen by \$1 billion, from \$33 billion in 2016–2017 to \$34 billion in 2017–2018.<sup>56</sup>

Aside from Medi-Cal, 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 and offers 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.

Advocates were disappointed with Governor Brown’s plan for only a modest increase in CalWORKs cash grants and a small cost-of-living adjustment.<sup>57</sup> They were also upset that Brown proposed cancelling higher payments for state-funded child-care providers.<sup>58</sup> Moreover, the governor also proposed to alter the relationship between In-Home Supportive Services and a pilot program that “combines medical, behavioral health, long-term services, and community-based services for people on both Medi-Cal and Medicare.”<sup>59</sup> The end result would have shifted the cost for part of IHSS’s programs to the counties. This would have saved the state an estimated \$626 million in the new fiscal year.<sup>60</sup> While good for the state’s bottom-line, the proposal

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<sup>51</sup> Legislative Analyst’s Office. *The 2017–2018 Budget: Overview of the Governor’s Budget (Ed-Budget Tables)*.

<sup>52</sup> Ibid.

<sup>53</sup> Ibid.

<sup>54</sup> January 10, 2017, “Brown’s Conservative Budget Calls for Build-Up of Rainy Day Fund.” *Southern California Public Radio*.

<sup>55</sup> California Department of Finance, *Governor’s Budget Summary 2017–2018*.

<sup>56</sup> Ibid.

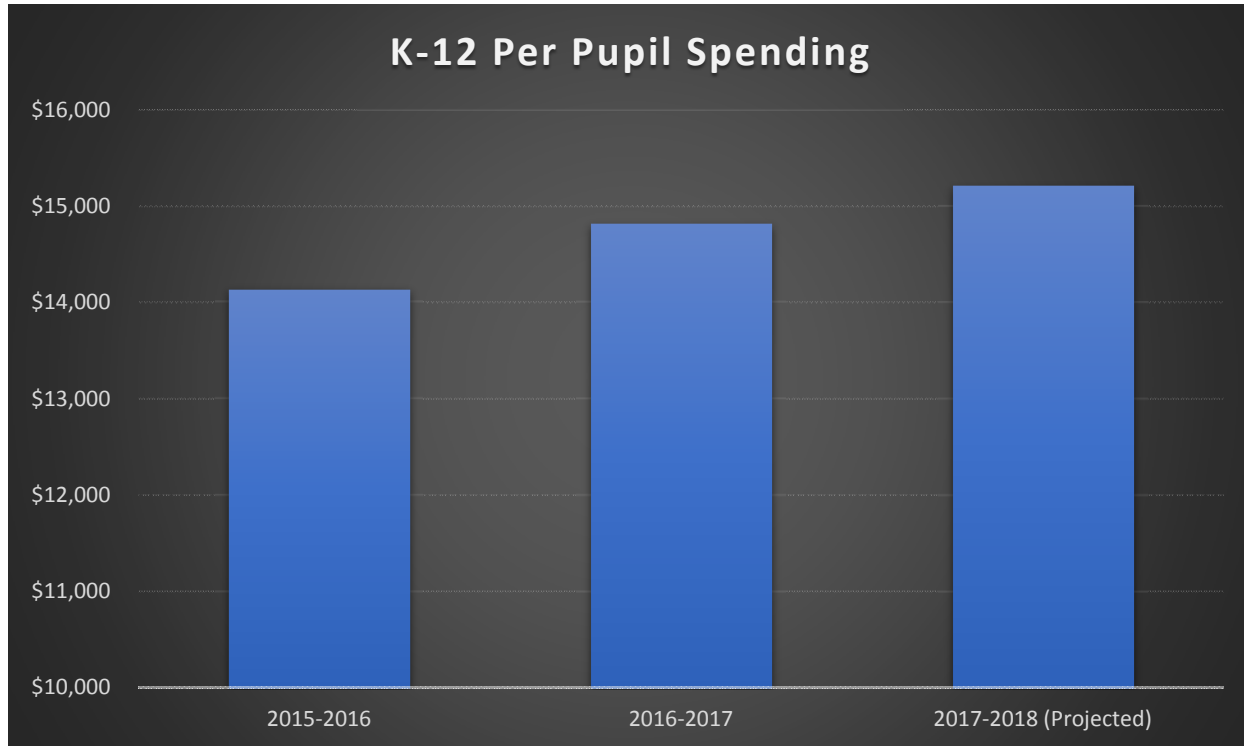
<sup>57</sup> January 13, 2017, “What’s in Brown’s New Budget?” *Los Angeles Times*.

<sup>58</sup> January 10, 2017, “Governor Pitches \$122.5B California Budget, Warns of Deficit,” *Associated Press*.

<sup>59</sup> January 10, 2017, “Brown’s Conservative Budget Calls for Build-Up of Rainy Day Fund,” *Southern California Public Radio*.

<sup>60</sup> Ibid.

**Figure 6.**



Source: Legislative Analyst’s Office

would have caused more problems for cash-strapped counties. Recognizing this, the Brown administration stated that it was “prepared to work with counties to mitigate, to the extent possible,” the impact of the change.<sup>61</sup>

### **Higher Education**

The proposed 2017–2018 budget would have also continued the restoration of funding to the University of California and California State University systems that had been lost during the Great Recession. Overall, the governor proposed to spend \$31.9 billion on higher education in the state, with \$17.5 billion coming from the General Fund (\$7.2 billion to support the UC and Cal State systems; approximately \$10.3 billion to support community colleges and other programs).<sup>62</sup>

However, a major fight erupted between Brown and legislative Democrats over the governor’s proposal to limit scholarships for middle-class families. In 2013, the legislature created the Middle Class Scholarships program. This expanded access to college scholarships by giving the UC and CSU systems funds to assist students with family incomes up to \$156,000.<sup>63</sup> Brown

<sup>61</sup> Ibid.

<sup>62</sup> California Department of Finance, *Governor’s Budget Summary 2017–2018*.

<sup>63</sup> January 13, 2017, “What’s in Brown’s New Budget?” *Los Angeles Times*.

wanted to cancel the program for future students, providing an eventual savings of \$115 million to the state, although he would have continued to allow students already receiving awards to use them until they graduate.<sup>64</sup>

Brown's move drew swift criticism from several prominent Democrats, including Assembly Speaker Anthony Rendon and Assemblymember Kevin McCarthy, the chair of the Assembly's Education Finance subcommittee.<sup>65</sup> Legislative Democrats wanted to keep the program as is, or even expand it. Assemblyman Phil Ting (D-San Francisco), chair of the powerful Assembly Budget Committee, said "Brown's proposal to eliminate scholarships as the University of California proposes a fee increase . . . is not a recipe for success."<sup>66</sup> In fact, Ting proposed \$1 billion in new spending on the program.<sup>67</sup>

Controversy also arose over the UC system's plan to increase tuition for the first time in six years. UC President Janet Napolitano said in January 2017 that "There's only so many years you can go without a rate increase or a small tuition increase that doesn't sacrifice a lot by way of quality. As much as I'd like to say we can sustain this forever, we cannot."<sup>68</sup> She added, "We're now hitting the point where we're going to miss that sweet spot on quality—on really high graduation rates, on the kind of academic reputation that UC has."<sup>69</sup> UC proposed to increase tuition by 2.5 percent, bringing in-state tuition to \$11,502 in the 2017–2018 academic year.<sup>70</sup>

## Corrections

Finally, Governor Brown's proposed budget would have provided \$11.3 billion in funding for the California Department of Corrections and Rehabilitation (CDCR), with \$11 billion coming from the General Fund and \$307 million from other funds.<sup>71</sup>

This represented an increase of \$700 million from the previous year's budget, and was mostly the result of higher personnel costs.<sup>72</sup> Nearly half (\$320 million) of the increase was earmarked for higher employee salaries that were collectively bargained for.<sup>73</sup> Critics pointed out, however, that the added expenditure came despite the fact that California's prison population was expected to decline slightly over the year, from 129,015 inmates to 128,159.<sup>74</sup>

Other increases included \$240 million to transfer 2,000 mental health clinicians, nurses, and doctors into CDCR from the Department of State Hospitals, \$33 million for more medical care

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<sup>64</sup> Ibid.

<sup>65</sup> January 10, 2017, "Brown's Conservative Budget Calls for Build-Up of Rainy Day Fund," *Southern California Public Radio*.

<sup>66</sup> Ibid.

<sup>67</sup> January 10, 2017, "Governor Pitches \$122.5B California Budget, Warns of Deficit," *Associated Press*.

<sup>68</sup> January 4, 2017, "Napolitano: UC Quality not Sustainable without Tuition Hike," *Sacramento Bee*.

<sup>69</sup> Ibid.

<sup>70</sup> January 4, 2017, "UC Proposes First Tuition Increase in Six Years for More Faculty, Courses and Financial Aid," *Los Angeles Times*.

<sup>71</sup> California Department of Finance, *Governor's Budget Summary 2017–2018*.

<sup>72</sup> January 10, 2017, "Brown's Conservative Budget Calls for Build-Up of Rainy Day Fund," *Southern California Public Radio*.

<sup>73</sup> Ibid.

<sup>74</sup> Ibid.

for inmates, \$11 million for a pilot program to increase surveillance at state prisons, and \$8.5 million in increased funds to rehabilitation programs.<sup>75</sup>

## Brown Pushes through His Gas Tax

Before the legislature began its in-depth analysis and alterations to the governor's budget, Sacramento was focused on Brown's proposed transportation plan, which included several tax increases. After failing to pass a new funding source for the state's backlog of transportation repairs in 2015 and 2016, Brown tried again to get the legislature to increase transportation funding. His bill would raise the gas tax by 12 cents per gallon, increase diesel taxes, and raise the annual vehicle registration fee. Zero-emission vehicles would also have to pay a \$100 additional registration fee to compensate the state for using roads without paying any gas taxes. Brown's administration estimated the average motorist would pay about \$120 more per year, with future gas and diesel taxes increases indexed to inflation.<sup>76</sup>

Collectively, Brown's plan would raise an estimated \$52.4 billion over 10 years, with most of the revenue going to road maintenance and repairs, but with some funding flowing to mass transit and bike/pedestrian projects as well. The state would split much of the tax revenue with local governments, largely responsible in California for maintaining local roads, and in desperate need of the additional funding. Brown argued California had accumulated a \$59 billion backlog in deferred state road maintenance, with \$78 billion in local street repairs.<sup>77</sup>

The governor traveled up-and-down the state, holding political rallies in districts with wavering Democratic lawmakers. This is a heavy lift," Brown acknowledged at a union rally in the East Bay. "This is not eating cotton candy. This is real spinach. This is broccoli." But the governor argued there were no other options. "If we don't do it, the roads will crumble," Brown told the crowd. "If we don't do it this year, I doubt it will be done for a long, long time. So, take it, or deteriorate. That's your choice."<sup>78</sup>

"Now is the time—and don't blow it, guys," Brown reiterated a few days later in Riverside. "I'm going off to my ranch. You're going to be driving on these damn roads. Fix them now, or we may never get them fixed."<sup>79</sup>

Brown again and again returned to the theme that the end of his political life in California was rapidly approaching and, therefore, why it made sense that only he could lead the charge to approve an unpopular gas tax increase. "You've got a guy who's going nowhere," the governor testified at a Senate Appropriations Committee hearing, acknowledging the final chapter of his extensive political career. "I have no future, I only have a past. So I'm willing to do it."<sup>80</sup>

It was tough sailing getting the tax bill through the legislature. The Democrats needed every vote, passing the tax increase 27–11 in the Senate, and 54–26 in the Assembly, the bare mini-

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<sup>75</sup> Ibid.

<sup>76</sup> April 6, 2017, "You Want to Have a Screwed Up State?" If Not, Then Vote to Raise Taxes, Brown says," *Los Angeles Times*.

<sup>77</sup> March 29, 2017, "Gas Tax Hike Funds \$52 Billion Plan to Fix California Roads," *Associated Press*.

<sup>78</sup> March 30, 2017, "Jerry Brown Says Road Fix 'Is Not Eating Cotton Candy. This Is Real Spinach,'" *Sacramento Bee*.

<sup>79</sup> April 4, 2017, "'Don't Blow It, Guys': Gov. Brown Warns Lawmakers Not to Hold Out Support for Plan to Repair California's Roads," *Los Angeles Times*.

<sup>80</sup> April 6, 2017, "You Want to Have a Screwed Up State?" If Not, Then Vote to Raise Taxes, Brown says," *Los Angeles Times*.



mum required to pass tax measures in the California Legislature. The roll was held open for more than 10 minutes in the Assembly as Speaker Rendon worked to find three more Assembly votes. But ultimately only two Democrats voted no: Senator Glazer (East Bay) and Assemblyman Rudy Salas (Bakersfield). Both were later stripped of their respected committee chairs.<sup>81</sup>

Many Democrats were reluctant to pass a multimillion tax increase, and most Republicans refused to support the measure. Brown won using old-fashioned pork: the legislature agreed to spend almost \$1 billion of the transportation funding in side deals for the Central Valley and the Inland Empire to sway four additional votes, including the only Republican to vote yes, Senator Anthony Cannella (R-Ceres).

The largest side deal was a \$500 million transportation allocation to woo Cannella (Central Valley), the critical two-thirds vote in the Senate after Glazer signaled he would vote against the bill due to opposition from his constituents. Called to the governor's mansion the night before the vote, Cannella ultimately wrangled \$400 million to extend a commuter rail line between the Bay Area and several cities in Cannella's Central Valley district. Another \$100 million was allocated to help connect UC Merced to the 99 Freeway, giving cover to Cannella and also swing Assembly vote Adam Gray (D-Merced).

Cannella said the conversation at the governor's mansion was a long one, finally ending at 10 p.m. "I got the things I asked for, so apparently I made the most compelling case," he said. "It was very hard to get."<sup>82</sup>

After the vote, Cannella received hundreds of angry calls to his personal cellphone, which was somehow made public, along with his home address. Many were threatening, and the Republican state senator said the California Highway Patrol made extra patrols in his neighborhood. "Look, I'm a grown man and I'm an elected official. I expect it," he told the *Sacramento Bee*. "Talking to my wife, come on. Talking to my kids, that's unbelievable."<sup>83</sup>

Legislators also allocated almost \$450 million in transportation projects to Riverside County, securing the vote of wavering Democrats Senator Richard Roth and Assemblywoman Sabrina Cervantes. Roth held off supporting the bill until the last day, and Cervantes needed coaxing all the way up until the roll call opened. "For too long, Sacramento has failed to provide Inland Southern California with the resources we deserve," the two lawmakers said in a joint statement after the vote. "Though this was a difficult vote, the cost of our region not getting its fair share is too high."<sup>84</sup>

Brown defended the payouts, calling them funding "arrangements" and said they were a small compromise compared to the total \$52 billion package. "I don't think I've ever seen anything as big as this particular transportation bill," Brown told reporters after the vote. "So I would say some of the arrangements that were entailed in this process, they may look large, but relative to \$52 billion, it's all pretty modest."<sup>85</sup>

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<sup>81</sup> May 12, 2017, "More Gas Tax Fallout: East Bay Lawmaker Loses Key Committee Post," *Sacramento Bee*.

<sup>82</sup> April 9, 2017, "Nearly \$1 Billion in Side Deals by Gov. Brown and Democratic Leaders Cemented the Legislative Vote to Raise the Gas Tax," *Los Angeles Times*.

<sup>83</sup> April 20, 2017, "Senator Who Voted for Gas Tax Says He Received Threats after Cell Number, Address Shared," *Sacramento Bee*.

<sup>84</sup> Ibid.

<sup>85</sup> April 9, 2017, "Nearly \$1 Billion in Side Deals by Gov. Brown and Democratic Leaders Cemented the Legislative Vote to Raise the Gas Tax," *Los Angeles Times*.

Republican leaders called the deals unseemly. Assemblyman Devon Mathis (Central Valley) said the deal-cutting “gets at the trust issue” with voters. “They are going to go cut deals in the dark so they can tax us more, and then go home and say ‘look what I did for you.’ You’re just cutting your neighbor’s throat,” he said.<sup>86</sup> “Democrats just gave us the largest gas tax increase in state history—a deal so bad they needed \$1 billion in pork to buy the votes to pass it,” said Assembly Republican leader Chad Mayes (Inland Empire). “California deserves better.”<sup>87</sup>

Mayes told reporters he believed some supporters of the measure were bought off. “When was the last time any member of the legislature got \$10 million, let alone \$427 million for one group of legislators, and \$500 million for another group of legislators?” Mayes asked. “If the goal that we have in the legislature is to represent all of California, then our goal shouldn’t be, ‘Hey, I’m gonna get my pet project for my district at the expense of someone else.’”<sup>88</sup>

Legislative Democrats gave Brown a huge political victory. “I appreciate being a Democrat and what the Democrats did,” the governor said after the vote. “There is a reason why the members of the other party have been going downhill for so many decades. That’s because they are doing nothing. We did something to fix the roads of California.”<sup>89</sup>

But, ultimately, it was the governor who rallied legislative Democrats behind the measure, and used political capital to get it passed. “I remember back to the Harry Truman election, when they talked about the Republican (Congress) as a do-nothing. Harry Truman went around and gave ‘em hell,” Brown told reporters after the bill passed. “Tonight we’re building things. That’s common sense, that’s the spirit of Harry Truman, and that’s the spirit of the Democratic Party. Proud to be a part of it.”<sup>90</sup>

Commentators justifiably gave a lot of credit to Jerry Brown, and compared his hands-on approach to his previous stint as governor. “Jerry Brown 1.0 was someone who didn’t reach out — he didn’t do politics,” said Sherry Bebitch Jeffe, a veteran political analyst at the University of Southern California. This time around, “Jerry showed that he understood the system and that he could use the system.”<sup>91</sup> Tony Quinn, a former GOP consultant, agreed. “I was working in the legislature when he was governor the first time, and he could never have pulled this off back then,” Quinn told the *San Francisco Chronicle*. “He just didn’t have the connections to people and legislators.” But Brown 2.0 governs differently. “Jerry’s learned a lot over the years,” Quinn said. “It’s pure politics: You need a bridge, you get a bridge.”<sup>92</sup>

The following day, Brown celebrated his 79th birthday with not only his transportation bill, but also a banana cake, which First Lady Anne Gust Brown makes for him every year, from his mother’s recipe. Being married is just another one of the differences between the governor and his earlier time in office in the 1970s and early ‘80s. “I used to say, ‘Take the ins and throw them

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<sup>86</sup> April 8, 2017, “‘Buying’ the Votes for a Gas-Tax Hike: Is It Illegal or Just Good Politics?” *Sacramento Bee*.

<sup>87</sup> April 9, 2017, “Nearly \$1 Billion in Side Deals by Gov. Brown and Democratic Leaders Cemented the Legislative Vote to Raise the Gas Tax,” *Los Angeles Times*.

<sup>88</sup> April 8, 2017, “‘Buying’ the Votes for a Gas-Tax Hike: Is It Illegal or Just Good Politics?” *Sacramento Bee*.

<sup>89</sup> April 6, 2017, “Legislature OKs \$52 Billion Road Bill,” *San Francisco Chronicle*.

<sup>90</sup> April 6, 2017, “In Big Win for Brown, Legislature OKs Major Transportation Plan,” *KQED NPR News*.

<sup>91</sup> April 7, 2017, “California Gas Tax a Victory for Jerry Brown 2.0,” *San Jose Mercury*.

<sup>92</sup> April 7, 2017, “Gov. Jerry Brown Plays Hardball to Pass Transportation Bill,” *San Francisco Chronicle*.

out, and take the outs and put them in,” Brown told a joint session of the legislature a few years ago, highlighting his outsider status the first time he was governor. “I don’t say that anymore. My message: There’s no substitute for experience.”<sup>93</sup> Brown signed his bill into law a few weeks later in late April.

## **Budget Negotiations with Legislative Democrats**

In mid-May, Brown released his May budget revision, or May Revise, about four months after his initial budget proposal in January. The governor conceded some social spending to Democrats in the legislature, including abandoning plans to delay expansion of full-day preschool, while agreeing to expanded dental benefits to low-income adults. Brown also agreed to back off transferring a healthcare system to the counties, which would have saved California \$600 million annually but might have led to reduced care for seniors and disabled citizens. Instead, the state would gradually cut back funding over several years. The governor also proposed \$1.4 billion more in educational funding.

Missing from Brown’s May \$183.4 billion budget was discussion of the projected \$1.6 billion shortfall Brown warned about back in January. State Director of Finance Michael Cohen later confirmed the shortfall had shrunk to just \$400 million.<sup>94</sup> The governor still urged the legislature to take fiscal caution, since California would experience an economic downturn sooner than later. “Make no doubt about it,” Brown said, “cuts are coming over the next few years.”<sup>95</sup>

One of the major sources of disagreement between legislative Democrats and Governor Brown revolved around Proposition 56, a \$2 per pack increase in cigarette taxes passed in November 2016. Brown wanted to use that extra funding for Medi-Cal rather broadly, while Democratic lawmakers—and those who funded Prop 56—believed the initiative mandates the funding go to increase Medi-Cal reimbursement rates to doctors, which would hopefully increase the number of medical professionals who would take Medi-Cal patients.<sup>96</sup>

Complicating the budget process was a new constitutional amendment approved by voters in November 2016. Proposition 54 requires a 72-hour waiting period before a final vote on any legislation, including the budget. To meet the constitutional budget deadline on Thursday, June 15, 2017, legislators needed to have the budget finalized by Monday night. “I think it’s fair to say it has made the process more compressed,” said H. D. Palmer, a spokesman for the Department of Finance, about the new rules.<sup>97</sup>

Republicans and others have long complained majority Democrats have presented the budget with little to no time for scrutiny or analysis. Helen Hutchison, president of the League of Women Voters of California, told the *Associated Press* she thought the new rule would have a positive impact on both the budget, and on the legislative procedure in general. The legislative process works best when there’s a “chance for everyone to weigh in before a final vote,” she said. “It

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<sup>93</sup> April 7, 2017, “It’s Jerry Brown’s Birthday. Let’s All Go Eat Some Banana Cake,” *Sacramento Bee*.

<sup>94</sup> May 11, 2017, “Gov. Jerry Brown Urges Republican ‘Penance’ for Healthcare Vote, Warns of the Impact on California’s Budget,” *Los Angeles Times*.

<sup>95</sup> May 11, 2017, “Gov. Jerry Brown Offers More Cash in His New Budget, Jabs Lawmakers Who Follow Trump’s Lead,” *Los Angeles Times*.

<sup>96</sup> June 6, 2017, “How Should California Spend \$180 Billion-Plus? Here’s What Is under Negotiation in Sacramento,” *Los Angeles Times*.

<sup>97</sup> June 12, 2017, “New Deadline Looms over California Budget Deal,” *San Jose Mercury*.

does allow the public and the press to be able to get in there and see it,” she said. “In that sense, it’s more difficult to slip things in.”<sup>98</sup>

With that added pressure, Brown and Democratic legislators announced a deal early enough in the week to allow a final legislative vote by Thursday evening. The state would spend about \$1 billion more than Brown proposed in May, \$183.2 billion in total spending, with a \$125 billion General Fund, the largest in state history. California would end the fiscal year with \$8.5 billion in the state’s rainy-day fund. “This budget keeps California on a sound fiscal path and continues to support struggling families and make investments in our schools,” the governor proclaimed in a written statement.<sup>99</sup> Brown agreed to use \$465 million of the \$1.3 billion in new tobacco taxes to boost Medi-Cal payments to doctors. But that funding will only occur if the state gets federal approval and is contingent on the federal government maintaining its share of Medicaid funding.

The budget passed the Senate 28–10 and the Assembly 59–20, with most Republicans voting no. “This is a budget for all Californians,” said Senate Pro Tem Kevin de León (D-Los Angeles). “It protects our state’s fiscal stability while also making historic investments in education and our state’s infrastructure, both of which are critical to keep our economy moving and growing.” Republicans slammed its contents and the budget process in general. Senate Republican Leader Patricia Bates (Orange County) criticized the budget as the “biggest in California’s history.”<sup>100</sup>

When Brown signed the budget a few weeks later, he declined to use his line-item budget veto for the second year in a row. The *Los Angeles Times* pointed out “Brown also has the distinction of issuing fewer vetoes of stand-alone legislation of any governor in the last half-century.”<sup>101</sup> Previous governors have vetoed hundreds of items, totaling more than \$1 billion in several years.

Brown also signed budget-related legislation to drastically revamp California’s Board of Equalization (BOE), a constitutionally elected board overseeing income tax collection and tax appeals in the state. Originally created in 1879 to oversee county property tax assessment, the board had grown to handle a vast armada of other fiscal duties, including the collection of gas and marijuana taxes. Largely unknown to most Californians throughout its history, the agency recently gained notoriety due to a damning government audit and investigations into questionable campaign contributions to the board’s four elected officials. “Right now the BOE members are doing some very strange things, so we can’t allow this to continue. We can’t allow them to interfere with the administration of the agency,” argued Assemblyman Bill Quirk (D-Bay Area).<sup>102</sup>

The legislature shifted 90 percent of the board’s staff into two new departments, with one of them, the Department of Tax and Fee Administration, created in just a few weeks. Another new department would handle tax appeals, with administrative law judges taking over that responsi-

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<sup>98</sup> June 12, 2017, “New California Transparency Rule Allows 3-Day Budget Review,” *Associated Press*.

<sup>99</sup> June 13, 2017, “With a Deadline Looming, There’s a Deal between Gov. Jerry Brown and Lawmakers on a New State Budget,” *Los Angeles Times*.

<sup>100</sup> June 15, 2017, “It’s a Deal. Lawmakers Send Jerry Brown a Jam-Packed Budget,” *Sacramento Bee*.

<sup>101</sup> June 28, 2017, “It’s All Good: Gov. Jerry Brown (Again) Signs a Budget without Any Vetoed Spending,” *Los Angeles Times*.

<sup>102</sup> June 15, 2017, “It Took Almost 90 Years, But Lawmakers Voted to Gut California’s Tax Board,” *Sacramento Bee*.

bility from the elected board members. Republican Board of Equalization member George Runner called the proposal a “last minute budget power grab,” and three of the four board’s elected members publicly campaigned against the change. Yet Brown and legislative Democrats supported the overhaul, backed by the fifth ex-officio member of the Board of Equalization, elected State Controller Betty Yee (D).<sup>103</sup>

## Final 2017–2018 Budget

In the final FY 2017–2018 budget, K-12 education accounted for 42.7 percent of General Fund expenditures, health and human services 27.8 percent, higher education 11.9 percent, and corrections 9.0 percent (see Figure 7 below).<sup>104</sup> Higher education accounted for the same percentage of General Fund expenditures as the previous year, while the other three categories gained. The share of General Fund expenditures for items other than the big four fell from 10.5 percent in 2016–2017 to 8.6 percent in 2017–2018.<sup>105</sup>

### K-12 Education

K-12 education is the single largest expense facing the state of California, and consumed nearly 43 percent of General Fund revenues in 2017–2018. Overall, the state provided \$92.5 billion of funding to support primary and secondary education, with \$54.1 billion coming from the General Fund and \$38.4 billion from other funds.<sup>106</sup> Compared to the previous year, the 2017–2018 budget increased spending on K-12 education by \$4.2 billion, with \$2.5 billion of that increase coming from the General Fund.<sup>107</sup>

### Health & Human Services

Health, welfare, and social service programs were the second largest expense in the 2017–2018 budget, accounting for 27.8 percent of all state spending. The budget provided a total of \$161 billion for such programs, with \$35 billion coming from the General Fund and \$126 billion from other funds.<sup>108</sup> This level of expenditure represented an increase of \$20 billion from the previous year’s budget, with \$2 billion of that increase coming from the General Fund.<sup>109</sup> The \$2 billion increase for HHS is double what Governor Brown initially sought in his January budget proposal.<sup>110</sup>

Brown was able to get the changes he wanted to the In-Home Supportive Services (IHSS) program, but agreed to phase in the cost shift to counties over a four-year period.<sup>111</sup> In addition, the legislature appropriated additional money to help mitigate some of the added cost for counties. Specifically, \$400 million from the General Fund was used to assist counties with the first

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<sup>103</sup> June 12, 2017, “Lawmakers Move to Blow Up California Tax Board,” *Sacramento Bee*.

<sup>104</sup> California Department of Finance, *California State Budget 2017–2018*.

<sup>105</sup> *Ibid.*

<sup>106</sup> *Ibid.*

<sup>107</sup> California Department of Finance, *California State Budget 2016–2017*.

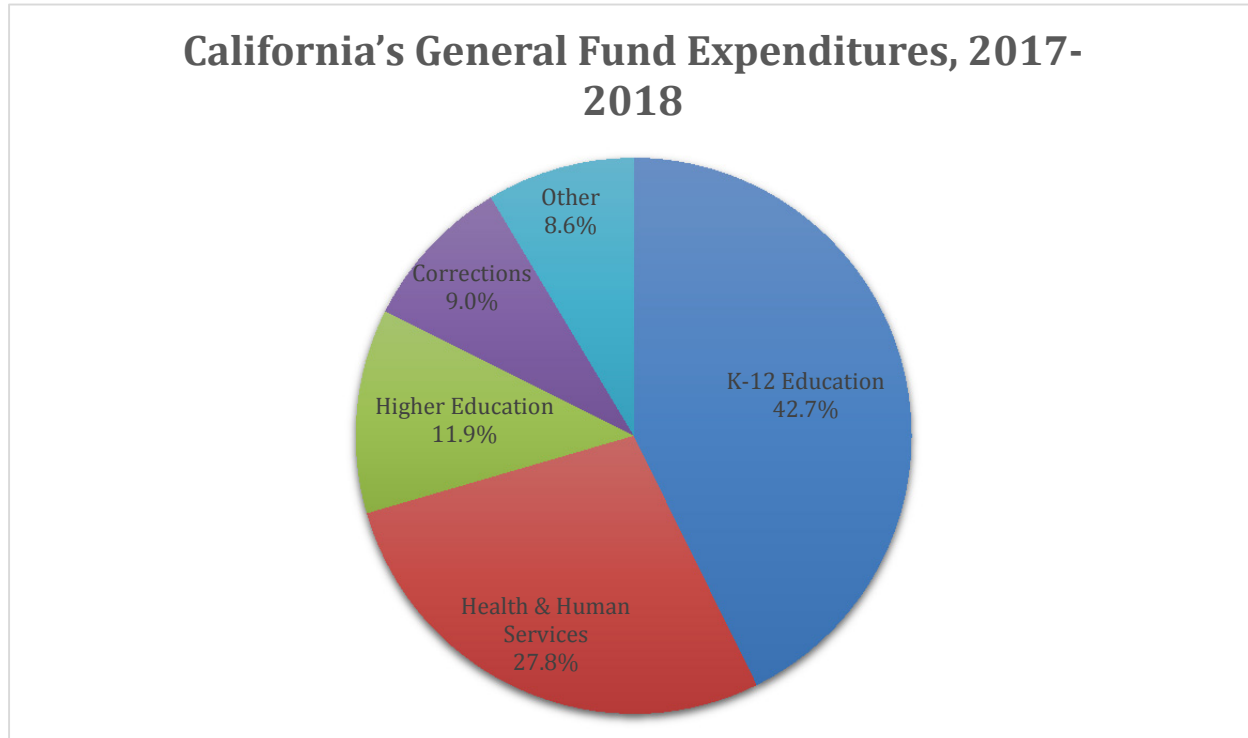
<sup>108</sup> California Department of Finance, *California State Budget 2017–2018*.

<sup>109</sup> California Department of Finance, *California State Budget 2016–2017*.

<sup>110</sup> California Department of Finance, *Governor’s Budget Summary 2017–2018*.

<sup>111</sup> May 11, 2017, “Stanislaus County to Shoulder Fewer Costs for In-Home Care in Gov. Brown’s Revised Budget Plan,” *Modesto Bee*.

**Figure 7.**



Source: California Department of Finance

phase of the transition in 2017–2018.<sup>112</sup> These payments will continue in future years, but are scheduled to fall to \$330 million in 2018–2019, \$200 million in 2019–2020, and then \$150 million every year thereafter.<sup>113</sup> Still, counties are bracing for IHSS to take an even bigger bite out of their budgets in the years ahead. This is due to increasing caseloads, more overtime pay for caregivers, and an increase in the state minimum wage to \$15 an hour by the end of 2022.<sup>114</sup>

### **Higher Education**

Higher education was the third largest area of state spending in 2017–2018, consuming 11.9 percent of General Fund revenues. Overall, the state provided \$32.5 billion in funding, with \$17.7 billion coming from the General Fund and \$14.8 billion from other funds.<sup>115</sup> This is similar to the governor’s January budget proposal, with the legislature only adding an additional \$200 million in funding to support higher education in the state.<sup>116</sup> Ultimately, however, Brown was

<sup>112</sup> California Department of Finance, *California State Budget 2017–2018*.

<sup>113</sup> Ibid.

<sup>114</sup> May 11, 2017, “Stanislaus County to Shoulder Fewer Costs for In-Home Care in Gov. Brown’s Revised Budget Plan,” *Modesto Bee*.

<sup>115</sup> California Department of Finance, *California State Budget 2017–2018*.

<sup>116</sup> California Department of Finance, *Governor’s Budget Summary 2017–2018*.

unable to ax the popular Middle Class Scholarships program. The legislature appropriated \$96 million for it in 2017–2018, and the Department of Finance estimated approximately 55,000 students would receive grants under the program in the 2017–2018 academic year.<sup>117</sup> This translates to an average grant award of \$1,745 per student. Compared to the previous year, the 2017–2018 budget increased total spending on higher education by \$2.5 billion, with \$700 million of that increase coming from the General Fund.<sup>118</sup>

However, as in previous years, most of the fireworks in higher education policy centered around University of California President Janet Napolitano. An independent audit found that Napolitano’s office had overcharged campuses to fund its operations, engaged in excessive spending on employee compensation, and actually had \$175 million in secret reserve funding, all at a time when the UC was proposing to raise tuition.<sup>119</sup>

Making matters worse, Auditor Elaine Howle accused Napolitano’s office of interfering with her independent audit by reviewing surveys sent to campuses and requesting campus officials to change responses to better reflect on the UC system.<sup>120</sup> At a legislative hearing in May 2017, Howle said “In my 17 years as a state auditor, we have never had a situation like this.”<sup>121</sup>

For her part, Napolitano said that “While we believe we did things appropriately, it is clear in retrospect that we could have handled this better. I am sorry that we did it this way, because it has created the wrong impression and detracted from the important fact that we accept the recommendations in the audit report.”<sup>122</sup>

Legislators fumed. Assemblywoman Shirley Weber (D-San Diego) called the UC Board of Regents “out of touch, in some ways, with the larger population of individuals that it has been selected to serve.”<sup>123</sup> Assemblyman Jose Medina (D-Riverside) said, “To say this is a black eye on UC is an understatement. I think there’s a long way to go, a long way to go to re-establish the trust that was there before, especially with the legislature.”<sup>124</sup> Assemblyman Dante Acosta (R-Santa Clarita) went even further by calling for a full-fledged criminal investigation, saying “Often, where there’s smoke, there’s fire. Here I think we might have a mushroom cloud.”<sup>125</sup>

Assembly Speaker Anthony Rendon was more restrained, but still expressed strong disapproval of Napolitano’s handling of the situation. “I’m very frustrated with the lack of communication coming out of the office of the president. . . . I’m very concerned right now,” Rendon said.<sup>126</sup> Meanwhile, Lieutenant Governor Gavin Newsom called for the UC to reverse its planned tuition hike.<sup>127</sup> Newsom called the tuition increase “outrageous and unjust” in light of the UC’s reserve money. Despite this, the tuition increase remained.

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<sup>117</sup> California Department of Finance, *California State Budget 2017–2018*.

<sup>118</sup> California Department of Finance, *California State Budget 2016–2017*.

<sup>119</sup> April 25, 2017, “UC Kept Secret \$175 Million Reserve As It Raised Tuition, State Audit Finds,” *Sacramento Bee*.

<sup>120</sup> May 2, 2017, “I Am Sorry That We Did It This Way: UC’s Napolitano Tells Lawmakers after Audit,” *Sacramento Bee*.

<sup>121</sup> *Ibid.*

<sup>122</sup> *Ibid.*

<sup>123</sup> *Ibid.*

<sup>124</sup> *Ibid.*

<sup>125</sup> *Ibid.*

<sup>126</sup> May 10, 2017, “California Assembly Speaker Anthony Rendon Is ‘Frustrated’ with UC President Janet Napolitano over Scathing Audit,” *Los Angeles Times*.

<sup>127</sup> April 26, 2017, “Assembly Speaker Calls on UC to Reverse Planned Tuition Increase after Scathing Audit,” *Sacramento Bee*.

## Corrections

Corrections is the last of the “big four,” with funding for the California Department of Corrections and Rehabilitation (CDCR) accounting for nine percent of the 2017–2018 General Fund budget. Overall, CDCR received a total of \$11.4 billion in funding, with \$11.1 billion coming from the General Fund and \$308 million from other funds.<sup>128</sup> This is nearly identical to the governor’s January budget proposal, with the legislature only adding an additional \$100 million in funding for CDCR’s budget.<sup>129</sup> This total represents an overall increase of \$800 million from the previous year’s budget, nearly all of which (except for \$60 million) comes from the General Fund.<sup>130</sup>

## Budget Epilogue: Cap-and-Trade

After the budget was signed, Brown and legislative leaders were finally able to reach a deal on the extension of California’s cap-and-trade system to reduce greenhouse gas emissions. The product of intense negotiations with Democrats and Republicans, the deal was unveiled on July 11, 2017. In order to overcome potential legal challenges, it was important for the bill to pass with a two-thirds supermajority, requiring the support of moderate Democrats and Republicans. In addition, the compromise plan had to appeal to both environmentalists and the state’s business interests.

Under the agreement, the existing cap-and-trade system would be extended for another 10 years (until the end of 2030) with some modifications. As a sweetener to attract Republicans, the bill suspended the state’s fire prevention fee, which mostly affects rural property owners.<sup>131</sup> Republicans have often attacked the fee as an illegal tax, one that primarily hurts their constituents.<sup>132</sup> On the other side of the aisle, in a bid to safeguard poor communities that are often subjected to higher levels of environmental pollutants, Assemblywoman Cristina Garcia (D-Bell Gardens) won provisions empowering local air quality districts to expand their monitoring of polluters, increase penalties, and require retrofitting of systems that produce pollution.<sup>133</sup>

Despite this, two major concessions to industry drew the ire of environmentalists. The bill prohibited local air quality districts from regulating carbon-dioxide emissions, favoring regulation at the state level, and new limits would be placed on the state’s ability to regulate greenhouse gas emissions from oil companies.<sup>134</sup> Reaction was swift and severe. Amy Vanderwarker, co-director of the California Environmental Justice Alliance said, “We feel as a coalition that Big Oil is dictating climate policy in California.”<sup>135</sup> Parin Shah, senior strategist at the Asian Pacific

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<sup>128</sup> California Department of Finance, *California State Budget 2017–2018*.

<sup>129</sup> California Department of Finance, *Governor’s Budget Summary 2017–2018*.

<sup>130</sup> California Department of Finance, *California State Budget 2016–2017*.

<sup>131</sup> July 11, 2017, “Jerry Brown Says His Climate Plan Is in Danger. To Lose Would Be a Tragedy ‘for the World.’” *Sacramento Bee*.

<sup>132</sup> July 10, 2017, “Gov. Brown and Democratic Leaders Offer Plan to Extend Cap and Trade, with Aim for Approval This Week,” *Los Angeles Times*.

<sup>133</sup> July 10, 2017, “Here’s What’s in the Deal to Extend California’s Cap-and Trade System,” *KQED News*.

<sup>134</sup> *Ibid.*

<sup>135</sup> July 11, 2017, “Jerry Brown Says His Climate Plan Is in Danger. To Lose Would Be a Tragedy ‘for the World.’” *Sacramento Bee*.



Environmental Network, said “A bill like this in Oklahoma is a winner. . . . But this is California.”<sup>136</sup> And Diane Takvorian, a member of the state Air Resources Board, said the bill would have a “devastating impact on our climate.”<sup>137</sup>

Brown was having none of it. Of Takvorian’s remarks, he said they were “100 percent false, and I say that with experts in the room and my 40 years of experience. I am really tired of these people peddling their propaganda.”<sup>138</sup> He added, “If we don’t get it, it’d be a tragedy for California, and for the world. Because from China, to the European Union, people are looking to the California cap-and-trade program.”<sup>139</sup>

At a hearing two days later, Brown said climate change was “a threat to organized human existence.”<sup>140</sup> In his usual colorful style, he also added “I’m not here about some cockamamie legacy that people talk about. This isn’t for me. I’m going to be dead. It’s for you. It’s for you and it’s damn real.”<sup>141</sup>

Despite the concerns of some environmentalists that the bill wasn’t tough enough on industry, Democratic leaders in both houses of the legislature endorsed the plan. Assembly Speaker Rendon said, “With its strong air quality provisions, this agreement ensures that Californians in underserved communities—the communities most impacted by air pollution—will receive the greatest benefit.”<sup>142</sup> Senate President Pro Tem Kevin de Leon said the bill represents “California’s leadership on climate and air quality.”<sup>143</sup> Even U.S. Senator Dianne Feinstein chimed in, saying California has to “demonstrate to the world that we remain committed to fighting climate change.”<sup>144</sup> Still, many were concerned it was a tough sell. Bill Whalen, an aide to former Gov. Pete Wilson, said “It’s a wily move if he manages to pull it off. This is one of those times where there is as much pressure from the left as there is from the right.”<sup>145</sup>

However, despite the tough political calculus, Brown managed to pull it off. The cap-and-trade bill passed both houses of the legislature in bipartisan votes, securing 55 votes in the Assembly (including seven Republicans) and 28 votes in the Senate (with one Republican).<sup>146</sup> In both cases, the bill cleared the two-thirds threshold by one vote, with several Democrats opposed. Assemblyman Rocky Chavez (R-Oceanside) said, “We’re a very small component of the world on this. But that doesn’t mean we shouldn’t be leaders.”<sup>147</sup> Citing Trump administration policies

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<sup>136</sup> July 13, 2017, “Gov. Jerry Brown Says the Existence of Humanity Rests on His Climate Change Deal,” *Los Angeles Times*.

<sup>137</sup> July 11, 2017, “Jerry Brown Says His Climate Plan Is In Danger. To Lose Would Be a Tragedy ‘for the World,’” *Sacramento Bee*.

<sup>138</sup> *Ibid.*

<sup>139</sup> *Ibid.*

<sup>140</sup> July 13, 2017, “Gov. Jerry Brown Says the Existence of Humanity Rests on His Climate Change Deal,” *Los Angeles Times*.

<sup>141</sup> *Ibid.*

<sup>142</sup> July 10, 2017, “Gov. Brown and Democratic Leaders Offer Plan to Extend Cap and Trade, with Aim for Approval This Week,” *Los Angeles Times*.

<sup>143</sup> *Ibid.*

<sup>144</sup> July 13, 2017, “Gov. Jerry Brown Says the Existence of Humanity Rests on His Climate Change Deal,” *Los Angeles Times*.

<sup>145</sup> *Ibid.*

<sup>146</sup> July 17, 2017, “California Legislature OKs Jerry Brown’s Climate-Change Bill,” *San Jose Mercury-News*.

<sup>147</sup> July 17, 2017, “Cap-and-Trade Survives Razor-Thin Votes in California Legislature,” *San Francisco Chronicle*.

and the withdrawal of the U.S. from the Paris climate accords, Sen. Scott Wiener (D-San Francisco) said, “It is more important than ever for California to send a crystal-clear message to the rest of the world.”<sup>148</sup>

Brown was thrilled about the bipartisan victory. “Tonight, California stood tall and, once again, boldly confronted the existential threat of our time. Republicans and Democrats set aside their differences, came together and took courageous action. That’s what good government looks like.”<sup>149</sup>

## Conclusion

Despite openly clashing with the Trump administration, Brown is still skeptical of Senate Bill 54, the sanctuary state legislation working its way through the legislature. He told NBC’s *Meet the Press* in early August he wants further amendments. “We’re looking at it very carefully. We’re having discussions with the author. There are some changes that I think would be very important,” Brown said. The governor acknowledged confronting the Trump administration’s immigration policies is a constant balancing act, but again pledged the state’s support in preventing the “abuse of federal power.”<sup>150</sup>

Meanwhile, John Myers at the *Los Angeles Times* argued that legislative Democrats saw the FY2017–18 budget as “a call to arms.” He pointed out the Assembly Democrats even nicknamed their proposal the “protect and persist” budget. “This is a budget that does things for people, not to people,” Speaker Rendon argued as lawmakers debated the plan on June 15. “There’s no question that California’s actions are in direct contrast to D.C.,” said Assembly Budget Chairman Phil Ting (D-San Francisco). “We’re a state that welcomes immigrants and doesn’t demonize them.”<sup>151</sup>

Moreover, the Trump administration’s desire for less federal spending shook Sacramento, according to Myers, giving more credibility to Brown’s consistent call for greater economic restraint. He noted the “frequent demands in the past by legislators for more spending were noticeably absent in the state Capitol this year.”<sup>152</sup> Whether that absence will continue depends on two things largely out of the control of California’s political class: California’s economy, and President Donald Trump.

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<sup>148</sup> Ibid.

<sup>149</sup> July 17, 2017, California Legislature OKs Jerry Brown’s Climate-Change Bill,” *San Jose Mercury-News*.

<sup>150</sup> August 6, 2017, “California Sanctuary State Bill Needs Changes, Jerry Brown Says,” *Sacramento Bee*.

<sup>151</sup> June 30, 2017, Democrats See California’s New Budget As an Answer, and an Antidote, to President Trump’s Plans,” *Los Angeles Times*.

<sup>152</sup> Ibid.