

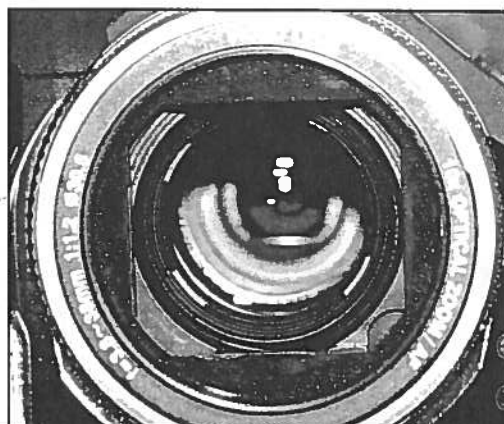
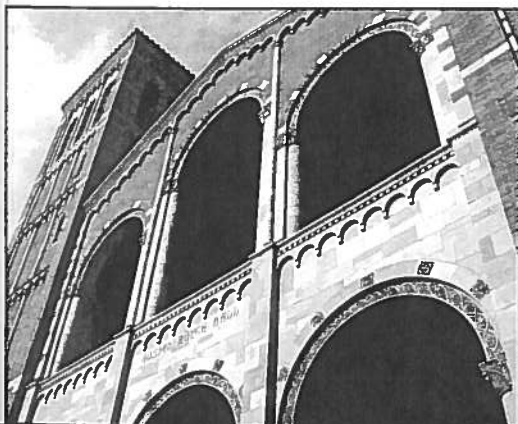


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The Ralph and Goldy Lewis
Center for Regional Policy Studies

California Policy Options 2009



**CALIFORNIA
POLICY
OPTIONS
2009**

**Edited by
Daniel J.B. Mitchell**

The School of Public Affairs
University of California, Los Angeles
and
The Ralph and Goldy Lewis Center
for Regional Policy Studies

California Policy Options 2009
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Preface

The purpose *California Policy Options* is to collect and publish annually fresh UCLA research on public policy issues facing California. This 2009 edition of *California Policy Options*, which includes articles on policy topics as diverse as the housing bubble and subsequent burst, K-12 and higher education, transit issues, crime deterrence through video surveillance, and unionization in California, captures the breadth, range, and depth of our research.

The *California Policy Options* report of the UCLA School of Public Affairs has built on its legacy as an outgrowth of the annual UCLA *Anderson Forecast*. Now produced in conjunction with the Ralph and Goldy Lewis Center for Regional Policy Studies, it has become a trusted source of thoughtful research and analysis on policy issues affecting the state of California.

This broad scope reflects not only California's complexity, but also the interdisciplinary mission and expertise of the UCLA School of Public Affairs, with regular contributions from our departments of Urban Planning, Social Welfare, and Public Policy as well as from UCLA faculty collaborators across campus. The UCLA School of Public Affairs is a leader in convening academic and policy leaders to solve policy problems across boundaries. In this light, we are pleased to present the 2009 edition of *California Policy Options*.

Franklin D. Gilliam, Jr.
Dean
UCLA School of Public Affairs

Introduction to *California Policy Options 2009*

With its economy in decline, California faces a tough year in 2009. In the first chapter of this edition of *California Policy Options*, **Christopher Thornberg** points to the bursting of the real estate bubble and its many negative repercussions on the state and national economies. Thornberg was one of the first forecasters to point to the real estate bust as likely to induce a recession.

The economic downturn has highlighted the difficulties in state governance as the legislature wrestles with the fiscal consequences of falling tax revenue. In November 2008, an initiative supported by Governor Arnold Schwarzenegger narrowly passed that will remove legislative redistricting after the 2010 Census from the hands of the legislature. In our second chapter, **William B. Parent** discusses redistricting reform and voter behavior in California more generally. **Daniel J.B. Mitchell** in the third chapter then describes the record delay in passing the 2008-09 state budget, a budget which quickly fell apart after its enactment in mid-September 2008. He points to a diffuse gubernatorial agenda as part of the problem that state has had in dealing with the budget crisis. Mitchell notes the parallel to the 1978 passage of Prop 13, the initiative that drastically cut local property taxes and required a two-thirds vote for tax increases. In 1978, political leaders – particularly the governor – also seemed unable to focus on what was then the critical issue of state and local finance: property tax relief.

Education is the largest public program in California. Many observers view education as a path to economic advancement and labor-market success. Chapter four by **Sophie Fanelli, John Rogers, and Melanie Bertrand** takes up the issue of how well the state's K-12 system is performing. The authors note that when broken down by race and ethnicity, California schools do not perform well for any group. Within the groups, however, minority-population schools are especially likely to be disadvantaged by such factors as lower-quality teachers.

California's higher education systems have long been taken as a model for the public sector. But as **Werner Z. Hirsch** points out in the fifth chapter, the state's fiscal system can not support higher education as envisioned in the old Master Plan. Other needs and constraints tend to crowd out higher education as a state priority. Hirsch notes that as other states have faced similar dilemmas, they have moved to a more privatized version of public higher education – particular in the form of the so-called Michigan model which involves both higher fees but also high financial aid and access for state residents.

At the local level, the public looks to government to provide basic services such as transportation, street repair, and crime suppression. In the sixth chapter, **Brian D. Taylor, Hiroyuki Iseki, Mark A. Miller, and Michael Smart** report the results of a survey of state public transit users. They find that the most important determinant of user satisfaction with a transit stop or station is frequent, reliable service in an environment of personal safety. The physical characteristics of that stop or station are a lesser concern of users. For those traveling on foot, however, sidewalk conditions are important. As **Donald Shoup** points out in the seventh chapter, local governments – pressed by restricted budgets – may have difficulty in financing timely sidewalk maintenance. Shoup, using the example of the City of Los Angeles, notes that homeowner responsibility for sidewalk conditions, linked to sales of homes, could provide a financing model.

Crime control often suggests direct police presence. However, technology can substitute for such an in-person presence through the use of video camera surveillance. In the eighth chapter, **Jennifer King, Deirdre K. Mulligan, and Steven Raphael** provide an analysis of the San Francisco experience with such surveillance. The authors distinguish between property crime and violent crime. Evidence suggests that video surveillance does reduce the former in the vicinity of the camera, but not the latter.

In the ninth and final chapter, **Daniel J.B. Mitchell** looks at survey data on unionization in California. California has experienced de-unionization along with the rest of the U.S., but the state's absolute unionization rate is notably higher than the national average, largely due to high unionization in the public sector. Over time, the mix of workers within California unions has tilted towards a higher percentage in government employment. Mitchell reviews recent union developments in a variety of California industries. Included are data from a survey undertaken by the Bureau of National Affairs, Inc., with the support of the UCLA Institute for Research on Labor and Employment. While federal law largely pre-empts private sector union regulation by the state, agriculture and the public sector are subject to state control.

Finally, I would like to extend my thanks to UCLA student Patricia Lynn Porter and Stan Paul, Director of Communications for the UCLA School of Public Affairs, for their assistance in the production of this edition.

Daniel J.B. Mitchell
Professor Emeritus of Management and Public Policy
UCLA

December, 2008

THE CALIFORNIA FORECAST: WILL THE REAL ECONOMY PLEASE STAND UP?

Christopher Thornberg, Beacon Economics

Close watchers of the economy are likely suffering from an acute case of whiplash.* Unemployment in the U.S. started rising at a solid pace at the start of 2008 (and in California in the beginning of 2007). Industrial production was in negative territory and the home market in a total tailspin. But there seemed to be complete denial of these underlying issues not only by policy makers but by many economists. For example, in April 2008, Treasury Secretary Hank Paulson boldly predicted on Bloomberg television that “We are closer to the end of this problem than we are to the beginning.” Even the respected UCLA Anderson Forecast continued to predict there would be no recession in its outlook for the nation.

Perhaps these positive prognostications might be forgiven. After all, real GDP growth in the second quarter of 2008 was 2.8 percent, close to average (despite weak results for the previous two quarters) and certainly the stock market had held up to that point. As if those contradictions weren't enough, home prices were plummeting, but overall consumer spending growth remained positive, albeit weak. Exports were booming due to the fall of the dollar.

Change in Perspective

But the second quarter results proved short-lived. Financial markets went into a spasm in September 2008, causing the demise of some of the market's largest and most venerable players. In an historic period that has lasted less than two weeks, Fannie Mae, Freddie Mac, Lehman Brothers, Merrill Lynch, and AIG all followed their smaller cousin, Bear Stearns, and passed into history. Goldman Sachs and Morgan Stanley, the last two large independent investment banks, changed their status in order to try and survive. Washington Mutual and Southern California's Indymac Bank both folded along with 15 other smaller banks. Stock markets in the U.S. and across the globe went into a complete tailspin.

By the end of the third quarter of 2008, gone was the discussion of doldrums or a soft landing. The tide shifted and we instead moved into what seems to be an overreaction to the fundamental forces affecting the U.S. economy. Perhaps there was no better example than the views of John Thain, former CEO of the now-defunct Merrill Lynch, who had said in April 2008 that the worst was behind us. After his firm's debacle, he stated that the crisis was on par with the Great Depression of the 1930s. This switch was a remarkable turnabout for a man who was more or less at the middle of the financial storm that put us into crisis in the first place. Thain, of all people, should have known what was coming – but he didn't.

Comparative Optimism

Beacon Economics is starting suddenly to seem bullish, at least in contrast to others like Thain who have shifted to dire outlooks. Our opinion has been that both the U.S. and California

* This chapter was written in mid-November 2008 and does not reflect later developments.

economies were already in a recession by the first quarter of 2008 or perhaps even in the 4th quarter of 2007. Consider the following trends in the economy prior to October 2008 (the date of writing of this chapter):

- National unemployment rose by 1.5 percentage points over the previous year and a half, with most of the increase occurring more recently. The average recession sees unemployment increase from 2 to 2.5 percentage points. We were well on our way there by fall 2008.
- Payroll employment was down by roughly 80,000 jobs per month nationally at the time of this writing, or close to 1 million annualized. Some economists have claimed that since recessions are typically associated with job losses of 200,000 or more per month (or 2.4 million per year), this decline did not qualify as a true recession. But it is the change “off trend” that needs to be considered. The nation normally adds 2 million jobs per year. By fall 2008, we were losing 1 million jobs per year – that is, the nation was off trend by 3 million jobs per annum. Typically we are 4.5 million off trend in a recession. So, again, we were well on our way.
- During a recession, industrial production typically falls at a 10 percent annualized pace, as opposed to growing at 6 percent or 7 percent. In fall 2008, industrial production was falling at about a 4 percent pace. Thus, we were 10 percent off trend as opposed to the 16 percent off trend typical in a recession.
- Unit auto sales fell by about 16 percent over the year ending in fall 2008. This drop was the largest decline since the early 1980s. Nominal dollar retail sales outside of autos were still growing at a 5 percent pace year-over-year, but much of this increase was due to surging food and gas prices. Consumers were spending more but buying less in real terms.
- Manufacturing orders were effectively flat in the second and third quarters of 2008, with a broad slowing in demand offset by rising orders for goods related to airplanes and energy.

These declines were very significant and they don't even touch on the accompanying turmoil in the financial markets. So the debate over recession ended. The meaningful questions became 1) how bad will the downturn become? And 2) how long will it last?

The good news is that the dire predictions are overstated. In fact the numbers by fall 2008 looked very much like a run of the mill (but bad) downturn. It's bad, but not that bad, not Great Depression bad. The U.S. and California will recover in a reasonable period of time. So business executives need to take a deep breath, prepare to cut costs, and to work hard to generate new sales. The year 2009 will be a rough one. But it won't be the end of the world.

The Housing Canary

What set off the turmoil? Recessions begin when a significant adverse shock hits the economy. The shock may be exogenously induced, such as the oil shock in the mid-1970s or the interest-rate shock in the early 1980s (when the Federal Reserve tightened interest rates to fight inflation). Or the shock can come from the rapid correction of a major imbalance inside the economy. An example was the 2001 downturn, which originated with the dot-com bubble. What

was the imbalance then? Business spending on high-tech rose, but business profits did not. The collapse in business spending, beginning in mid-2000, was the source of turmoil that pushed the United States into the 2001 recession.

Recession Imbalances

The recession of 2008 also started with a fundamental imbalance in the economy – this time in the real estate market and the house price correction in that market. The first signs of trouble emerged in late 2005 when, after years of unprecedented and clearly unsustainable price increases, the real estate market began to falter. Transactions slowed, followed by flattening prices and falling issuance of permits for new home construction. The extraordinary rise in mortgage foreclosures began in early 2007. The first credit shock in August of that year finally put home prices into a complete tailspin.

But falling prices – especially in California - should not have come as a surprise as we pointed out in last year's *California Policy Options*. In California, home prices nearly tripled between 1999 and 2006. Over the same period, the average homeowner's household income increased a mere 20 percent. The imbalance was blatant. Astonishingly, many observers and commentators managed to justify the prices being paid for real estate, even though the numbers made no sense and the pace of the price increases was unparalleled in history.

The reality is that people simply could not afford the homes they were buying. For example, in early 2006, the median house in Los Angeles had peaked at \$550,000 while the median home-owning household was earning \$78,000. With a 6 percent fixed-rate mortgage and a 10 percent down payment (20 percent down used to be typical, but who has a free \$110,000 kicking around?) the median household would be using over 65 percent of its annual income to pay mortgage, insurance, and property taxes. Thirty percent to 35 percent is the level generally considered to be at the edge of affordability.

The House Price Turnaround

Of course, when home prices are rising, owners running into affordability trouble can typically refinance their way out of trouble. In a worst-case scenario they can easily sell their home to avoid more extreme consequence of foreclosure. However, refinancing doesn't work in a housing market of falling prices. Consequently, when the housing market finally turned down, foreclosures began mounting rapidly. In the second quarter of 2008 close to one percent of all mortgages in the United States were put into foreclosure according to figures from the Mortgage Bankers Association. In California, 2 percent of all mortgages went into foreclosure. More trouble lies ahead for the state. Over 3 percent of all mortgages in California by fall 2008 were 60 to 90 days behind on payment.

It wasn't only buyers who indulged in excess. Builders became involved as well and started constructing new homes at an unprecedented rate relative to the number of new households. Data from the Census Bureau show that the ratio of housing units to households rose from 1.12 in 1993 to 1.17 in 2008. This 5 percentage point increase may not seem like

much, but it points to an oversupply of housing of over 4 million units, two-to-three times the normal rate of home completions.

It was not just the raw number of units built that mattered. In California, a quick look at the numbers indicates a housing *shortage* - something contradicted by the amazing collapse of new housing permits issued in the past 2 years. The issue is less one of overall quantity than a total mismatch between what was built in the years before the collapse (3000 square foot homes in outlying suburban areas) with what is actually needed (low rent apartments in city centers). California has by far the worst crowded housing situation among low-income families in the nation, a crisis that perversely will get worse as the bubble continues to deflate.

How Low Can You Go?

How far will home prices tumble? Just to get back to historic levels of affordability, even when controlling for lower-than-average interest rates, home prices will need to fall 40 to 45 percent from their peak in California. For the US overall, the numbers are less dramatic since many portions of the nation did not see the same degree of appreciation as California. National declines of 20 percent would cure the imbalance. The good news: Both California and the nation are roughly halfway there. The bad news: Given the turmoil in the economy and excess supply of homes, it is likely that home price drops will overshoot these historic norms. Look for prices to drop 50 to 60 percent peak to trough in California from their lofty peak.

The Consumption Problem

So where will the economy go from here? As of fall 2008, were we near the bottom? Unfortunately, the answer is no, not likely. The housing meltdown and the resultant upheaval in the financial markets were the opening act. There is another major imbalance in the U.S. economy that also needs to work its way out of the system—the imbalance in consumer spending.

Americans were once decent savers, if not great ones. For years, the rate of saving (disposable income minus current expenditures) ran from 8 percent to 12 percent, depending on a variety of influences. But in the mid-1990s, the savings rate started to fall. Despite a brief increase in 2003, it fell back basically to 0 percent. This decline in savings was reflected at the national level by the enormous trade deficit the nation has been running (to the benefit of California ports). We became a nation in the midst of a consumption binge, reflected by our borrowing from the rest of the world.

Why did this happen? These two declines in savings – before and after 2003 – correspond with two of the largest bubbles in U.S. history – the equity bubble of the late 1990s and the credit/real estate bubble of the 2000s. The Federal Reserve publishes a quarterly estimate of the market value of all assets in the U.S. economy. For both these periods of time, market valuations in the United States soared, in real terms, by 50 percent from 1995 to 2000, and then by 35 percent from 2003 to 2007.

Paper Wealth

These developments are not coincidences. One important driver of savings is wealth. People don't bother contributing to their 401K saving programs after they win the lottery. Similarly, there is little incentive to save when your home doubles in value (or you think it is going to). Instead, Americans borrowed, using home equity and other forms of credit to cash in on their newfound paper wealth. In the process, household debt levels rose by 50 percent relative to income.

But the bubble has burst. Financial markets went into turmoil, home prices began collapsing, and all the paper wealth began to disappear – leaving behind very real debt. When the markets finally settle, Americans will likely find themselves in a financial position not seen since the 1970s. American consumers are likely to save more and consume less.

The Consequence of Increased Saving

The father of modern macroeconomics, John Maynard Keynes, viewed the problem created by such an adjustment as the “paradox of thrift.” We know we need to save, but when saving rates go up, the economy typically slows because of the decrease in aggregate demand. Not all this pain will be felt in the U.S. – the pullback in consumer spending will affect the rest of the world through reduced U.S. imports. There will be substantial dislocation as the economy reconfigures around a new equilibrium where consumption plays less of a role in growth and business spending (investment), and exports play a larger one.

This adjustment to higher saving is the next step in the U.S. downturn – the pullback in consumer spending. It has already begun. Consider the dramatic drop in auto sales by fall 2008. Some blamed oil prices, but oil price hikes should simply have shifted demand from larger to smaller vehicles, not reduce overall demand dramatic amounts. And, in any event, oil prices began to plunge bring gas prices down and yet autos sales continued to fall.

Tax Rebates

The signs of the coming crisis were evident by early 2008. In the second quarter of 2008, what was most interesting was not what happened but what didn't happen. In May and June of 2008, close to \$90 billion in federal income tax rebate checks were doled out to the American consumer, creating one of the largest quarterly increases in disposable income in decades. Consumer spending typically grows at roughly 3 percent per quarter (annualized rates). These rebate checks should have caused another 1.4 percentage point growth in spending. What actually happened was that consumer spending grew by a weak 1.2 percent. In other words, take those rebate checks away and the consumer downturn had already begun. The rebates partially masked the underlying weakness in consumption.

Retail Distress

As consumers started to pull back – estimates of retail sales began to paint a grim picture. At this writing, it appears that the consumer slowdown will begin to take its toll on the economy in earnest during the 2008 Christmas sales period. The ultimate depth of the downturn will depend on the rot in the financial system. The deeper the rot, the greater the decline in asset values – and the larger the pullback in consumer spending. Third quarter 2008 numbers were already indicating the problem. Consumer spending was clearly in decline by then. Major retailers such as Circuit City declared bankruptcy or closed underperforming stores.

The National Outlook

California has its special problem with housing but its economy is largely driven by its largest trading partner, the rest of the U.S. Our forecast calls for the U.S. unemployment rate to continue to rise through 2009 to around 8 percent overall. Export growth and import declines will offset some of the negative shock to the U.S. economy – although this domestic offset implies that some of our pain will be exported overseas. We don't foresee a very deep quarter of negative growth, but rather a long, shallow downturn.

However, despite all the current pessimism, none of the major economic indicators evident in fall 2008 were unusual for a recession. Initial claims for unemployment insurance were running at regular recession levels. While consumer spending fell sharply, as just noted, much of this pain was being shifted to the rest of the world in the form of smaller demand for imports.

What will happen when this national downturn ends? Typically, downturns in consumer spending are matched by increases after a recession concludes. But this development occurs when the economic downturn pushes consumer spending below its long-term stability level. This time it will be different. Consumer spending is falling because it has been too high, and hence there will be no bounce at the back end. We expect a weak recovery, with at best tepid growth through the first half of 2010.

The good news? The U.S. economy *will* recover. Another Great Depression is not at hand. The fundamentals are in place – a productive workforce, solid infrastructure, reasonably competent public institutions, and unsurpassed technology. And when it does emerge, the result will be a healthier economy better able to grow into the future. California – which is home to major high-tech firms – will benefit from those fundamentals.

But the short run is going to be rough. The nation has partied for over a decade, and we are about to wake up with a serious hangover.

California: Center of the Storm

Hope for the best but prepare for the worst is a valuable old adage. While we all hope that tomorrow will be better than today, we are well-advised to be prepared in the event that things take a turn for the worse. As the budget chapter in this year's *California Policy Options* suggests, California's state budget strategy seems to adhere to a slightly different logic, one that might be summed up as: Hope for the best and ignore the obvious. Given the state of the California economy today, the underlying assumptions on which the state budget hangs are categorically off-mark.

The State's Mortgage Excesses

The state truly was at ground zero in this downturn. One third of all subprime mortgages and alt-A mortgages were written on California properties. Home prices rose at one of the highest paces in the nation and at this writing are falling with an equal ferocity. The economic news, perhaps unsurprisingly, is grim. All indications are that the worst is yet to come for California. The economy, already battered and bruised by collapsing housing markets, will now face an even tougher test — the pull back in consumer spending as the last vestiges of the phantom wealth created by the credit led real estate bubble disappear. This will be an economic downturn in California on par with that of the early 1990s when the state suffered from a national recession and the decline of its aerospace industry as the Cold War ended.

The California Budget

Consequently, the fiscal landscape for California is bleak. The state created a structural budget gap in the late 1990s as permanent spending was ramped up based on a temporary surge in revenue generated from the dot-com boom. When the dot-com bubble collapsed, the budget gap that opened up was never truly fixed. Rather, temporary measures such as pilfering reserves and borrowing cash were used to fill the gap until the next great bubble — this one driven by the housing market and credit boom — fueled a second wave of temporary tax revenues. With the unwinding of the housing bubble the structural gap will reemerge and this time ER triage won't work. California needs to head straight into budget surgery.

Reverse Causality

The credit crisis that began in August 2008 captured headlines and caused a dramatic shift in the attitudes of the policymakers and economists who previously had previously denied the possibility of a recession. At that point, the conversation shifted to finding a solution to the financial crisis before Wall Street dragged Main Street down with it. While stabilizing the banking sector was an important step towards ultimate recovery, the causality was completely reversed. The State of California was not being threatened with recession because of what was happening on Wall Street. California was already in a recession for a number of quarters, and its housing bubble/mortgage problems were putting the pressure on Wall Street.

The Recession Profile

To paraphrase Tolstoy, all economic expansions look alike, but each recession is painful in its own way. The downturn had a very slow start due to the fact that the various components of spending – housing, consumer spending, business spending, and the external accounts – have not been cycling together as they normally do. The initial weakness in the state was due primarily to problems in the housing market and slowing of residential construction. The rest of the economy continued forward.

Subsequently, the situation shifted. Problems that began in housing spread to the rest of the economy. Mortgage problems led to a broader financial crisis. The drop in net wealth due to declining home prices and the battering financial markets took a toll on consumer spending. Corporate profits suffered and business spending started to move into freefall.

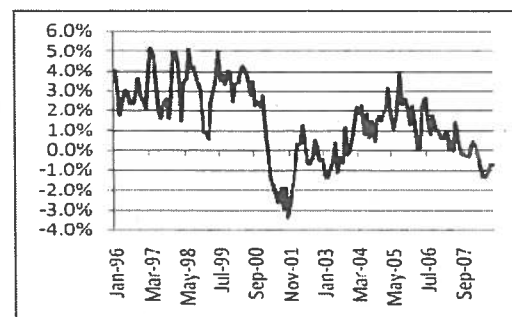
The last bastion of strength in the economy – the external accounts (exports and imports) – is likely to take a turn for the worse as the U.S. dollar has surged in during the financial turmoil to levels not seen since 2006. In short, the U.S. and California were moving during 2008 from a housing recession into a full-blown general recession.

Labor Market Developments

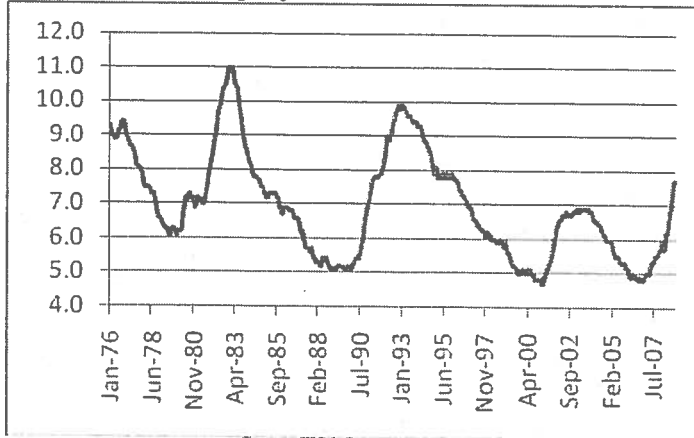
However, it is a unique recession. Consider the most basic indicator of an economic downturn – the unemployment rate. Typically this index is considered to be a concurrent indicator – that is to say it starts to rise around when the economy is starting to suffer, and only declines after the downturn has ended and the economy is already moving forward. For example unemployment in California started rising in May of 1981 and the recession officially started in July, two months later. During this recession however, the unemployment rate started rising way back in 2006 and by fall 2008 was about 3 percentage points above the trough. That rise was worse than the increase during the 1980 and 2001 recessions, and rapidly approaching that seen in the 1981 recession when unemployment increased by a total of four percentage points.

There was little discussion about what was happening in the labor market initially because 1) GDP was still growing and 2) the state was still adding payroll jobs albeit at a slowing pace. Many forecasters in the state continued to preach in 2008 that there would be no recession despite the fact that it looked as if we were already in one. We forecast that unemployment in California will rise to close to 10 percent, for a total increase of 5 percentage points, greater than during the 1990 downturn.

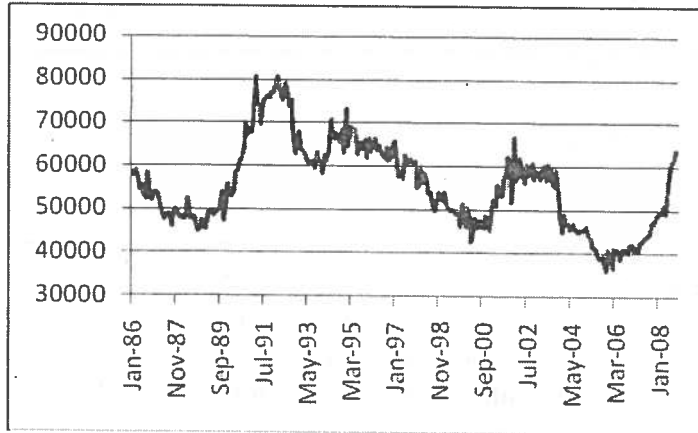
California Payroll Employment Growth



California Unemployment Rate



California Initial Claims for Unemployment Insurance



Personal Income

By current estimates income growth was slowing in the state at this writing. There are three key issues to bear in mind when evaluating personal income trends. First, current income figures are based on estimates derived from tax withholdings and quarterly payments from private business. These estimates will change over time, and potentially for the worse. Second, the turmoil and the decline in the equity markets that developed in the third quarter of 2008 will have substantial implications for future state income tax receipts. Capital losses will be written off on gross income — a process that had substantial implications for the budget in 2001 and 2002. Finally, layoffs lead to reduced income. We predict that personal incomes in California will continue to shrink for some time.

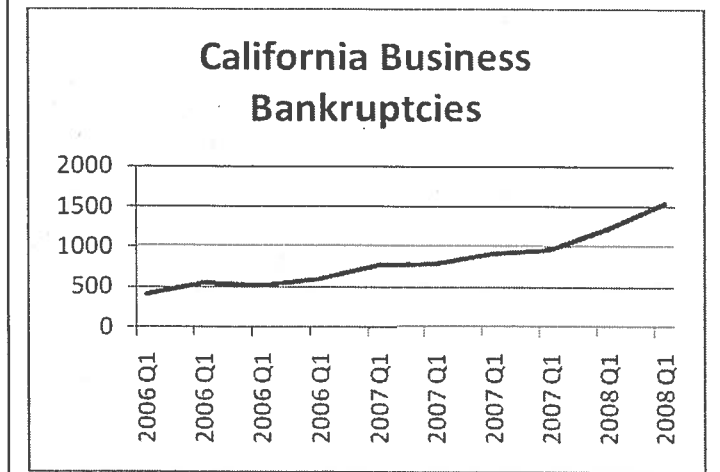
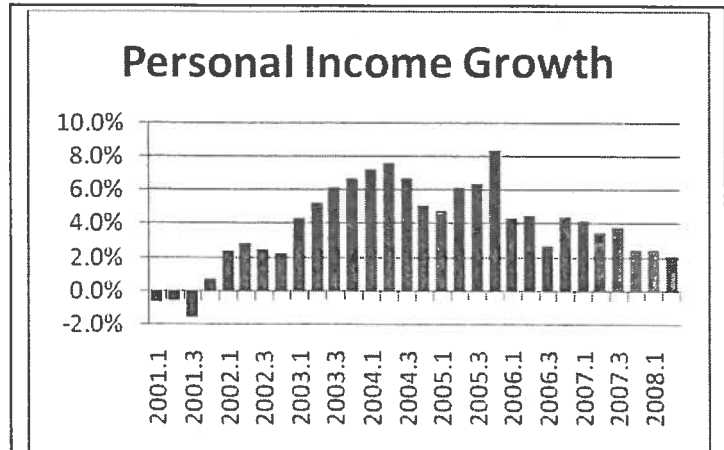
Business Weakness

We are also starting to see signs of weakness on the business side of the economy. State business incorporations have fallen. Moreover, California business bankruptcies surged to over 1500 in the second quarter of 2008, up from 500 per quarter in 2006. In short, business taxes are unlikely to make up for losses in personal income taxes.

Consumer Spending

State and local governments in California rely heavily on sales taxes. Indeed, one of the current discussions is a temporary increase in the state rate in order to help deal with the state's budget crisis. Unfortunately, such an effort is not likely to accomplish much in terms of increasing revenues. As noted above, the last shoe to drop in this recession is the pullback of consumer spending. With home equity rapidly disappearing and consumers holding record levels of debt, households are pulling back on their discretionary spending.

Taxable sales had been growing at a substantial ten-percent pace between 2003 and 2005, along with the strong increase in overall home values in that period. That pace was unusually



high, since sales typically increase at roughly the same rate as income growth. The rapid growth in taxable sales was indicative of the home equity effect on spending. But as sales and home prices started to decline through 2006, taxable sales growth also cooled, falling from its previously lofty level down to the two percent range before finally tipping into negative territory in 2007. Auto sales in particular were dropping by 2008.

The Housing Market

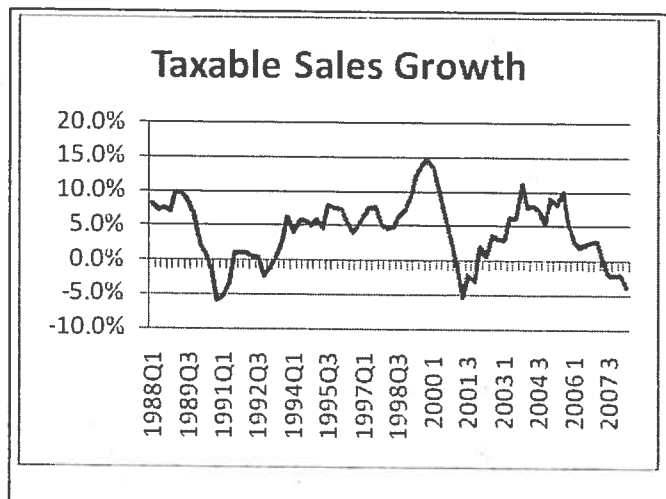
Finally, there is housing. While the problems in the state's economy started in that sector, we now know that housing is no longer the sole problem. As noted previously, it was the canary in the credit coalmine. The general asset bubble that is in the process of unwinding began with housing but has spread across the financial system's many parts. Corporate debt and other personal debt are all showing the same type of stress – rising delinquencies and heightened write-offs by banks.

Even as home prices were falling at a record pace, so, too, did the equity markets. Since housing was a leading indicator of larger financial developments, it is worth looking at the housing market to see if there are signs of a housing turnaround. Such a turnaround could be a predictor that other measures were bottoming out.

There was an increase in house sales by fall 2008, but unfortunately that increase is a false indicator.

Sales in the state were driven more by foreclosures than true strength in the market. The jump was due to foreclosure sales. And this isn't much of a surprise – according to data from Realtytrac, approximately 3.5 percent of all housing units in the state, around 400,000 units in fall 2008, were in the foreclosure process or already owned by the foreclosing bank. With such a heavy stock of foreclosed homes, banks needed to rid themselves of inventory. Banks sold foreclosed properties at whatever price they could obtain. As a result, prices were actually falling with the sales of these units rather than firming up as is typically seen when sales activity ticks up.

More importantly, while sales will eventually help the housing market by drawing down the existing inventory of foreclosed units, such distress sales will have to increase much more in 2009 in order to make real headway against the rising tide of foreclosures. Of all current outstanding mortgages in the state as of fall 2008, 3.2 percent were 60 to 90 days behind on payments according to figures from the Mortgage Banker Association. Short of some radical change in federal policy, most of these will properties end up in foreclosure at some point



late 2008 or 2009. California has put a limited moratorium on the foreclosure process – but this largely delays the ultimate result.

The Delayed Effect of Exotic Mortgages

There are also longer-run problems that have yet to be addressed in housing. Quite a few recent homebuyers used “exotic” mortgages that had low initial payments. Many of these products do not reset (jump to a higher payment base) until 2010 and 2011. Most of these properties will likely go into foreclosure when this reset occurs, since the payments will still reflect the outrageous bubble prices that were being paid for homes at the peak. Even if foreclosure rates peak in the near term, they will remain substantially higher than their long-run average and will continue to put downward pressure on home prices.

In short, home prices will continue to fall for some time. The central problem with the housing market has always been prices. While the policy debate has centered on the terms of these mortgages, the basic problem was the amount being paid rather than the structure of the debt. Prices nearly tripled between 1999 and 2007 before they started to fall. A reasonable estimate is that home prices in the state will have to decline 40 to 45 percent from the peak to fall back in line with income levels. We also have to account for the fact that prices will likely overshoot on the way down due to the overall weakness of the economy. Therefore, prices will likely drop 50 to 60 percent from the peak by the time they bottom out. The good news – such as it is - is that prices have already fallen over 30 percent from their peak.

Commercial Real Estate

There is yet another land-related crisis unfolding. The real estate bubble was not just in residential property, but also in commercial real estate. There the problem was in falling “cap” rates – the ratio of the revenue streams of commercial buildings to their prices. The same issue that befell residential markets – too much credit driving wild speculation – is now unwinding in commercial markets. Cap rates are rising as a result, even as rents are starting to succumb to the economic pressures and are starting to fall. Commercial property prices – which also add significantly to California’s property tax base – will likely fall 30 to 35 percent from peak before the cycle is completed. The net result will be a big impact on property taxes. This year’s property tax roll may have escaped the worst of the downturn. With both residential and commercial property prices in decline, next year’s will not.

Summary

It is now clear that both the U.S. and California economies had fallen into recession in 2008. The initial problems in the housing market spilled over into financial markets. Consumer spending, which was based on paper wealth from housing, was the driver of the past expansion. Once that wealth evaporated, consumption was depressed. A rising U.S. dollar in international currency markets – which seems to have been triggered by international financial turmoil – is tending to depress net exports and port activity in California. Depressed economic activity and lost tax revenue has created a renewed California budget crisis.

Despite these negatives, pessimistic comparisons with the Great Depression of the 1930s are unwarranted. A more likely scenario is a prolonged slump as excesses in real estate and consumer behavior are unwound. Since California was a center of the real estate bubble, the state will have an extended wait for an economic turnaround.

IS CALIFORNIA TOO DIVIDED AND BROKEN TO BE FIXED POLITICALLY?

(Not that there's an alternative we could agree on)

William B. Parent
UCLA School of Public Affairs

There is a domain name, www.californiaisbroken.com. It is dormant now, but it was in the recent past the campaign site of Norman Breslow, a Democrat, who had planned to run for the state assembly to represent a large swatch of the San Fernando Valley. Mr. Breslow, however, withdrew, and his website now greets visitors with this message:

California is Broken

Nevermind! The thought of having to rub elbows with personality disordered politicians for two years was just too much for me. And while knocking on doors to get signatures for my nomination petition, I met a bunch of folks I don't want to represent. I'd rather live the life of a decadent successful artist, probably in another State. If you want to know what I stand for even though *I'm not running*, read on.

Short Version:

Vote for Norman Breslow for California State Assembly, and put the fear of YOU into the thieving and traitorous politicians. Maybe you feel the same way I do: *I'm mad as Hell and I'm not going to take it anymore! . . .*

There is a long version in the site, but the above sums it up well. Public confidence in politicians and government in California is at a serious low. In a September 2008 Public Policy Institute of California (PPIC) survey, *Californians and Their Government*, only 20 percent of Californians approved of the job the legislature is doing, and only 34 percent approved of the job their own legislators are doing.¹ Yet, scarcely two months after the survey, in a national election in which *change* was a prevailing theme, California's voters returned every incumbent running to the state legislature. Democrats picked up only two uncontested seats in the Assembly and one in the Senate, pretty much guaranteeing a continued stalemate as they are still three seats short in each house of the supermajority needed to increase taxes.

Governor Arnold Schwarzenegger called a special session after the election in hope of persuading termed-out legislators, who had nothing to lose, to cooperate on a cuts-and-taxes fix to the state's spiraling budget deficits. The Democrats proposed a 50/50, \$16 billion combination of tax and fee increases and state budget cuts, but Republicans held their ground against tax and fee increases. However, they signaled that a deal could be made in the future if Democrats agreed to a state spending cap, an economic stimulus package that would lift some workplace and environmental regulations, and deeper (but unspecified) cuts than the Democrats were willing to make. The lame-duck assembly voted, predictably, along party lines and a budget bill never got to the senate. And the governor was left to comment: "Obviously I'm very disappointed with the way the legislature has failed the people of California today. It was a total failure on the legislators' part. You saw, it's like a kindergarten up there, where they point fingers at each other."²

It is hard not to sympathize with the legislature. A two-thirds majority is required to pass a spending increase, which neither party holds. Much spending is set by constitutional formulas – directly through measures such as Proposition 98, passed in 1988, which established mandatory minimum funding for schools, and indirectly through measures like the three-strikes initiative, which escalates prison costs. (Spending on prisons, it might be noted, now exceeds state spending for UC and CSU.) Term limits and closed primaries have also severely impaired institutional memory and discouraged party independence. And an income-based state tax revenue system is subject to booms and busts, which run counter to state needs. It is as if the voters put the state legislature in a strait jacket and are now booing it for its inability to juggle.

A State Divided

California is, quite simply, a rigidly divided state – geographically, ideologically, and politically. From afar, California seems to be a blue state, consistently supporting Democratic presidential candidates with 6.6 million registered Democrats and 5.2 million Republicans. But those numbers mask deep fissures between geographical regions and, as Peter Schrag puts it, between “older, whiter, more affluent people who vote and the younger, browner, poorer people who are most dependent on the schools and other public services.”³

There are only two pockets of the state that vote consistently Democratic on economic and social issues: to the north, the San Francisco Bay area, with a population of about 8 million, and to the south, Los Angeles County, with a population of about 10 million. Together, they constitute about half of California’s total population. In these two areas, Democrats outnumber Republicans by a margin of almost 2-1. They elect most of the Democrats in the California Assembly, Senate and U.S. Congress.⁴

Depending on the issue and the candidate, the more Democratic pocket can also spread north and south along the coast and include two inland counties. These two counties are Mono County with a population of just over 12,000 to the far east, which borders Yosemite and includes Mammoth Lakes, and Imperial County in the southeastern corner of the state, which has a population just under 150,000. Imperial County’s population is over 70 percent Latino. Most of inland California, on the other hand, is very much a red state, consistently electing Republican candidates to congress and the state legislature.

In terms of ideology and politics, the blue-red divide in the state is profound, as if California were half Massachusetts and half Utah. According to a PPIC survey, seventy percent of California Democrats say they are willing to pay higher taxes for a state government that provides more services. But the same 70 percent of Republicans prefer lower taxes and fewer services.⁵

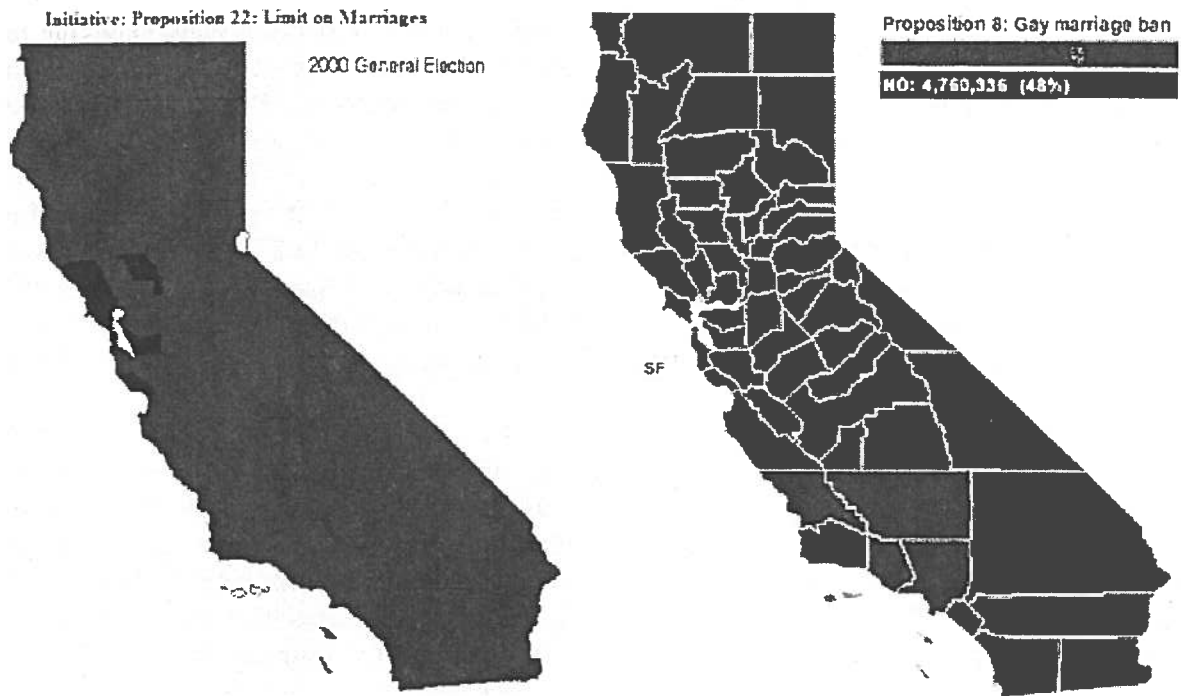
Democrats tend to favor a more active government and increased spending on education and health care. They support ballot measures that increase protections for minorities and assist the poor. Republicans, on the other hand, consistently come down on the opposite side on all of those issues. On immigration, for instance, just over 60 percent of Democrats see immigrants as “a benefit” to the state, while over half of Republicans see immigrants as “a burden.”⁶ The

Democratic pockets of the state voted against the recall of former Governor Gray Davis, in favor of affirmative action, and in favor of a loosening of the constitutional requirement requiring a two-thirds majority to pass a budget or a budget-related tax increase. But inland Republicans went the other way in those elections.

Republicans are also more rigid in their beliefs. Two out every three California Republicans describe themselves as conservative, while just over half of the Democrats describe themselves as liberal and a third see themselves as moderates. In a *Los Angeles Times* state exit poll the day of the 2008 presidential election, only 22 percent of the voters identified themselves as liberal, while 34 percent identified themselves as conservative, and 44 percent identified themselves as moderate.⁷

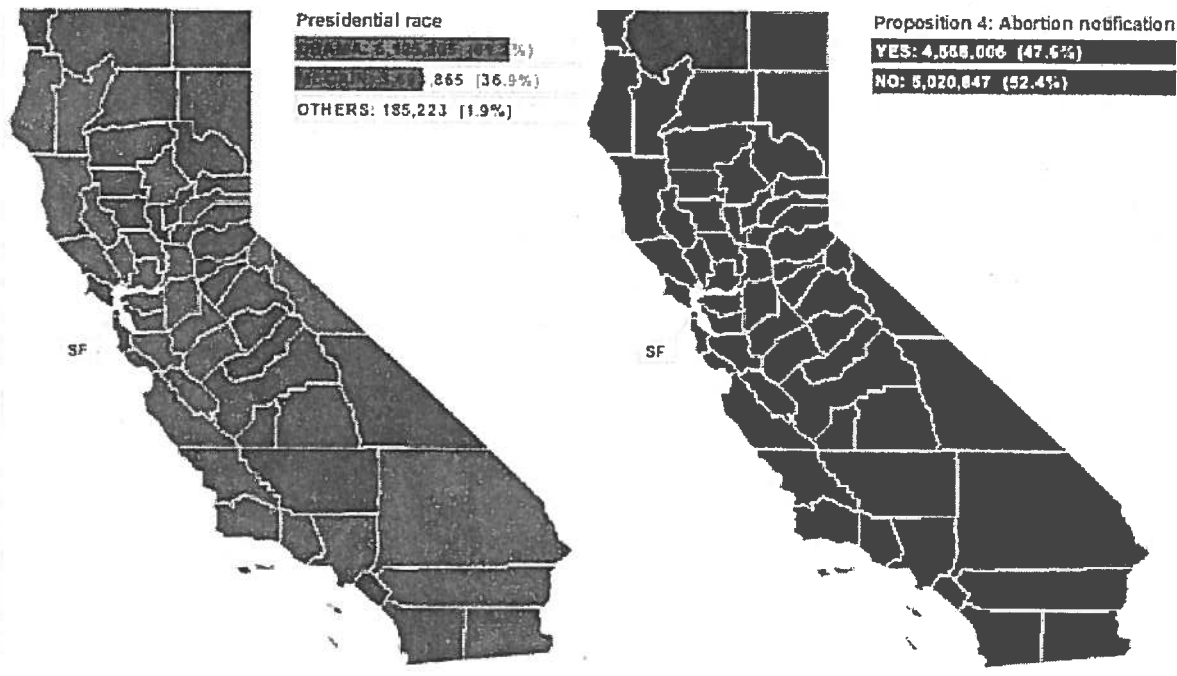
The state's divides were most dramatically illustrated in the results of referendum questions involving gay marriage, where the two Californias have voted as mirror images of the other. Eight years ago, voters passed Proposition 22, which created a statute defining marriage as between a man and a woman (and which was later overturned by the State Supreme Court). Only a handful of the most liberal California Bay Area counties voted against Proposition 22, while the rest of the state, including Los Angeles, voted overwhelmingly to support it.

In 2008, Proposition 8 called for a state constitutional amendment eliminating the right of same-sex couples to marry. Over 70 percent of the voters in 13 of California's more rural counties, north and south, voted in favor of Proposition 8 (Modoc, Shasta, Lassen, Tehama, Glenn, Sutter, Colusa, Calaveras, Merced, Tulare, Kings, Kern, and Imperial). By contrast, only two counties along the liberal coast, Marin and Santa Cruz reported more than 70 percent voting against the measure. Yes votes barely edged out no votes in Los Angeles. (Prop 8's passage has set off a bitter and acrimonious aftermath, recalling the fight over Proposition 6 in 1978. The battle over Prop 6, which would have forbid gays and lesbians from teaching in schools, is vividly depicted in the recent film *Milk*, about the late San Francisco supervisor Harvey Milk.)



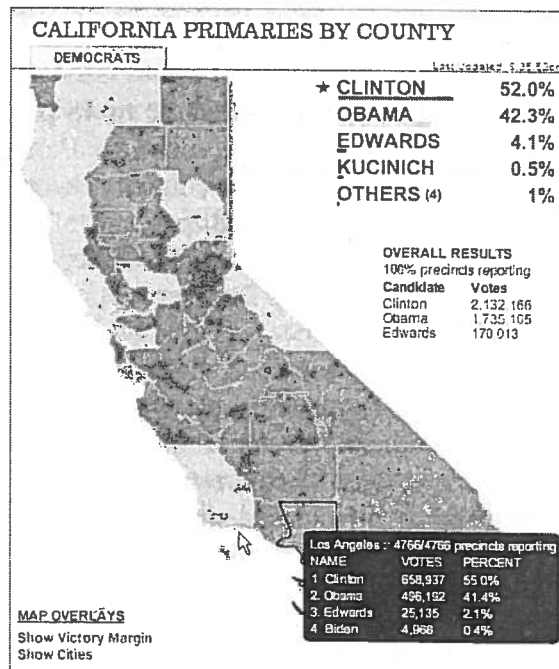
Source: California Secretary of State (<http://vote.sos.ca.gov/>)

There has been considerable speculation that a high turn-out of African American and Latino voters, who traditionally vote conservatively on social issues, came out to support Barack Obama, and helped pass Proposition 8. But, as the map shows, a higher than normal turn out for Obama in liberal borderline counties to the north and south of San Francisco may have also assisted the vote no side. The county results of the 2008 presidential election, in fact, were closer to the pattern of the other major social issue on the 2008 ballot that would have established a waiting period and parental consent for abortion, which was defeated.



Source: California Secretary of State (<http://vote.sos.ca.gov/>)

It is also interesting to note the 2008 primary results, which showed something of a geographic liberal-conservative divide even among Democrats, with Barack Obama taking most of counties he would win in the election, while Hillary Clinton ran stronger in the inland counties that John McCain would win in the general election, excluding Los Angeles.



Source: *The New York Times*, <http://politics.nytimes.com/election-guide/2008/results/states/CA.html>

The Divide and the Referendum Questions

Beyond gay marriage and the presidential election, on a number of the 2008 propositions, the California divides were also evident:

Proposition 1A, High Speed Rail, passed 52 to 49 percent, as support for a \$10 billion bond measure to begin building a high speed (up to 200 mph) rail system – from San Diego, through Los Angeles, up through Bakersfield, Fresno, to Sacramento – was consistently high in counties along and adjacent to the proposed rail route. It was opposed by conservative groups, including the Howard Jarvis Taxpayers Association, on the grounds that the \$10 billion in bonds will eventually cost over \$19 billion in principal and interest. It lost by wide margins in northern and eastern counties. Some observers surmised that many voters along the route saw the bond as a job creating public works project, making it attractive in a recessionary economy. California voters have also long supported bonds over new taxes and current use spending.

Proposition 2, Standards for Confining Farm Animals, passed 63 to 36 percent, literally to allow chickens to spread their wings, with an effective ad campaign focused on the humane support of farm animals. Opponents argued that it would drive up the cost of farm businesses, possibly making California eggs too expensive against Mexican farms. The measure passed everywhere except for a string of seven counties in the central valley, which is, not coincidentally, poultry farm country.

Proposition 3, Children's Hospital Bond Act, passed 55 to 45 percent, with support for the \$980 million bond measure consistent along the same trail as the high speed rail. The opposition was consistent in the state's northern and eastern counties, again indicating a local job-creation factor and a willingness to support bond measures (along, perhaps, with the challenge of voting against something that's for "children's hospitals").

Proposition 4, Abortion notification, defeated 52 to 48 percent, with opposition that followed a geographical pattern in the state close to Barack Obama's victory. The strongest opposition was from single, college educated, women under the age of 30. It, too, was a "mirror division" issue with 68 percent of Republicans voting for the proposition compared 34 percent of the Democrats. Independent voters, who comprised 29 percent of the turn-out, sided more with Democrats.

Proposition 5, Improving Drug Treatment, defeated 60 percent to 40 percent, only won in six counties along the northern coast including San Francisco, Marin, and Humboldt and only narrowly there. It would have combined \$460,000 in new state spending with liberal crime solutions. The current and four former governors opposed it. They argued that criminals could be released simply by making the case that their crimes were drug-related. Pundit Arianna Huffington supported it. It was opposed by between 60-70 percent of the voters in many conservative areas.

Proposition 6, Criminal Justice and Law Enforcement Funding, defeated 70 percent to 30 percent, combined \$1 billion in spending on police and jails with tougher laws and penalties. Proposition 6 lost by one of the largest margins on the ballot, with not one county voting in support. As in the case of Prop 5, the result indicated that voters are willing to vote for bond borrowing but unwilling to vote for increased state spending.

Proposition 7, Renewable Energy, defeated 65 to 35 percent, called for a requirement for government-owned utilities to generate 20 percent of their electricity from renewable energy by 2010. Proposition 7 developed a reputation as a well intentioned, but poorly drafted, proposition that ended up being opposed by the Democratic and Republican parties, the Green party, and the Howard Jarvis Taxpayers Association.

Proposition 8, Gay Marriage ban, passed 52 to 49 percent. It was discussed earlier,

Proposition 9: Victim's Rights, passed 53 percent to 46 percent, funded with \$4.8 million from Broadcom billionaire Henry T. Nicholas, after his sister was murdered, amended the state Constitution to require that crime victims be notified and consulted on developments in their cases. It would give them first claim on any restitution to be collected from offenders, and it would force prosecutors to take their opinions into account. With an effective ad campaign, it gained strong support across the state, except for the Bay Area and surrounding counties. Opponents argued it would keep prisoners in jail longer, costing more. They also pointed to Nicholas' indictment in June 2008 on fraud charges related to backdating of stock options.

Proposition 10, Alternative Fuels, defeated 60 to 40 percent, did not carry one county in California. Strongly supported by billionaire T. Boone Pickens, who has invested heavily in natural gas, it would have required a \$5 billion bond to provide rebates for alternative fuel cars, including those that would run on natural gas. Prop 10 was opposed by the League of Conservation Voters, the Sierra Club, the Union of Concerned Scientists, the Natural Resources Defense Council, and Environment California.

Proposition 11, Redistricting, passed 51 to 49 percent. Handing state legislative redistricting from the state legislature to an independent commission after the 2010 census, Proposition 11 ran close across the state, with no particular liberal-conservative patterns. This was a vote that seemed to separate optimists, who argued that anything is better than the current legislator-run system, from pessimists, who viewed it as seriously flawed, not representative, and prone to the same kind of back-room wheeling and dealing that currently characterizes the legislature. At a UCLA discussion on the ballot propositions, former Democratic Governor Gray Davis and former Republican Assemblyman Keith Richman agreed that Proposition 11 was for them the most important item on the ballot. Both saw it as the only hope for doing something to break the partisan gridlock in Sacramento. Prop 11 was opposed by the California Democratic Party. It was supported by Governor Schwarzenegger, Common Cause, the League of Women Voters, and a host of "good government" organizations

Proposition 12, Loans for Veterans, passed 63 to 36 percent. California has floated bonds for veterans' home loan programs since 1922 and California voters have voted

“yes” 26 consecutive times. The bonds are paid back through veterans repaying their mortgages. There have never been any costs to the taxpayers under the previous authorizations. The measure to put the question on the ballot was passed unanimously by the legislature. Prop 12’s only opposition was from the Libertarian Party, and that was *pro forma*. The interesting point in this result is that a consistent support rate in the 60 to 30 percent range signals that, in a referendum election, thirty percent of the voters can be counted on to vote against anything with a dollar sign.

Might Proposition 11 Help the Divide?

The very narrow passage of Proposition 11, into which Governor Arnold Schwarzenegger poured \$3 million and campaigned heavily, creates an independent commission to redraw legislative district boundaries every 10 years. As Daniel Weintraub wrote in the *Sacramento Bee*: “Legislative leaders will no longer be able to dangle favorable districts, or threaten unfavorable lines, to pressure lawmakers into voting one way or another on legislation. They won’t be able to draw lines to favor a particular politician over another, or to reward or punish one party at the expense of another.”⁸

The logic of redistricting reform is that extremes are inevitable once a district is gerrymandered to maximize either Democrats or Republicans and voters in primary elections only get to vote their party ballots. In such partisan “closed” primaries, party stalwarts tend to have the highest turn-out. The result is for the more extreme, left and right, candidates to prevail. And once they get to Sacramento, there is no incentive for them to deliberate and compromise. They are held by their base to the party line on every issue.

This problem is exacerbated by term-limits, according to redistricting reform proponents. Legislators are discouraged from casting any votes that can be seen as risking the support of the party base, particularly if they have ambitions to run for higher office. Prior to term limits, the argument goes, voters knew the whole records of longer-term politicians and tended to be more tolerant of compromises.

Redistricting reform, however, may have its limits, as the partisan divide may too complex a problem to solve with a single measure. First, there is evidence that partisan behavior was not influenced by what is thought to be one of the culprits, the 2001 redistricting process. That process sought to maintain a balance of Democratic and Republican “safe” districts, and, critics said, erased incentives for compromise. A study by Eric McGhee for PPIC showed that: 1) “Partisan behavior did not increase after 2001. It was about as common beforehand as it has been since; 2) legislators are remarkably consistent in the voting habits over time, even when their districts change; and 3) changing legislative districts to resemble those in existence before the 2001 redistricting process would probably not change the outcomes of many specific votes on such issues as the budget or hotly-contested business regulation matters.”⁹

Second, as the 2008 electoral geographical distributions show, drawing more representative districts with the fairest of intentions will be difficult in California because of where people live and the way they think. There are 58 counties in California. If one looks at the number of registered Democrats and Republicans in each county, only 13 counties can be

considered competitive, i.e., the party difference is in the vicinity of 10 percent. Of these 13 possibly competitive counties, only three have populations over 100,000: Ventura, Fresno, and San Bernardino. The latter two counties follow a pattern common across the state; a concentrated urban area with a Latino and minority Democratic population and a suburban population that tends to vote Republican. Concentrated minority districts, however, are protected against being divided to assure minority representation under the national Voting Rights Act.

The *Los Angeles Times* has also pointed out that competitive districts don't necessarily mean more moderate campaigns or office-holders. The *Times* cited the close campaign, in the Ventura County area, between a conservative Republican, Tony Strickland, and a liberal Democrat, Hannah-Beth Jackson, in which Strickland was declared winner almost a month after the election. During the ballot counting, the *Times* editorialized: ". . . Strickland and Johnson ran old-school campaigns, slinging mud and running to their respective bases for funds, phone calls and precinct-walking. No matter who wins – if Strickland holds on and brings his no-tax pledge to Sacramento, or if Jackson pulls ahead in the count and helps her party jettison the two-thirds budget vote rule that for now gives Republicans disproportionate power – the 19th Senate District will be represented by a candidate who shunned the middle and played to the base."¹⁰

Nevertheless, optimists see the passage of Proposition 11 as a reason to hope for an at least slightly better system, possibly opening the doors to greater reforms, which voters have so far resisted. As Daniel Weintraub wrote, ". . . the passage of Proposition 11 proves that voters get it, that they are paying attention to the dysfunction of the Capitol and are open to proposals that would help correct it. . . . The victory should pave the way for a campaign to create open primaries, which would allow voters to choose candidates for public office without regard to party registration. Unlike Proposition 11, open primaries would dramatically change politics in California, which is why the idea will be opposed even more strenuously by the powers that be."¹¹

Beyond a Legislative or Public Referendum Fix

The responsibility for gridlock and divided government may not simply rest with gubernatorial leadership or legislative intransigence, as suggested elsewhere in this volume. The real divides are between and among the people who live here, came here, come here, and continue to come here for very different reasons; who happen to live together in a leg-shaped state whose boundaries were formed via The Treaty of Guadeloupe Hildago and the Monterrey Constitutional Convention of 1849. Various migrations since – starting with the Gold Rush the same year and multiplying to 37 million – have left California with sundry groups of people who think as differently as dolphins and condors. And when it comes to government and society, there is just enough parity among fundamental differences, and just enough political cunning on various sides, to have brought us to a stalemate. What's more, we even may be too hard-wired neurologically in our political beliefs and attitudes to either swim or fly to toward a common way out.

UCLA neurologist Dr. Marco Iacoboni, along with colleagues working at New York University, recently reported in the journal *Nature Neuroscience* that, building on a number of studies with similar findings, there are "two cognitive styles – a liberal style and a conservative style." The liberal style is characterized as more open to conflicting views, and new experiences.

In contrast, the conservative style tends to be more resolute, structured, and persistent.

Dr. Iacoboni studied two groups of UCLA students who completed an assessment identifying them as liberal or conservative. He connected each group to an electroencephalograph that measured activity in the anterior cingulate cortexes of their brains, which is where habitual thinking resides. The groups were instructed to tap on a keyboard when an M appeared on the computer monitor and to not tap when they saw a W. M appeared four times more frequently than W. The liberal students and the conservative students were equally able to recognize and respond to the Ms, but liberals had more brain activity and made fewer mistakes when they saw the Ws.

“The study demonstrates differences between liberals and conservatives not only in terms of brain responses, but in terms of behavior, Dr. Iacoboni told *UCLA Magazine*. “The conservatives made more errors when they had to suppress a habitual response.”

In earlier studies, Dr. Iacoboni has shown that the amygdala part of the brain was more active among liberals watching scenes of violence than among conservatives looking at the same images. He has also shown that people tend to have greater response in emotion-activated areas of the brain emotion when they see their preferred candidate, while there is more activity among logically-oriented neurons when people see an opposing candidate.¹²

Similarly, George Lakoff, a liberal professor of linguistics at Berkeley, sees the two cognitive styles in more psychological terms, with “the conservative moral system having as its highest value preserving and defending the ‘strict father’ system.” while “liberals’ conceptual system of the ‘nurturant parent’ has as its highest value helping individuals who need help.”¹³ Lakoff’s work sheds light on the use of language in political persuasion, which, Lakoff claims, was raised to an art form by the likes of Republican pollster Frank Luntz, who has issued edicts on words conservatives should and shouldn’t say (e.g. privatization of Social Security vs. personal savings accounts).

Indeed, through Lakoff’s lenses, it is easy to see California’s political history is one of the nurturing mother and the strict father on a 160-year cycle of one winning, e.g. building Universities, schools, and water projects; and the other undermining the victor, e.g., by passing the likes of Proposition 13. And the result is a never-ending tug-of-war, not a healthy, constructive, civil society with a representative government that can find enough common ground and compromise to move the state forward and have the confidence of its people. For that goal to be achieved, the only hope is that circumstances – cultural and generational shifts, major economic upheavals, emigration or immigration – create more agreement among the population and its representatives about the fundamental roles of the individual in society.

Cultural and generational trends are, in fact, changing. One moderating trend in voter registration has been a sharp increase in independent voters, those who register, “decline-to-state.” Since 1988, the number of Californians registered as decline-to-state has more than doubled and now comprises about 20 percent of the electorate, while the number of registered Democrats and Republicans has declined. A 2008 PPIC poll showed that almost 40 percent of independents see themselves as themselves politically moderate, 30 percent consider themselves

liberals, and an equal percentage see themselves as conservatives. But independents tend to vote more on the liberal side on such issues as abortion rights, the environment, gay marriage, health care, and immigration,¹⁴ (even though, according to the *Los Angeles Times* exit poll, independents voted against Proposition 8 by 54 to 46 percent, which was also roughly the same percentage of voters who identified themselves as moderate). Registered independents also tend to be younger and better educated. Sixty-four percent of independent California voters voted for Obama. As pollster Mark Baldassare concludes, “California seems headed toward replacing its aging partisan electorate with a youthful independent electorate.”¹⁵

A 2006 PPIC poll also estimated that 12 million of the state’s 28 million adults were not registered to vote, and eligible nonvoters “want more active government, are less satisfied with initiatives that limit government, are less positive about elected officials that limit government, and favor ballot initiatives that would spend more on programs to help the poor.” Eligible voters, on the other hand, are disproportionately white, older homeowners, college-educated, and more affluent.¹⁶

Immigration and demographic shifts are also bringing about electoral changes. Since 1996, the percentage of white voters in California has dropped from 77 percent to 67 percent. The percentage of Latino voters has risen from 11 percent to 19 percent. Asian voters have risen from six to eight percent, and African American voters have held constant at nine percent.

California Exit Poll Results

Voters	Obama	McCain	Yes Prop 8	No Prop 8
White	52%	46%	49%	51%
Black	94%	5%	70%	30%
Latino	74%	23%	53%	47%
Asian	64%	35%	49%	51%

Source: Los Angeles Times, November 8, 2008

In terms of the Latino vote, as Tim Rutten of *The Los Angeles Times* noted at the outset of the election, few people predicted that 70 percent of the California Latino vote would go to an African American. “A little more than a decade ago,” Rutten wrote, “many analysts were predicting that Latinos, mainly Catholic and socially conservative, would be irresistibly drawn into the Republican orbit, much as Italian Americans of similar background had been after World War II in Eastern states. So what happened? Two things: immigration and organized labor. Beginning in 1994, when then-California Gov. Pete Wilson, a Republican, made support for Proposition 187 – which denied health, education and other benefits to undocumented immigrants – a centerpiece of his reelection campaign, Latinos across the country have been moving as far from Republican candidates as their legs will carry them.”¹⁷

Asian voter participation is slowly increasing but their political profile is still emerging. UCLA Professor Paul Ong, who has termed the Asian vote a “sleeping giant,” wrote just before the election, “Immigrant specific concerns do not define the Asian American vote. They share the same concerns and priorities as other Americans . . . (a) 2008 survey found that the top three

issues for Asian Americans are the economy, Iraq and health care. Previous surveys, including my own of Asian American voters in San Francisco, show similar commonalties with the larger public. They also appear to share the majority's support for Obama, although there are substantial differences along Asian ethnic lines."¹⁸

And finally, the downward spiraling economy is likely to have a significant effect on voter behaviors in the next elections. More people will need unemployment and welfare benefits and there will be less available funding for education, police and other services. The price of gas – which fluctuated wildly in 2008 – will affect public transportation demand. Taxpayers will have less income to tax, and property taxes will become more onerous for homeowners. And a Democratic government is likely to fund large scale infrastructure and public works projects to stimulate the economy. The effect on voting behavior will depend on perceptions of the fixes and their effectiveness.

Conclusion: Reason for Hope

Some political scientists have questioned whether the political divides of the country, and by extension, California, are all they have been reported to be. Proposition 8 aside, the 2008 California election both in the overwhelming victory for Barack Obama and in bipartisan support for a number of referendum questions, showed significant bipartisan agreement on a number of issues. Morris Fiorina has long contended that our culture wars are largely a myth. "Republican and Democratic elites unquestionably have polarized, Fiorina writes. "But it is a mistake to assume that such elite polarization is equally present in the broader public. It is not. However much they may claim that they are responding to the public, political elites do not take extreme positions because *voters* make them. Rather, by presenting them with polarizing alternatives, elites make voters appear polarized, but the reality shows through clearly when voters have a choice of more moderate alternatives."¹⁹

Indeed, both nationally and in California, Barack Obama may well have provided the breakthrough candidacy in terms of bringing disparate groups together. A long-time student of the divides, Stanley B. Greenberg has cited blue-collar Macomb County, outside of Detroit, as a national political barometer since Ronald Reagan won the county by a 2-to-1 margin in 1984. After the 2008 election, Greenberg noted: "So what do we think when Barack Obama, an African-American Democrat, wins Macomb County by eight points? I conducted a survey of 750 Macomb County residents who voted Tuesday, and their responses put their votes in context. Before the Democratic convention, barely 40 percent of Macomb County voters were "comfortable" with the idea of Mr. Obama as president, far below the number who were comfortable with a nameless Democrat. But on Election Day, nearly 60 percent said they were "comfortable" with Mr. Obama. About the same number said Mr. Obama "shares your values" and "has what it takes to be president."²⁰

Barack Obama also succeeded in uniting the country and California in the presence of perhaps the most divisive issue in American history: race. He did it largely by transcending the hard-wiring of people's political brains; the tendency, as Drew Weston, author of *The Political Mind*, describes . . . "to believe what we want to believe . . . to draw conclusions consistent with what we want to be true."²¹ As Franklin D. Gilliam, dean of the UCLA School of Public Affairs,

recently wrote: "Perhaps Obama does have the capacity to bring Americans together. Not just on race, but on a range of important social and political issues, he has framed his campaign through the lens of three important and widely shared values – shared fate, American ingenuity, and opportunity. Through these values he encourages people to understand the complex problems facing society – including race, and encourages them to see them as fundamentally American problems that affect all of us."²² Former Los Angeles City Controller and UCLA lecturer Rick Tuttle notes that in Tom Bradley's successful campaigns for mayor and almost successful campaign for governor, the same transcending rhetoric was effective. Therein may lie a lesson for California politicians.

In the end, however, it is up to the voters. As former *Sacramento Bee* editorial page editor Peter Schrag wrote:

"Almost every week brings another question asking whether California is governable. But the more pertinent issue may be whether California really wants to be governable. At a time when there's growing overseas competition in industries and technologies that California once regarded as its own, it is entirely possible that even under the best of circumstances, as planner William Fulton said, 'the best possible result might not be as good as it used to be.' The state's history and traditions of adventure and optimism are always there for those who care to recall and honor them. The question is which way California – or the national for that matter – really wants to go."²³

We may begin to see an answer as all of California, rich and poor, liberal and conservative, stands together at the edge of a fiscal abyss in 2009.

Footnotes

¹ Mark Baldassare *et. al* PPIC Statewide Survey: Californians and Their Government, September 2008, p.18

² Jim Sanders and Kevin Yamamura, "Last ditch effort fails to pass state budget," *Sacramento Bee*, November 26, 2008, p. 1A

³ Peter Schrag, "California at a Crossroads," California Progress Report, www.californiaprogressreport.com/2007/01/california_at_.html

⁴ Demographic and voter information in this article is drawn from the website of the California Secretary of State unless otherwise noted.

⁵ Mark Baldassare, "California's Post Partisan Future" PPIC, January, 2008 p.5

⁶ *Ibid* Baldassare.

⁷ *Los Angeles Times* "National and California Exit Poll Results, November 5, 2008

⁸ Daniel Weintraub, "Prop 11 Paves the Way for More Reform," *Sacramento Bee*, November 12, 2008

⁹ Eric McGhee, "Redistricting and Legislative Partisanship," PPIC, September 2008 p. iv

¹⁰ *Los Angeles Times* Editorial, "Prop. 11's Point," November 25, 2008

¹¹ *Ibid* Weintraub

¹² Paul Fineberg, "Campaign Tales: Left or Right: All in Your Head" *UCLA Magazine*, October 2008. Dr. Iacononi and his colleagues do warn, however, that people have to be careful in extrapolating from the results, particularly attributing biological or hereditary roots to political orientation. One of Iacononi's colleagues, Matthew D. Lieberman, an assistant professor of psychiatry at UCLA, said: "You've got to be careful here. Saying there's a biological component to political thinking is not the same as saying there's a genetic one. Our individual politics are the result of an enormously complicated equation that involves how we grew up, the people we meet and know, our experiences and more. The mind and body are connected, Psychology is connected to biology. When someone engages in a violent act, there's a biological component, but one doesn't necessarily cause the other. It's the same with political thinking."

¹³ Bonnie Azab Powell, "Framing the Issues: UC Berkeley professor George Lakoff Tells How Conservatives Use Language to Dominate Politics." *UC Berkeley News*, October 27, 2003

¹⁴ Mark Baldassare, "California's Post Partisan Future" PPIC At Issue, January 2008 p. 2

¹⁵ *Ibid* Baldassare

¹⁶ Mark Baldassare. "California's Exclusive Electorate," PPIC At Issue, September 2006

¹⁷ Tim Rutten, "LA's Latinos Are a Sign of Things to Come," *The Los Angeles Times*, November 12, 2008

¹⁸ Paul Ong, "Asian American Voter Breakthrough," UCLA/Sprint Election Blog, November 2, 2008

¹⁹ Morris P. Fiorina, "What Culture Wars; Debunking the Myth of a Polarized America," *The Hoover Digest*, No. 4, 2004 <http://www.hoover.org/publications/digest/3010006.html>

²⁰ Stanley B. Greenberg, "Good-Bye Reagan Democrats" *New York Times*, November 10, 2008

²¹ Drew Weston "Media Often fail to Distinguish Opinions from Facts," National Public Radio, "All Things Considered," November 23, 2004

²² Franklin D. Gilliam, "Race in a Post-Obama World," UCLA/Sprint Election Blog, October 15, 2007

²³ Peter Schrag, "California at a Crossroads," California Progress Report, www.californiaprogressreport.com/2007/01/california_at_.html

WHEN LUCK RUNS OUT: LEADERSHIP – PRESENT AND PAST – AND THE CALIFORNIA STATE BUDGET*

Daniel J.B. Mitchell, Professor-Emeritus
UCLA Anderson Graduate School of Management
School of Public Affairs, UCLA

“If you put yourself in a vulnerable situation, you have to expect your luck is going to run out. Now the luck seems to have run out.”¹

Evan Halper
Los Angeles Times, November 7, 2007

In earlier issues of *California Policy Options*, we have traced the precarious fiscal situation of California from the days in which the Davis administration was proclaiming a nonexistent budget “surplus” through summer 2007 when Governor Schwarzenegger signed a budget said (incorrectly) to have a zero deficit. As has been repeatedly pointed out by the Legislative Analyst and others, California has an underlying “structural” deficit – a deficit that is sometimes hidden by revenue surges but tends chronically to reappear.

The causes of the structural deficit in California are varied. Common villains cited are the two-thirds requirement to pass a budget, the two-thirds requirement to raise taxes (imposed by Prop 13 of 1978), term limits, and gerrymandered legislative districts. Also cited are ballot propositions that establish formulas for various forms of state spending, most notably Prop 98 of 1988 which earmarks roughly 40% of the general fund for K-14 education.

All of these factors have played a role, producing a short-term fiscal focus and an inability of the governor and legislature to confront problems absent a severe crisis. However, as we will show later in this chapter, even in the supposed heyday of governmental flexibility and compromise – and when the two-thirds tax requirements and ballot-box budgeting constraints such as Prop 98 were not present – the legislature and governor had difficulty confronting a looming crisis. In the late 1970s, when the state budget was in surplus and the looming crisis was political – specifically, the growing taxpayer revolt that focused on property taxes – the powers-that-were came up with too little too late.

This chapter starts with the recent crisis and then looks at the earlier one that led to the passage of Prop 13. The lesson for governors from both crises is clear. Given the difficult political institutions of California, gubernatorial objects must be limited and focused on top priorities. Lack of focus produces lack of results, or unintended results.

* This chapter covers budget and other developments through early October 2008. Subsequent events are not reflected.

Aftershocks

*"It was a fiscal shock that set in motion a complex system of reactions and counter-reactions..."*²

George F. Break
UC-Berkeley Economist

Prop 13 had far more profound effects than just the cutting and limiting of property taxes. As noted, it created the two-third rule for imposing new taxes. But perhaps more significant were the political aftershocks. Shortly, after Prop 13, voters endorsed Prop 4 – sold as the son of 13 - which placed a limit on state spending linked to a formula. When Prop 4 led to a refund to taxpayers of an overage in state revenues in the late 1980s, the educational establishment successfully pushed for the above-mentioned Prop 98 which – with a subsequent Prop 111 – largely gutted Prop 4.³

Other interests have since sought to earmark some of the state budget for their favored programs. In 2002, for example, then-citizen Arnold Schwarzenegger successfully pushed for an earmark for after-school activities (Prop 49) as part of a pre-campaign strategy for a possible run for governor.⁴ Also in 2002, transportation advocates earmarked sales tax revenue collected on gasoline sales (as opposed to the traditional source: gas tax revenue) for roads and other transportation projects under Prop 42. Of course, not all efforts at earmarking have been successful. In February 2008, the state's community colleges – dissatisfied with their share of the Prop 98 earmark – unsuccessfully supported Prop 92 which would have given greater budgetary advantage to the community colleges.⁵

Although California has had direct democracy – initiative, referendum, recall – since the Progressive movement took control of the state government in the form of Governor Hiram Johnson in 1911 – the level of direct ballot activism has varied. In the 30 years before Prop 13 was passed, the state averaged substantially fewer than 2 initiatives on the ballot per year. Post-13, the rate has been closer to 5.⁶

Moreover, direct democracy tends to tilt more to causes favored by the political right than the left. As noted in last year's *California Policy Options*, although the right and left are roughly balanced in terms of what makes it on to the ballot, issues favored on the right (bans on affirmative action, tougher criminal sentencing, etc.) have a greater electoral success rate than those of the left, e.g., universal health insurance plans.⁷ An industry has grown up consisting of organizations that develop ballot propositions (and raise dues and contributions in doing so), petition signature gathering firms, and, of course, campaign consultants and managers.

In this chapter, we first look at the California budget crisis of 2008. We then turn to the era of Prop 13's passage for some surprising parallels. As it turns out, shortsightedness and groupthink are not the recent developments in Sacramento that many pundits believe them to be. More importantly, there are strong parallels between current-Governor Schwarzenegger and his budget problem of 2008 and then-Governor Jerry Brown and his Prop 13 problem 30 years before. Both men are (were) media magnets. Both like (liked) to identify with Big Issues. But

these characteristics competed with a need for a tight focus on priority legislative and policy outcomes.

Roots of the 2008 Crisis

*"I will go as far as saying that anyone, any candidate (for President) that writes a \$14.5 billion check to the State of California, I would endorse. It's as simple as that. Anyone, Democrat or Republican alike."*⁸

Governor Arnold Schwarzenegger
Sacramento Bee, January 31, 2008

The roots of the current state budget crisis are by now well known. Even in the mid-1990s, there were warnings that California faced a "structural" budget problem owing to the nature of its revenue base and the dynamics of state demographics.⁹ This potential problem was, however, masked in the late 1990s by the dot-com boom, which generated substantial revenue for the state in the form of tax receipts from capital gains as the stock market rose. The legislature largely spent the new revenue so that when the stock market bubble burst – and the windfall disappeared – state spending had ratcheted up to a level that could not be sustained without the bubble-related tax receipts.

As a result, spending suddenly and substantially exceeded revenues and the reserves that had been accumulated were quickly dissipated. Although then-Governor Gray Davis had a reputation as a micro-manager, he had little luck in controlling the overall size of the budget when revenues rose.¹⁰ And trimming spending back to the level of incoming revenue on the downside was even more of a challenge for Davis.

The budget crisis under Davis worsened and the incumbent governor was recalled by voters in October 2003, replaced by Arnold Schwarzenegger. The new governor took over a plan from Davis to borrow sufficient funds to refinance state debt and actually enlarged the amount that could be borrowed beyond what Davis had proposed. But he also fulfilled a campaign promise to cut the so-called "car tax" which exacerbated both the immediate and the structural problem.¹¹

Governor Schwarzenegger used two ballot propositions, Props 57 and 58, to deal with legal issues raised by the stillborn Davis borrowing plan.¹² The two propositions were sold to voters as a way of "cutting up the credit card" – something that in fact did not happen. However, a new financial bubble – this one in home prices as shown on Chart 1 – stimulated the state economy. Although the prime revenue effect of the new bubble was felt in property taxes, a local rather than state revenue source, the general prosperity was reflected in sales and income taxes. At the same time, the stock market recovered sufficiently to produce capital gains-related revenue for the state along with capital-gains receipts linked to real estate.

Combined with a tax amnesty program in 2004-05 which brought in a transitory windfall, the state budget went into temporary surplus.¹³ But by 2007, the structural deficit again began to show itself, as can be seen on Chart 2. After a protracted delay, the 2007-08 budget was signed in late August 2007 (almost two months late) with great ceremony. Although the participants

were willing to pretend the budget was in some sense balanced, it was – or should have been – apparent to all that a) it wasn't – the economic deterioration due to the mortgage crisis was already well underway - and b) the fiscal problem in the following year would be worse. Why, then, did California return to essentially the same budget crisis in 2008 that had sparked the recall of 2003? Why wasn't the problem fixed in the interim?

Unfocus

Tom Brokaw to Governor Schwarzenegger on TV's *Meet the Press*:

"When you ran for governor in 2003, you ran as a fiscal conservative who would change the system... If you were the CEO of a public company, the board would probably say, 'It's time to go.'"

Schwarzenegger to Brokaw:

*"Are you always this positive?"*¹⁴

Evan Halper
Los Angeles Times, June 30, 2008

With the benefit of hindsight, a theme emerges as a partial answer to the question of why the fiscal crisis returned. The initial "fix" of the budget in the period immediately after Governor Schwarzenegger took office was carried out cooperatively with the legislature and governor and resulted in the above-mentioned Props 57 and 58 which the voters endorsed. But in order to obtain breathing room to deal with the immediate budget crisis, the new governor made various "compacts" with different interests. While one of these – the compact with UC and CSU – had no real effect (and was quickly scrapped when budget problems re-emerged), others were more significant.

In particular, in a deal with the California Teachers Association (CTA), the influential teachers union, the Governor obtained an immediate cut of \$2 billion education spending under Prop 98, the 1988 initiative described above that applies formulas to determine state funding of K-14. It appears that the Governor did not understand the full nature of his deal and its interaction with the Prop 98 formulas.¹⁵ Exactly how that misunderstanding occurred has never been clear.

One possibility is that in the heat of the emergency, the governor's inexperienced new staff advisors did not comprehend the agreement's implications. However, the governor had the benefit of some experienced staffers who had worked for former Governor Pete Wilson, Davis' predecessor, along with veteran civil servants in the Department of Finance. More likely, it appears that the governor, accustomed to a Hollywood deal-making style of "let my people meet with your people" to hammer out important details, simply agreed to something unilaterally that could not be undone subsequently by more-informed advisors.

In any event, when Governor Schwarzenegger later reneged on the K-14/Prop 98 deal, CTA reacted with outrage. In the world of collective bargaining in which CTA operates – and in politics much more so than in Hollywood – trust in deal making is sacrosanct. Once it is violated, trust cannot be easily restored. The result of the controversy was that 2005 became the governor's politically disastrous "Year of Reform."

The governor's focus drifted quickly from longer-range budget solutions to a hodge-podge of four initiatives, two of which were aimed at neutering CTA. Only one of the four was aimed at trying to fix the structural budget problem. (Another initiative dealt with redistricting.) The public was unable to see the connection between an unfocused campaign for the four initiatives and a budget problem which in any case supposedly had been fixed by throwing away the credit card.

Ultimately, the four initiatives were handily defeated after a particularly clumsy campaign on their behalf as we have described elsewhere.¹⁶ And with his popularity with voters at a low level and the November 2006 gubernatorial election on the horizon, the budget was dropped as an issue. Instead, the Governor made 2006 into the year of infrastructure, albeit infrastructure to be financed by borrowing. While borrowing for capital projects is not uncommon, financing such projects by general fund obligations rather than the earmarked gas tax or by user fees of some type was not the norm in California.¹⁷ Nonetheless, the notion of improved infrastructure at no immediate cost was popular and the voters endorsed over \$40 billion in infrastructure bonds – and re-elected the governor for a second term. But by now 2 years of no budget fix had elapsed.

Health care became the focus of 2007 after the November 2006 election. The governor endorsed a near-universal health insurance plan in January. But having dropped the idea into the legislature, the governor did not produce an actual bill containing the proposal. A long hiatus ensued before a plan that was essentially a press release became a serious bill. During that period, there was much national and international attention paid to the governor's various "green" initiatives on global warming which even led to a speech at the UN. Meanwhile, the health plan became increasingly enmeshed in state budget problems, which by then were becoming apparent. As we have described elsewhere, the plan emerged successfully – although in modified form – from the state assembly in late 2007, but was abruptly killed in the state senate in January 2008.¹⁸

In short, 2004 was a year in which the preoccupation was a short-term budget fix to resolve the fiscal legacy left by the Davis administration. The year 2005 was an unfocused year of (failed) reform in which the possibility of a long-term budgetary reform was lost. To address his drop in popularity, 2006 became the governor's year of (largely debt-financed) infrastructure with budget reform off the table. By 2007, the structural budgetary problems were returning but were held at bay by the effort on health insurance, a major plan that was left to compete with greenhouse gas proposals, hydrogen highways, and the like – and ultimately produced no health program. Officially, 2008 was supposed to focus on education reform, but by the time the year began, the budget loomed over everything else.

The Legislative Role

“... (I) f spending can go up... and most of us can't discern any difference, can we blame voters for being hesitant to put even more tax money in the hands of the state?”¹⁹

John G. Matsusaka
USC Professor

While the discussion so far has centered on the governor, the legislature is inevitably a partner or adversary in any major policy proposal. As many commentators have noted, the legislature has become particularly polarized. There was a time when, for example, Assembly speakers – notably including Willie Brown – could be elected by a mix of both Democratic and Republican legislators.²⁰ But such times are no more. Moreover, in many ways, Republican Governor Schwarzenegger has had more difficulty obtaining budgetary and other cooperation from his GOP colleagues in the legislature than from the Democrats. Shouldn't the legislature receive its share of the blame for the difficulty California has had in addressing its fiscal dilemma?

Although in the abstract the legislature can be blamed, in reality the legislature consists of 80 assembly members and 40 senate members, not a single individual with state-wide perspectives or responsibilities. Anyone elected governor has to deal with that reality -which means that at best a tight focus on one or two priority issues is needed. That tight focus was lacking in the budget crisis of 2003-04 and beyond. As we will show later, even in the less-polarized 1970s, there was a similar lack of focus by then-Governor Jerry Brown on the looming political crisis of Prop 13. Polarization is certainly part of the later story – but apparently not all of it. Focus – or lack thereof – is a bigger part.

As the lead-in quote to this section suggests, most voters do not see a close link between state spending and their personal welfare. It is important to note that a substantial portion of the state's general fund goes into transfers that provide services to those less likely to vote – or even not eligible to vote (if they are non-citizens) – than to higher-income persons – particularly in Republican districts. Depending on what function is counted, about one fifth to one fourth of state spending in 2007-08 went to “welfare” type income-support programs and related in-kind health and other services.²¹ Moreover, although the funds come from the state, these transfers programs are largely administered by local jurisdictions, particularly counties. So to the average person, and certainly to the median voter who is not a recipient of transfers, a substantial part of the state budget seems to disappear into a black hole.

The legislature in its current gerrymandered arrangement reflects this tension. Representatives from jurisdictions where such transfers are important to their constituents push for their enlargement. Those from other jurisdictions push against demands for tax increases which they see as providing no special benefits for their constituents and supporters. As will be noted below, these divisions are not recent developments but reflect tensions that were certainly in evidence in the 1970s when Prop 13 passed. Indeed, the taxpayer revolt of the 1970s in California (and nationally) followed a period of enhanced welfare and anti-poverty programs, combined with racial tensions surrounding desegregation, busing, and affirmative action.

The Drama of 2008 Begins

"We never fixed the problem. It's been Scotch Tape and glue and staples and just praying we will never have to face the reality that the state government is on a path that is not sustainable."

22

Christopher Thornberg
Beacon Economics

By late fall 2007, it was no longer possible even to pretend that the 2007-08 budget was in any sense balanced. The sub-prime mortgage crisis was well underway – and had been underway when that budget was signed in late August 2007. Rising gasoline prices were also cutting into consumer spending. A weakening economy meant weakening state tax revenues. The governor ordered state departments to come up with plans for 10% budget cuts. Plans for cuts are not the same, however, as actual implementation. Republicans pressed the governor to order a “fiscal emergency” pursuant to Prop 58. In principle, such a declaration would have prevented legislative consideration of anything other than the budget. But beyond that, a declaration would not in itself have produced a solution – and no emergency was imposed until January.

Former Governor Davis was charitable about his successor when asked about the renewed fiscal crisis. *"Nobody has repealed the business cycle,"* Davis said in late 2007.²³ While true, the same business cycle that was now cutting into revenue had provided revenue growth in the prior period during which the fiscal situation had improved but no basic reforms were enacted. Senate President Don Perata, however, was less charitable about one senate member – Republican Jeff Denham of Merced – who was expected to be a swing vote in passing the 2007-08 budget but refused to provide it. Perata initiated a recall against Denham for the June 2008 election – a campaign he aborted shortly before the actual election.²⁴ And just as the governor's health insurance plan ultimately fell victim to budgetary concerns, so, too, did his effort to put a water bond on the February 2008 ballot.

The governor began to move back to his 2005 Year of Reform concerns. In early December 2007, he announced support for a new ballot initiative on redistricting, somewhat similar to one of his four initiatives in 2005.²⁵ Word began to be leaked about across-the-board cuts. Such proposals immediately invited two criticisms.

At the level of general public policy, across-the-board solutions suggested no selection of priorities. And at the practical level, not all expenditures, e.g., debt service, can be cut - so others must be cut still more than the average. The governor also suggested early prisoner releases to reduce prison spending – something legislative Republicans immediately rejected. There was also advance warning of a proposed fire fighting “fee” to be added to property insurance, in part a recognition of the costs of dealing with various forest fires in fall 2007.²⁶ And in an echo of 2005, and the controversy over the deal with CTA suspending Prop 98, hints arrived just before the budget proposal was formally introduced that another such suspension would be part of the plan.²⁷

On the Democratic side, State Treasurer Bill Lockyer – a possible future gubernatorial candidate – called for long-term solutions and suggested immediate remedies such as broadening the sales tax to cover “certain” services, ending general fund support for transportation (which had traditionally been financed by earmarked separate funds, and other remedies.²⁸ A California Field Poll released in late December 2007 showed that 43% of registered voters thought that the state’s budget problems could be resolved without new taxes while 48% thought that taxes would have to be raised. Thus, there was a high degree of voter ambiguity on the subject of taxes. Unlike the era of the taxpayer revolt of the late 1970s and early 1980s when about 4 in 10 voters thought California’s state and local taxes were too high, about 3 in 10 thought that way in late 2007.²⁹

The January 2008 Proposal

“I will not raise taxes on the people of California because they pay enough taxes.”³⁰

Governor Arnold Schwarzenegger

“It’s not real... (The governor) knows and we know that there is no way the Democrats... are going to suspend Prop. 98 and then cut \$4 billion from schools... Nor are they going to cut a similar amount from Health and Human Services... So if it’s not real, what is the real plan? He may not know at this point.”³¹

Dan Weintraub
Sacramento Bee columnist

The idea that the budget was not “real” could actually be applied to most January budget proposals by California governors. California’s constitution mandates that the governor submit a budget in early January. But the submission, nowadays accompanied by beautiful graphics and online videos, simply starts a slow-motion conversation. Since the new budget year does not begin until July 1, what normally occurs is some initial reaction, detailed analysis by the Legislative Analyst, less detailed summaries in the press, and then some hearings. Serious business really does not begin until the governor submits the “May revise,” a budget proposal in mid-May that reflects updated information on the state of the economy and incoming revenue, as well as a reflection of what appears to be acceptable or not from the earlier legislative reaction.

Much of what had been leaked earlier was included in the January 2008 budget proposal. There were various short-term cuts for the current 2007-08 year and some delays in payouts until the next year designed to avoid a cash shortage at the end of June 2008.³² Some of the cuts proposed for 2008-09 would have led to revenue losses from matching federal funds which would have been reduced.

A total of over \$10 billion in cuts was proposed – the “across-the-board” total – although in fact some programs were exempted and others, therefore, cut more. Much of the cutting would have occurred in education, Medi-CAL (the state’s Medicaid program for welfare recipients and certain others), and cuts to various “welfare” programs including those for low-income seniors and disabled persons. There were proposals to close some state parks and release state prisoners early. Shortly after the budget proposal was made public, the Fitch rating service

put California bonds – already tied with post-Hurricane Katrina Louisiana for the lowest state ranking – on a “negative watch.” Since part of the January budget proposal involved the sale of \$3.3 billion in economic recovery bonds left over from the 2004 voter authorization, Fitch’s announcement was not helpful.³³

Legislative Democrats seemed to assume that the governor’s budget was meant to signal that without new taxes the consequences of what Assembly Speaker Fabian Núñez termed a “cuts only budget” would be so drastic that (somehow) new tax revenue would be found. Subsequently, Núñez began to argue for a 50-50 split between cuts and added tax revenue.³⁴ And Republicans also took the proposal as simply an attention getter. Assembly Republican leader Mike Villines termed it “*only the first of many steps.*”³⁵

The governor may also have had another motive in introducing a drastic cuts-only budget, however. He also – as hinted earlier – began to push for a ballot proposition, a variant of his failed initiative of 2005 – that would reserve a rainy day fund in good times to finance deficits in bad times. This idea, complete with impressive PowerPoint charts, seemed to become the centerpiece of the governor’s budget strategy for a time.

The charts were meant to show that had the proposed proposition been in effect for an extended period, the 2008 budget crisis would not exist. But there were two problems. First, since there had been no such proposition in effect, passing it in 2008 would do nothing to meet the looming budget crisis. Second, even if a rainy day fund were created in 2008, there would need to be economic sunshine to accumulate the fund, something forecasters were definitely not predicting for the near term.

In any event, there was no time to complete the petition process in time for the February 2008 presidential primary ballot. There was only a little time left to place it on the June 2008 state primary ballot. And even for the November 2008 presidential election (well into the 2008-09 fiscal year), the clock was running. Ultimately, despite the rainy day charts and the various presentations by the governor around the state, there was no petition for such an amendment, not even one aimed at November. Yet the governor continued to talk about the idea into the summer of 2008.³⁶ If the purpose of the January proposal was to create a political climate for popular enactment of a sustainable budget solution in 2008, it didn’t happen.

As will be noted below, a rainy day fund initiative will be on the ballot in 2009 as a result of the 2008-09 budget deal. The governor did kick off a drive for a redistricting initiative and necessary petition, an initiative which eventually landed on the November 2008 ballot as Proposition 11. Surprisingly, he did not propose a constitutional reform allowing midyear budget cuts in emergencies – a power that would have an immediate impact, unlike redistricting or a rainy day fund. Ultimately, he did get constrained midyear power to cut in the eventual budget deal for 2008-09, but not as a constitutional matter.

The budget crisis may have had some political effects on the February 2008 primary. On the ballot were four referendums to repeal certain state Indian gambling compacts. The repealing referendums were financed by a union trying to organize casino workers and certain non-Indian gambling interests. However, the governor – who had signed the compacts – argued

that the revenues the compacts would bring would help the budget situation and voters rejected repeal.³⁷ On the other hand, an initiative – pushed by Assembly Speaker Núñez that would have modified term limits and kept him and others in the legislature in office – failed despite gubernatorial support. The electorate may have felt that the initiative would reward those who were responsible for the renewed fiscal crisis.

Voters joined the governor in rejecting a proposition that would have earmarked an increased share of the general fund for community colleges on the grounds that a fiscal crisis was no time to allocate more spending by formula. And in the end, the legislature enacted what was billed as \$1 billion in mid-year spending cuts for the current 2007-08 fiscal year, although some of these were cosmetic. One item *not* enacted for 2007-08 was eliminating a minor tax benefit for out-of-state yacht buyers, dubbed by Democrats the “sloophole.” Because a two thirds vote was not available from legislative Republicans at the time, the sloophole remained in the law until finally removed in the 2008-09 budget deal.

The Budget Nun Intervenes

“Now may I remind you, you see though I’m a Republican, I’m a big believer when we have a financial crisis like this, we should all chip in. And this is why I totally agree with the Legislative Analyst’s Office when she says that we should look at tax loopholes. We should look at those seriously.”³⁸

Governor Arnold Schwarzenegger

“I’m not for the recommendations she made, necessarily.”³⁹

Governor Arnold Schwarzenegger

In an unusual move in February 2008, the state’s Legislative Analyst, Elizabeth Hill, sometimes dubbed the “budget nun,” went beyond the usual comment and critique that normally followed a gubernatorial budget proposal. Generally, the Legislative Analyst’s Office puts out a commentary and interpretation of the proposed budget, with some general references to alternatives. Given the crisis – and perhaps also because she was soon to retire – Hill departed from that format and instead presented an alternative budget. At the most general level, the LAO alternative was a mixture of less severe cuts than the governor proposed and revenue enhancement by reducing tax loopholes of various types. However, as did the governor, Hill relied in addition on the sale of the remaining Economic Recovery Bonds.

By the time the LAO report was made public, economic conditions had worsened. Table 1, based on the LAO analysis, compares the governor’s January budget proposal with Hill’s proposal released in February – both relying on LAO’s economic projections. The figures on the table related to flows – revenues and expenditures – have been adjusted to exclude borrowing under the Economic Recovery Bonds. Although widely praised for providing an alternative, there are problems with both budgets. The governor’s budget was projected to produce a surplus in 2008-09, even under LAO assumptions. But, as noted, there were strong reasons at the time to doubt that the cuts proposed, with almost no revenue “enhancements,” would be acceptable by the Democratic majority in the legislature.

The LAO's mix of revenue enhancements was expected to provide essentially a balanced budget in 2008-09 as opposed to the governor's ostensible surplus. However, the LAO argued that in later years, the surplus would revert to deficit and remain a deficit (albeit a declining one) through 2012-13. LAO provided a chart, not a table, showing the out-year deficits. In analyzing its own alternative, LAO asserted that – taking account of the reserve – the budget would essentially average a balance through 2012-13, although precariously so. But it provided no numbers or charts to back these assertions. Moreover, the issue of political feasibility remained, whether the proposal was the LAO's or the governor's.

If it were true that the Democrats would not accept cuts of the magnitude the governor proposed, it was also true that closing loopholes might not obtain the two-thirds vote needed from legislative Republicans. As can be seen from the quotes at the start of this section, the governor first seemed to support the LAO alternative, but then backed away from the specifics. The only specific loophole closing both he and the LAO supported was the above-mentioned "sloophole" for yachts.⁴⁰

The May Revise

*"All we have to do is lock ourselves in a room for three days and not go outside – and not be allowed to go to the bathroom. And then we'll be getting upset because it starts smelling in the room a little bit. And all of a sudden we will come to an agreement."*⁴¹

Governor Arnold Schwarzenegger

*"Raise taxes. That clear enough? Raise taxes."*⁴²

Senate President Don Perata when asked
how the Democrats would balance the budget

*"The governor does not believe that raising taxes is the solution for our chronic budget problems."*⁴³

Aaron McLear
Spokesperson for the governor

Much of the period up to the May revise was spent reiterating positions on the budget or taking symbolic or minor actions. State hiring was frozen – but not quite. Certain higher management salaries were frozen. Bills in the state senate that involved more than \$50,000 in spending were suspended – with exceptions.

Externally, however, various interest groups were trying to head off budget cuts. Particularly notable in this regard was K-12 education, which aired various radio ads warning of the impact of a budget squeeze. Health providers aired a TV ad to the same effect. College students demonstrated against higher tuition. While the theme of these efforts was essentially "just say no," the California Chamber of Commerce indicated that temporary tax increases might be acceptable if they were part of a grand package of reforms.⁴⁴

Republicans in the legislature hinted that they would be seeking a variety of non-budget reforms of labor and environmental regulation in exchange for any two-thirds vote on the budget.⁴⁵ Incoming Assembly Speaker Karen Bass proposed establishing a commission to study the state's tax base. And the idea of privatizing or "securitizing" (borrowing against) the state lottery – an idea that was originally rejected as a funding mechanism for the governor's ill-fated 2007 universal health plan – was revived.⁴⁶ Efforts were also underway to sell the state's EdFund, which guarantees student loans, although that idea was later shelved.

As in the case of the January budget, the May revise was proceeded with hints about what it would – and would not – contain. For example, word was put out that early release of state prisoners would not be in the new proposal, nor would closing state parks (but park entrance fees would be raised). Larger deficits were hinted. Some sort of ballot proposition would be suggested that would authorize borrowing against the lottery but trigger a sales tax increase if not approved. (It was never clear how a ballot proposition could trigger a tax increase by failing.) On the other hand, selling the EdFund – the prospects for which turned out not to be bright – was to be "postponed." Prop 98's guarantee for K-14 would be met. Some kind of user fee would be tacked on to property insurance for fire fighting. But unlike the earlier proposal, the fee would be risk-adjusted.

When actually released, the May revise and related proposals contained these elements and also assumed a more pessimistic revenue scenario as a result of a further softening of economic conditions. At about the time the May revise was released, a study by the California Research Bureau projected a disproportionate share of mortgage foreclosures would occur in the state because California had originated relatively more sub-prime loans than the U.S. average.⁴⁷ Given the deteriorating fiscal situation, it might have been expected that the governor and legislative leaders would have been undertaking early discussions to resolve the budget issue. But in a revealing interview, the governor said that he had to "negotiate with myself" to produce the May revise, since he had not been negotiating with legislative leaders since January.⁴⁸

Even with the mid-year cuts, the May revise put the 2007-08 deficit (excluding the Economic Recovery Bonds borrowing) at over \$6 billion. A new feature in the May revise was a plan to securitize the lottery which was supposed to bring in over \$5 billion in 2008-09. Excluding that borrowing – although the governor's office was at pains somehow to differentiate the plan from borrowing – there would be a deficit in 2008-09 of about \$4 billion, as shown on Table 2.

There was considerable skepticism in the LAO report on analyzing the May revise that the lottery plan would bring in as much as proposed. Indeed, shortly after the May revise was released, lottery officials lowered the projection of likely revenue for the year.⁴⁹ The LAO proposed a more modest lottery plan in place of the governor's suggestion and referred back to its alternate budget presented in February.

However, absent the lottery borrowing in either plan, LAO documents suggested that revenues would be about the same under the two – even though the LAO plan included loophole closings. The LAO plan included more Prop 98 K-14 funding than the governor's proposal. But exactly what total expenditures would be, or what the end-of-year reserve would be under the

LAO plan was not indicated. LAO continued to assert that its plan would produce an average balance over the period ending in 2012-13. But, as in February, no detailed charts or data were provided.

The sad fact was that while LAO had alternative approaches, and probably a more realistic projection of what revenue stream might be obtained from the lottery, there was no plan - absent significant spending cuts or revenue additions - which could balance the budget in a meaningful sense. And there had been no serious negotiation involving the legislative leaders and the governor on finding a solution. Not surprisingly, California Field Poll approval ratings among voters of both the governor and legislature began to drop.⁵⁰ A state commission that sets salaries of legislators and state elected officials toyed with the idea of cutting their pay, but ended up freezing it, partly because of legal barriers to an across-the-board cut.⁵¹

The Summer Stalemate Begins

*"We have open doors and everything is on the table. I don't want to go and say to anything, No"*⁵²

Governor Arnold Schwarzenegger

*"There's not enough money to fund next year. We're proposing raising taxes... This is not a morality play. This is life."*⁵³

Senate President Don Perata

*"We're having a difficult time getting our (Democratic) counterparts to really change their original premise on the budget which is, 'We need taxes.'"*⁵⁴

Mike Villines
Republican Assembly leader

There are two constitutional dates that matter for the state budget. Technically, the legislature is supposed to pass a budget by June 15. However, a more important date is July 1, the start of the fiscal year. If there is no budget, the state controller will not pay certain bills. Over the years, however, the bills that will not be paid have been narrowed by court decisions.

Absent a budget, the state does not pay what it owes to local governments including school districts. But such local entities are able to go for a time without the payments, knowing that their funds will eventually arrive. However, without a budget, the local entities cannot be sure what their total revenue from the state will be.

Vendors of services to the state are also not paid, but many can borrow against the state's IOUs. Unlike local government entities, which cannot be sure of what the eventual budget will provide, the vendors will eventually be paid whatever the state's contractual obligation to them may be. Most welfare payments and state employee payments are made, although higher managerial and professional workers may not be paid. The bottom line, however, is that the average citizen does not feel any immediate emergency. If he or she goes to the DMV to renew a driver's license, the service there continues.

So life after June 30, 2008 continued despite the absence of a budget. And there was little action in the legislature to resolve the Democratic-Republican divide. *"It's almost like there is no emergency there,"* complained the governor in mid-July.⁵⁵ And, in a sense, since life was continuing, there wasn't. The senate and assembly considered budget bills but these did not have support of the Republican minorities. A court-appointed monitor continued to threaten to impose an added revenue drain on the state to support prison health care. The governor and U.S. Senator Diane Feinstein together endorsed new borrowing for state water projects. Various wildfires continued to add to state costs for fire fighting.

A meeting of the legislative leaders finally occurred on July 17, but no agreement was reached and there was even a difference in views of the participants about what transpired. The governor reported the Democrats were planning to borrow from local governments, transportation, and other funds outside the general fund – which he termed *"not a good idea."*⁵⁶ Democrats then denied any such intent.⁵⁷

Technically, it was true that the Democrats' plan was to raise taxes, not to borrow. But if Republicans did not go along with a tax increase, and if Democrats resisted spending cuts, the only safety valve would be borrowing from somewhere. And it seemed unlikely a lottery plan – whatever it might turn out to be – could completely fill the gap between revenues and spending.

Creating Urgency

*"Today I am exercising my executive authority to avoid a full-blown crisis... I have a responsibility to make sure our state has enough money to pay its bills."*⁵⁸

Governor Arnold Schwarzenegger
on signing an executive order to layoff certain workers
and cut others' pay to the federal minimum wage

*"Please walk a week in a state worker's shoes before you sign this executive order and imagine yourself and your family surviving on \$262 per week."*⁵⁹

Lieutenant Governor John Garamendi
in a letter to the governor

*"...(B)ecause it is based on faulty legal and factual premises, I will not comply with the Order."*⁶⁰

State Controller John Chiang
July 31, 2008

With the state projected to enter a cash crunch at some point, it appeared that both sides in the legislature were engaged in a chicken race to see who would concede before the emergency reached public consciousness. In response, the governor – citing a court decision from an earlier budget crisis – leaked word that he planned to order that many state workers be paid only the federal minimum wage until a budget was in place. (They would then be paid back the difference between their regular salaries and the minimum wage.) However, California

controller John Chiang – whose office issues the targeted state paychecks – said he would not comply with such an order and that there would sufficient cash on hand to meet payrolls through September.⁶¹

Nonetheless, the governor issued the minimum wage order – which also provided for layoffs of selected temps, recalled retirees, and part-timers and elimination of most overtime - on July 31, 2008. The original estimate put the number of layoffs at around 20,000 but that figure was cut roughly in half after the governor spared various workers deemed to be in critical functions. A formal order was sent to Chiang demanding that the wage cut be implemented but Chiang indicated that the outmoded state computer system would require months of work to do the job – which in any case he had no intention of doing.

It was humorously noted that since the layoffs included recalled retirees – the only people who might remember how to work with the old computer programs couldn't be employed to undertake the task.⁶² In any event, despite the litigation, no court challenge could be heard before September which guaranteed that regular pay rates would prevail through August. And there never was a minimum wage pay cut since a final budget deal was reached in mid-September.

Because of the ability to borrow from state funds outside the general fund, even negative reserves in the general fund to do not mean that the state is literally out of cash. It is difficult to determine from available figures exactly when a cash crisis could have been expected at the point of the Schwarzenegger challenge. The controller issues monthly statements on the state's cash position. Included is an estimate of "available borrowable resources." From these are subtracted any internal borrowing and short-term borrowing to produce an estimate of "unused borrowable resources."

In the budget crisis of the early 2000s, after accounting for borrowing via Revenue Anticipation Warrants (RAWs), unused borrowable resources were down to around \$10 billion at the end of June 2003. At the end of June 2008, the controller's estimate was a comparable \$12.8 billion. Estimates of the drop in resources from the summer of the year before (when there was also no budget), suggested that if \$10 billion was in fact something of a danger range, the state was likely to fall below that level during the summer. However, there have been summers when the figure fell well below \$10 billion. And at least the controller's end-of-July estimates held the unused borrowable resources total at around \$10 billion and \$9.6 billion at the end of August. It was thus unclear from publicly-available data when a cash crunch might arise.⁶³

However, the state often runs out of cash within a fiscal year because tax inflows and spending outflows don't match and so borrows using short-term Revenue Anticipation Notes (RANs). It did so, for example, during 2007-08, borrowing \$7 billion in the fall. The governor's January 2008 budget proposal assumed that \$9 billion in RANs would be borrowed in September with a budget in place. So the state was expected to run out of cash (and borrow) in the fall, with or without a budget. The difference is that without a budget, the state must issue RAWs (Revenue Anticipation Warrants) rather than RANs and likely pay a higher interest rate reflecting Wall Street's appraisal of a disorderly fiscal house. Put another way, the minimum

wage/layoff action – although couched in terms of cash flow – was in fact a way of pressuring the legislature.

What Did He Say?

*“The fact that the governor now has said we cannot balance this budget, we cannot get through the next three or four years, without at least a temporary tax I think is a step in the right direction... I’m glad he stepped up to this, but let’s be clear, he doesn’t have any support in his own party yet for this... (Legislative Republicans) have got to come up with proposals, and they have not done it.”*⁶⁴

Senate President Don Perata

*“Senator Perata’s statement regarding the lack of Republican solutions is patently incorrect. We have been bringing ideas to the table since first learning of the fiscal crisis.”*⁶⁵

Senate minority leader Dave Cogdill

*“We are not discussing what is being negotiated in the Big 5.”*⁶⁶

Unidentified spokesperson for the governor

*“This year we have heard Republicans and Democrats in the Legislature talk about our budget system, but the time for talk is over – it is time for everyone to compromise and get this done.”*⁶⁷

Governor Arnold Schwarzenegger
after proposing his “August revise” budget

In early August, word was leaked that Governor Schwarzenegger was willing to consider a 1-cent increase in the state sales tax (from 6.25 cents to 7.25 cents) to last three or four years. The quid pro quo would be a legislative agreement for reforms involving earmarking funds for (another) rainy day fund and a spending cap. Presumably, such an exchange would involve putting these provisions on the ballot as constitutional amendments. Democrats welcomed the idea of a tax increase, but not of the sales tax. They preferred raising the upper bracket of the personal income tax and were leery of constitutional spending caps. Republicans criticized the tax idea. *“I cannot envision any Republican legislature supporting such a proposal,”* said Senate minority leader Dave Cogdill.⁶⁸

However, in the third week of August, the governor took the unusual step of unveiling an August revise proposal. A key element was indeed the temporary 1-cent sales tax increase (estimated to pull in an additional \$4 billion in 2008-09) and continuing through the summer of 2011. To attract Republican votes, the proposed increase would be followed by a 1.25 cent decrease in September 2011, thus producing an eventual net decrease in the sales tax of a quarter cent. Various loans would be made from funds outside the general fund and other changes in tax treatment would be adopted.

The supporting documentation of the August revise was less complete than the May revise or the January budget proposals. But as Table 2 shows, it probably would have raised tax revenues on the order of \$6 billion, leaving an operating deficit of something like \$2 billion. That gap was to be made up through the above-mentioned borrowing of other state funds and by running down the reserve (which essentially existed only because of the earlier flotation of the unused Economic Recovery Bonds). Of course, the revenue figures depended in prior projections of state economic performance, which was anything but healthy.

Deal or No Deal

*"It's time to get this budget done. It's been way too long."*⁶⁹

Senate Republican lead Dave Cogdill

*"It's really no more than another get-out-of-town budget that will, more than likely, begin falling apart as soon as it's signed."*⁷⁰

Sacramento Bee columnist Dan Walters

*"I'm not proud of this budget – it just kicks the can down the road."*⁷¹

Senate President Don Perata

*"I don't see much of a signing ceremony because there's nothing to celebrate."*⁷²

Governor Arnold Schwarzenegger

While it might have seemed that the governor's "August revise" proposal would have created a new dynamic and created a basis for a compromise budget, the stalemate continued. The California Taxpayers Association (CalTax) – a business-oriented group – supported the plan, albeit reluctantly. But Republicans would not accept a tax increase, even temporary and even followed by an eventual tax cut. And CalTax was denounced by the Howard Jarvis Taxpayers Association as "the mouthpiece for corporate California" whose original sin was opposition to Prop 13 in 1978.⁷³ In any event, the resulting plan that ultimately came up for a vote – and did not receive the needed two thirds – was a version of the governor's plan without the deferred sales tax cut. Governor Schwarzenegger confessed to a German magazine that he had little influence with Republican legislators. *"I have almost no contact with them – none. Because they're just so out there,"* he said.⁷⁴

Since the governor could not deliver any Republican votes, the stalemate continued until the Democrats essentially gave up and produced a bill Republicans indicated they could endorse. As initially framed, a key element was raising income tax withholding, but not tax rates – basically an interest free short-term loan to the state by taxpayers. The governor then called a dramatic press conference saying he would veto the compromise deal because its rainy day fund features were not sufficiently stringent. He indicated that he expected that since the budget was

passed with a two-thirds vote – the same proportion needed to override a veto – his veto would also be overridden. But it turned out to be more complicated.

An increase in income tax withholding seemed likely to be very unpopular as it became evident that it was an interest-free loan. The smokescreen involved might well have proved more unpopular than an overt tax increase. And it was not clear that Republicans who supported the deal initially would want to override a gubernatorial veto. Moreover, the withholding part of the budget appeared in a separate bill which required only a majority vote – since it was technically not a tax increase. It appeared that contrary to the governor’s expressed expectation, an override of his threatened veto was not going to be easy. As a result, the legislature modified the deal to include tighter rainy day fund provisions and passed it on September 19, 2008.

The budget was signed on September 23, 2008 after the governor vetoed about half a billion dollars in expenditures. Once a budget was officially in place, various state bills that had gone unprocessed by the state controller could be paid. And state employees – who never actually had their paychecks cut to the minimum wage – could nonetheless participate in a charity event with the opportunity to drop Finance Director Mike Genest into a dunk tank.⁷⁵

As Table 2 shows, the final figures for revenue and expenditure looked more or less unchanged from the August revise estimates (and contained a deficit). But since there was no hike in the sales tax in the final deal, as there had been in August, additional revenue sources had to be developed. Some of the added revenue came from technical changes in corporate taxes including “accelerated” payments (which subtract revenue from the future) and accrual changes (which accelerate bookkeeping – but not cash).

However, the economic outlook for the state on which the revenue numbers were based was becoming more uncertain as the country (and global economy) faced a major financial crisis just as the budget was being signed. There were concerns, as credit markets froze, over whether the state might run out of cash and be unable to float Revenue Anticipation Notes – which had been planned for the fall – to cover its expenses. Based on the old economic estimates, the General Fund was to end with a reserve of \$1.7 billion at the end of June 2009 – which would exist only because of the floating of the remaining Economic Recovery Bonds during 2007-08. Given the economic uncertainty surrounding the financial crisis, there were considerable downside risks built into the new budget.

Aftermath and Afterthoughts

“Governor Arnold Schwarzenegger today signed the 2008-09 state budget, concluding a very difficult budget year and delivering a real win for California with a proposal to achieve meaningful budget reform”⁷⁶

Office of the Governor Press Release

"...(B)y common consent, everyone pretends that outdated numbers are still valid – in effect punting the problem into the next year. Or as they say in Silicon Valley, garbage in, garbage out."⁷⁷

Columnist Dan Walters
Sacramento Bee

In the aftermath of the final budget deal, there were frustrated calls for revising key institutional features of California's political decision making. These ranged from calling a constitutional convention, a complex process, to specific changes such as relaxing the two thirds vote requirement (something voters rejected in 2004) or term limits (something the voters rejected in 2008). And there were proposals to penalize legislators if budgets were not passed on time in the future.⁷⁸

The California Correctional Peace Officers Association – a union representing state prison guards – began the process of recalling the governor, apparently to pressure the governor in collective negotiations and as part of the union's own internecine politics. However, elements of the California Republican Party toyed with the idea of supporting the recall due to the governor's proposal of a tax increase in his August revise. While "barely" opposing a recall, the conservative *Orange County Register* denounced Schwarzenegger as "Gov. Weather Vane" for – in its view – "abandoning principles."⁷⁹

As for the governor's victory in winning modifications of the budget, there are surely doubts that can be raised. He had already put redistricting on the November 2008 (Proposition 11) as a long-term reform. Yet in terms of priorities on the budget, it was an odd choice – given the money needed to obtain signatures and run a campaign for an initiative. Redistricting cannot take place before the 2010 Census results become available and any impact it might have would affect budgets after the governor left office. So redistricting surely had no foreseeable effect on the immediate 2008 budget crisis when the decision was made to push it.

Even as a long-term reform – the interaction of redistricting and the two-thirds vote requirement could conceivably make budget passage more difficult. The theory of redistricting is that less gerrymandered districts would produce more centrist candidates who would be more willing to compromise on budgets once elected. But it could also increase representation of a larger minority, essentially more Republicans, who would make a two-thirds vote less attainable.⁸⁰ California's Democratic Party, and allied groups such as organized labor, viewed the governor's redistricting plan as a Republican power grab.

The governor did win a ballot measure for a tightened "rainy day fund" (reserve in the General Fund) as a consequence of his veto threat. His target was to have an eventual reserve of 12.5% that could not be readily raided before it was accumulated or needed. But there are a number of problems with the focus on the rainy day idea. First, rainy day funds have to be accumulated when the budgetary sun is shining, which it assuredly was not in 2008 and was not likely to be in the near term. So the rainy day fund did not address the immediate budget crisis of 2008. Second, it is very difficult – whatever clever language is used – to prevent a *de facto* raid on a rainy day fund (or on other funds outside the General Fund) if the legislature is determined to do it. Third, a constitutionally required rainy day fund augmentation requires a

vote of the people. The legislature agreed to put such a measure on the ballot some time in 2009, perhaps March or June, but someone would have to mount (and finance) a campaign to win voter approval.

Fourth, recent history regarding the rainy day fund concept is not particularly promising. Although there was not constitutional requirement to do so, the dot-com and stock market bubble of the late 1990s gave Governor Gray Davis a General Fund reserve of about 12% just as his budget outlook began to sour. Essentially, the legislature blew through the reserve quickly and plunged into crisis. The lesson seems to be that an ample rainy day fund of the magnitude Governor Schwarzenegger wanted (and which Gray Davis had), gives the state about a year to come up with more fundamental solutions than just spending the reserve. If it doesn't find such solutions, the crisis is simply delayed a year.

The governor *did* obtain one concession relevant to the immediate 2008 crisis. One of the trailer bills that accompanied the budget deal provided him with authority to make midyear budget cuts in the 2008-09 budget – although hemmed in by various constraints on what could be cut and by how much. In principle, the authority extended beyond the 2008-09 budget year. But since this component of the deal was an ordinary bill – not a constitutional provision – the authority could be stripped away in future budgets. Thus, while the most pressing priority for dealing with the current budget crisis – as well as future ones – might have involved authority to make midyear cuts, the governor instead focused on redistricting in 2008, a reform with no immediate impact and uncertain long-run consequences.

We will have to await the verdict of history on Governor Schwarzenegger's approach to the state budget. However, history does provide some lessons on what happens when a governor has a diffused agenda and remains aloof from a developing problem. These lessons come in the form of Governor Jerry Brown and the passage of Prop 13 in 1978. We turn now to that episode for those lessons, noting also that Prop 13 led to fundamental changes in state and local fiscal affairs in California.

Prop 13's Genesis

*"Nothing in life is so rigid that there aren't developments. That's true in politics. That's true in theology. That's true in personal relations. And for those small minds that slavishly adhere to foolish consistency, their irrelevance is their best reward."*⁸¹

Governor Jerry Brown
explaining why he had turned from
opponent to supporter of Prop 13

In essence, Proposition 13 – on the ballot in June 1978 - was a simple initiative aimed at a simple problem. Rising home prices were causing local property tax bills to escalate. Prop 13 rolled back the assessment value to 1975-76 for existing properties or to 1% of the subsequent sales price, whichever was higher. It limited the tax rate on the assessment to 1%. (It had been the equivalent of anywhere from 1.5% to over 3% of assessed value, depending on jurisdiction,

averaging 2.7%). Prop 13 allowed only a 2% increase for inflation in the assessment each year until the property was sold.⁸² At that point, the assessment would be at the new market price - whatever it was. Prop 13 also required a two-thirds vote for new state taxes or tax increases and a two-thirds vote of the electorate for local taxes.

Local property tax revenue was cut by an estimated \$7 billion under Prop 13 (from a total of \$12.4 billion). The state initially provided a backfill to the localities of \$4.2 billion out of the \$7 billion (with over half the bailout going to school districts).⁸³ It was able to provide the large bailout because as shown on Table 3, the state had been running surpluses and had accumulated a significant reserve. The state would have continued with a larger surplus in 1978-79 after Prop 13 was enacted. However, given the ballot initiative and the resulting bailout, the result - as the table indicates - was a state deficit of about \$1 billion.⁸⁴ An initial legal challenge to Prop 13 on various technical issues failed when the state Supreme Court rejected the claims.

Current polling suggests the continuing popularity of Prop 13.⁸⁵ Not surprisingly, the further back in time homeowners purchased their house, the more familiar they are with Prop 13's details. But even recent homeowners indicate they would vote for Prop 13 if it were on the ballot now. Proposals to modify Prop 13 thus meet with suspicion and disapproval. The only change that might be acceptable - taxing commercial property at a different rate than residential - could conceivably win approval if it were pitched as taxing residential property at a lower rate than commercial as opposed to taxing commercial rate at a higher rate than residential.

Even that "split roll" approach - a proposal which pre-dates Prop 13 - would be problematic as a ballot measure since opponents would surely frame it as tinkering with Prop 13 more generally. Certainly, Governor Schwarzenegger would not propose or endorse any such tinkering. In a notable incident during the 2003 recall of Gray Davis, candidate Schwarzenegger's advisor, Omaha-based financier Warren Buffett, made an off-hand criticism of Prop 13 to the *Wall Street Journal* and created a political brouhaha. Schwarzenegger managed to skirt the damage by quipping "*I told Warren if he mentions Prop. 13 one more time, he has to do 500 sit-ups.*"⁸⁶

The Impact

"I'm sure Arnold was mortified when he read (Buffett's comments)."

Frank Schubert
Republican consultant

*"Warren's right. It's an unequal system. But all the polling indicators I've seen show the appetite for changing the system is very low."*⁸⁷

Bruce Cain
Director, Institute of Governmental Studies at UC Berkeley

*"... (If) the current budget problem is a lack of revenue - which it isn't, of course, but let's pretend - then we still can't blame Prop 13 for today's budget imbalance. Why? Because about 5 years ago, the inflation adjusted, per capita property tax collections in California began to surpass Pre-Prop 13 levels."*⁸⁸

John Coupal
President, Howard Jarvis Taxpayers Association
in January 2008

As the quotes above suggest, the effects of Prop 13 are still debated. And, as will be noted below, the statistical component of the third quote does not square with the report on which it appears to be based. At the time it was passed, there was much debate about the impact it would have. But Prop 13 had one predicted effect. Since local governments, especially schools, were heavily dependent on property taxes, cutting the tax shifted the burden to the state, which – for a time – was able to prevent sharp cutbacks. However, when the state's economy (and tax revenue) turned down in the early 1980s, the state retreated temporarily from its role of subsidizing the local authorities.

Since Prop 13 allowed user fees to go up – but restricted general tax increases – localities (mainly cities) which could charge such fees became more dependent on them. Through zoning decisions leverage, they also could push land developers to undertake infrastructure responsibilities previously assigned to government.⁸⁹ But school districts which provide a free service and are not involved in zoning policy had little opportunity to charge such fees or shift such costs. So schools became especially tied to state finance and eventually pushed for a ballot-box guarantee of funding.

A less predictable effect was to make local authorities more dependent on their portion of the sales tax and the so-called “fiscalization of land use.” That is, local zoning decisions tended to tilt toward developments such as retail and auto malls that generate sales tax and away from other uses such as manufacturing or residential. Finally, there was the political effect mentioned earlier of stimulating increased interest in using direct democracy to enact laws and constitutional amendments on budgetary matters and other issues. As noted, the pace of placing initiatives on the ballot increased after the success of Prop 13.

As the third lead-in quote to this section illustrates, it has sometimes been asserted incorrectly that property tax revenues, adjusted for inflation and population growth, eventually rose back to where they were prior to Prop 13. Note that since property tax assessments under Prop 13 have become a rolling weighted average of current sales (and therefore market prices) and earlier market prices (plus the 2%/annum adjustment), sufficient real estate inflation could bring about such a situation eventually. But the rate of property inflation – although rapid in some periods – was not fast enough overall to produce a catch-up over the entire period studied.

The combination of inflation and population growth since the passage of Prop 13 has been roughly 6% per annum. Even with the run-up in home prices in the early 2000s - before the bubble burst - the inflation only affected the assessed values of those properties that were sold. And, of course, the home price inflation then turned into dramatic deflation. A study by the California Taxpayers Association suggests that property tax revenues rose in nominal terms a bit over 8% per annum since Prop 13 came into effect. The roughly 2% per annum rise over population growth plus inflation is gradually raising the property tax take adjusted for those two factors. But even over the three decades since Prop 13 was passed, that relative growth would be unlikely to have made up for the inflation+population drop in revenue caused by Prop 13.⁹⁰

In any event, the study that appears to be the basis of the quote - which the Howard Jarvis Taxpayers Association (HJTA) had commissioned - did not in fact say that adjusted property tax revenues had caught up.⁹¹ It said instead that *total* state revenue adjusted for inflation and population growth was above pre-13 levels. In fact, that event had occurred long before 2002-03 (the final date of the study). On the other hand, county adjusted total revenue - although higher at the end of the period than the beginning - had followed a U-shaped path. City adjusted total revenue also had a U-shaped path, but recovered earlier than county revenue. School district adjusted revenue was essentially flat in the 1980s but then rose above pre-13 levels after the enactment of Prop 98.

The property tax is a local tax, not a state tax, so - as noted - the impact on the state was not as a tax recipient but as a subsidizer of the local authorities. Not surprisingly, the HJTA study showed that local property taxes, adjusted for inflation and population growth, had declined: a 60% drop for counties and 50% for cities. The report did not give a comparable property tax figure for school districts but the number had to be in the ballpark of the county and city figures. (School districts are located within counties and their boundaries often encompass whole cities.)

Also not surprisingly, transfers to dependent localities from the state - adjusted for inflation and population growth - were up substantially: a 78% increase for counties. City data showed a big shift to fee income. School district data were again limited but - as noted - the ability of the districts to charge user fees is small. Federal subsidies were up but only a fraction of the increase in total school revenue. So it appears that the state became the schools' main patron.

What cannot be known is the degree to which Prop 13 altered the *total* of state and local revenue and spending in California. Since, as the HJTA study suggests, state and local budgets, adjusted for inflation and population growth, rose, it is clear that Prop 13 - even with its two-thirds vote requirement on taxes - was not an absolute cap. Part of the reason is that there was a two-thirds requirement to pass a state budget in effect long before Prop 13 came along - so the Prop 13 requirement was an incremental constraint, not something totally new. Moreover, Prop 13 does not stop the state from spending revenue windfalls that arise within its existing tax rates.

The Story of Prop 13

*"I think Proposition 13 will be defeated and I will and I will do anything I can to see that happens."*⁹²

Governor Jerry Brown
before Prop 13 passed

*"Limiting the public sector is the message of Proposition 13."*⁹³

Governor Jerry Brown
after Prop 13 passed

Various authors have traced the history of Prop 13 from both a journalistic and academic perspective.⁹⁴ And not all agree with Governor Brown's quote above that the public was anxious

to limit the size of the public sector.⁹⁵ Another interpretation is that people wanted services to continue but also want to have both predictability in the tax burden and less of a tax burden. However, the meaning of “services” can vary across individuals. Police and fire enjoy popularity as desired services. “Welfare” spending (transfers to lower-income persons) is less favored.

The basic story of Prop 13 is well known. There were anti-property tax movements which ebbed and flowed as far back as the 1950s. But these were often led by disparate gadflies, sometimes advocating tactics such as “tax strikes” (which could have endangered the properties of any homeowners who took part or at least subjected them to late tax penalties). When the calls for property tax relief would become particularly vociferous, the state would enact various types of tax rebates and the fever would decline.

Moreover, property tax relief was not a simple left-right issue. Politicians on both sides of the spectrum would take up the cause. For example, when she first ran for a seat on the San Francisco Board of Supervisors in 1969, Diane Feinstein made property taxes an issue in the campaign. Voters, she said, should take their tax bills to the polls (whatever exactly that meant).⁹⁶ Only after Prop 13 passed, was the taxpayer revolt cast as an issue of the right.

County tax assessors had a good deal of discretion in making assessments. Since they were elected, not appointed, assessors were likely to be sensitive to homeowner complaints (where the votes were). In some ways, they could act as a circuit breaker, cushioning the impact of jumps in real estate values (by undervaluing property). The result was a tilt of assessments away from private residences and toward commercial property. However, with discretion came opportunities for corruption. Thus, public policy shifted toward ensuring honest assessments. One of the inadvertent consequences of this reform was a shift in the property tax burden away from business and toward homeowners as assessments came closer to actual market values.

When home prices escalated and assessments rose in the 1960s and 1970s, anger tended to be focused on the county assessors who delivered the bad news to property owners. In Los Angeles County, Philip Watson was elected assessor on a platform of doing away with on-site investigators (“snoops”) who would visit properties to evaluate them. Instead, he relied on developing computerized methods based on comparable sales and known house characteristics such as square feet. Even so, Watson had a political problem as the target for homeowner anger as assessments rose. At one point, he was charged with corruption in assessing a particular commercial property (and then acquitted in a high-profile trial).

Watson sponsored ballot initiatives – essentially prototypes of Prop 13 – in the 1960s and 1970s, which would have cut property taxes. He thus deflected voter anger from himself and refocused it on the system instead. But he was scapegoated by some members of the LA County Board of Supervisors for his anti-tax activism. Ultimately, Watson was forced to resign in 1977, just as the pressures that led to Prop 13 began to rise.⁹⁷

In essence, a perfect storm developed, in part because in California tax assessors had a reputation for what one study termed a “high level of professionalism and expertise” in calculating market values.⁹⁸ Just before Prop 13 was enacted, the ratio of property taxes to

personal income was about 40% above the national average; only Massachusetts (which passed its own Prop 13-type initiative two years after Prop 13) had a higher ratio.⁹⁹ As Chart 1 indicates, home prices were rapidly escalating.

Typically, homes were re-assessed on a three-year cycle so assessments would jump with three-years' worth of house price inflation in one dollop. Disparate anti-property tax groups began to unite. Notably, two rivals in the movement – Howard Jarvis and Paul Gann – made sufficient peace with one another to co-sponsor Prop 13. And other influences that pushed property tax relief to the fore are often cited.

An earlier court decision in the *Serrano* case required the state to approximately equalize per pupil spending across school districts.¹⁰⁰ In effect, *Serrano* disconnected local property taxes from revenue going to local schools. Homeowners who might once have seen property taxes as a kind of user fee for schools, no longer had reason to do so.

While the influence of *Serrano* on the anti-tax movement is still debated, the rapid escalation of property tax assessments was also not linked to a visible upgrading of non-school local services. A homeowner's property tax might double. But streets were not twice as clean, potholes were not filled twice as fast, and police and fire departments did not respond in half the time to emergency calls.

Certainly, the school issue clearly had some influence. Particularly in LA's San Fernando Valley, the combination of *Serrano* and of court-ordered busing to end *de facto* segregation did not create a sense that schools were improving. In various ways, the anti-busing forces and the anti-property tax forces tended to fuse.¹⁰¹ Both saw their route to salvation as the use of the ballot initiative. (An anti-busing initiative - Prop 1 of 1979 - and related litigation, ultimately brought the LA busing program to a halt.) Similarly, anti-growth movements were also developing as issues of congestion and density pitted the older development-political alliance against middle-class homeowners.¹⁰² (Anti-growth forces eventually enacted Proposition U, placed on the LA City ballot in 1986.)

When Ronald Reagan was governor, he opposed the Watson approach because he feared – as a conservative – that shifting the financing of schools to the state and away from the local property tax would weaken local control. And the governor and legislature – as noted earlier – would periodically provide tax relief to homeowners in response to the initiatives and similar pressures. But as Prop 13 loomed as a possible ballot initiative and then became an actual ballot proposition, Governor Jerry Brown and the legislature seemed to dawdle. And Reagan – no longer governor but by then an active candidate for president – reportedly signed the Prop 13 petition. Prop 13 had become the centerpiece of an umbrella movement and an alliance of various forces in the taxpayer revolt.

Prop 13 was opposed by most – not all - local officials, public sector unions, and many in the legislature – not surprisingly. But it was also opposed by big businesses even though, as worded, the proposition would give more dollars back to business property than to homeowners if enacted. Chamber of Commerce types feared that ultimately cutting a local source of revenue would shift the tax burden more toward private business. On the other hand, many small

businesses – Jarvis represented apartment-house owners, often mom and pop operators – found the proposition appealing.¹⁰³

While some observers have found the opposition to Prop 13 of big business paradoxical, the fact is that as with any major policy change, there are often consequences which interest groups don't understand or fail to forecast accurately. For example, real estate agents were enthusiastic supporters of Prop 13, distributing petitions and the like. But Prop 13 contained incentives for people to stay in their existing houses, not trade houses. And other things equal, less churning of houses is a Bad Thing if you are a realtor dependent on sales commissions.

Similarly, it is doubtful that Jarvis and his apartment house owner/backers could have predicted that Prop 13 would spawn rent controls. Renters had been promised that landlords would somehow share the windfall of lower taxes in the form of lower rents. Indeed, Prop 13 co-author Howard Jarvis had hinted at an agreement by apartment landlords to lower rents if the initiative passed.¹⁰⁴ But Prop 13 had no immediate effect on either apartment demand or apartment supply – so such rent reductions did not occur and angry tenants clamored for controls in response. Special interests do not always know for sure what their interests are.

In the end, despite the late arrival of an alternate ballot proposition placed there by the legislature and a rather ineffective campaign for the alternative and against Prop 13, Prop 13 won by a 2-to-1 margin. The alternative, Proposition 8, lost with 47% of the vote. As a result, Howard Jarvis – who was far more colorful and visible than the soft-spoken Paul Gann – became a folk hero (and even landed a comic part in the movie *Airplane*). His book – a kind of memoir and manifesto – was widely read.¹⁰⁵

Jerry Brown – who opposed Prop 13 before it was passed - announced afterwards that he would make Prop 13 work as the will of the people. And he had the means, at least temporarily, to do so by bailing out the localities, given what state treasurer Jess Unruh called the “obscene” state reserve that had been accumulated.¹⁰⁶ Jarvis seemed to endorse both Brown and his Republican opponent, Attorney General Evelle Younger, in the fall gubernatorial election. (Younger had in fact given mild support to Prop 13 when it was on the June ballot.) Brown went on in November 1978 to win re-election to a second term as governor as a convert to the virtues of Prop 13. And, of course, Ronald Reagan won his first term as President in 1980, in part due to the spread of the taxpayer revolt from California to other parts of the country.

The Prop 13 episode has significant parallels to the budget crisis of 2008. In both cases, there were plenty of advance warnings of a coming crisis – Prop 13 in 1978 as a political crisis; the 2008 budget impasse as a fiscal crisis. Arguably, the legislature and governor had more potential ability to deal with the 1978 political crisis than the 2008 fiscal imbroglio. In the former case, the state was running a large budget surplus and had accumulated a reserve that could have been used for aggressive and pre-emptive property tax relief.¹⁰⁷

Indeed, it was that surplus and reserve that allowed the state (partly) to bail out local governments when Prop 13 came into effect – at least until the recessionary climate of the early 1980s interacted with the bailout to cause a fiscal crisis for the state at the end of Governor Brown's second term. If such a transfer of resources was possible *after* Prop 13 was adopted, it

surely was possible *before*. What prevented action being taken preemptively at the state level? The actions (or lack thereof) of the governors in both the Prop 13 political crisis and the 2008 budget crisis had much to do with these two events.

Two Governors

*"Maybe by avoiding doing things you accomplish quite a lot."*¹⁰⁸

Governor Jerry Brown

*"Flip-flopping is getting a bad rap, because I think it is great."*¹⁰⁹

Governor Arnold Schwarzenegger

Initially, other than the fact that both have been governor of California, Jerry Brown and Arnold Schwarzenegger could not appear to be more different. Brown was raised immersed in state politics in the household of Pat Brown who was state attorney general and then governor (1959-67). Son Jerry first intended to be a Jesuit priest, but then changed his mind and went into politics, initially as an elected member of the Los Angeles Community College Board, then as California secretary of state, and eventually as governor. Schwarzenegger, in contrast, was an immigrant weight lifter who became a celebrity movie star/action hero. When Schwarzenegger ran in the 2003 recall, he promised voters "action, action, action." In contrast, Jerry Brown focused on lowered expectations and more meditation.

But there are some parallels, both in style and interest. Both governors enjoyed being recipients of publicity and media attention. Both characterized themselves as not being ordinary politicians. Both liked to cross traditional ideological lines. Both liked to identify with Big Issues, notably environmental. Both seemed aloof from nitty-gritty details of policy. Both liked to talk with a wide variety of people. Both were capable of taking actions that surprised their own staffs and both enjoyed having an eclectic mix of staff members. Both fitted the stereotypes about California as a place where unusual and amusing things happen, stereotypes which are popular outside the state and attracted national attention as a result. Both have proved capable of quickly reversing policy when the political need arose.

These characteristics work well in personal campaigns for elective office. They work less well in dealing with legislators who often *are* ordinary politicians with ordinary constituencies to please. They work less well in rounding up support for policies that are controversial and are opposed by major interest groups or in obtaining support for unpleasant actions in the face of fiscal distress or other difficult situations. On the other hand, the ability to reverse course, permits a political rebound when needed.

Thus, after Governor Schwarzenegger's "Year of Reform" ballot initiatives were all defeated in November 2005 and his popularity sank dramatically, he proclaimed "message received" in his January State of the State address and went on to win re-election in November 2006. Similarly, when Jerry Brown found himself on the wrong side of Prop 13 after it passed in

June 1978, he quickly became a dedicated Prop 13 supporter, wooing Howard Jarvis personally, and winning re-election in November of that year by a wider margin than his victory four years earlier.

Over time, what the issues are – and what will prove popular – changes. Jerry Brown made a point in his early career of not being just a copy of his dad and in fact in many ways was the anti-Pat. He took pride in running a budget surplus and holding spending below revenue. He took a hard line on student demonstrators. And, although opposed to the death penalty, Jerry Brown identified more with a tough-on-crime approach than with an emphasis on rehabilitation.

Pat Brown – although he now has attained retrospective gubernatorial sainthood for his freeways, waterworks, and university campuses – left office after defeat by Ronald Reagan blamed for student demonstrators, the Watts Riot, and a major budget crisis that he left to his successor to fix. Jerry clearly did not want to be identified with those images. Operating with such New Age themes as “small is beautiful” and “era of limits,” Jerry generally opposed more freeways and similar infrastructure – with the exception of a fancied California state space program that never materialized.¹¹⁰

Schwarzenegger, ironically, invoked the now-sanctified senior Brown as the model great builder in pushing for Pat Brown-type infrastructure in 2006. The contrast between Jerry Brown’s modest choice of a Plymouth as his state car and Schwarzenegger’s predilection for Hummers simply reflects changing times. (And as public anxiety over rising gasoline prices came to the fore, the Hummers seemed to disappear from view.) Jerry Brown was interested in beaming solar energy from space. Arnold Schwarzenegger focuses on the “hydrogen highway.”

Now that New Age symbols and rebellion against tradition are no longer the novelties and the political assets they once were, Brown as mayor of Oakland returned to the conventional. As he prepared to return to statewide politics in the early 2000s (a successful run for Attorney General in 2006), he disconnected from a longtime Zen guru/advisor – who had made himself an embarrassment. And he married his longtime girlfriend.¹¹¹ Similarly, after the 2005 Year of Reform fiasco, Schwarzenegger dropped the Hollywood-style photo ops that had become counterproductive. He instead turned to professional press conferences and talks to civic groups to push his agenda, often in a suit and tie.

1977-78: What Happened?

“Whenever I tell an audience local government will come to a halt, all I see is smiling faces.”¹¹²

Assemblyman Paul Priolo
Republican minority leader

“This may be the time they waited too God-damned long to act.”¹¹³

San Diego Mayor Pete Wilson

The fiscal year that ended in June 1978 – with the passage of Prop 13 – turned out to be a crucial period in California's budgetary history. Members of the legislature were certainly aware of pressures for property tax relief. A bill was in the hopper at the beginning of the fiscal year providing property tax postponements for seniors (until the property was sold) and other features. And there were policies considered that would allow taxpayers to defer property tax increases above a given percentage. Some Democrats were willing to consider caps on spending – state and/or local – an idea that had been unsuccessfully pursued via initiative by then-Governor Reagan in 1973.¹¹⁴ Debate also centered about a demand from the business community to abolish a tax on commercial inventories, as part of some more general tax relief.

Complicating the task, however, was court-ordered legislative compliance with *Serrano*, which one way or the other seemed to imply losses to wealthy school districts to finance gains for poorer ones. Wealthier districts naturally resisted such reallocation. One spokesperson for such a district said that when residents of his district understand the implications of the redistribution, "*it's going to drive them right out of their skulls.*"¹¹⁵ The combination of school finance and dealing with state-supported local tax relief proved difficult from the start. Finally, Governor Brown was adamant that whatever the legislature did on those two fronts, no general tax increase could be included or should result from legislative action.

But although some state officials were concerned about property taxes, Sacramento began the fiscal year without a sense that something dramatic would come about in less than twelve months. Governor Brown, in August 1977, visited a NASA center in the Bay Area as part of "Space Day" and pushed for research into satellites. In attendance at Space Day were notables of the day such as astronomer Carl Sagan, oceanographer Jacques Cousteau, and LSD enthusiast Timothy Leary.¹¹⁶ "*The public is really fascinated by space,*" the governor observed, citing the success of the recently-released *Star Wars* movie.¹¹⁷ Nonetheless, back on Planet Earth, new residents of California coming from out of state were being shocked by the price of new homes, what one termed the "*great California real estate freak-out phenomenon.*"¹¹⁸

Meanwhile, Howard Jarvis and Paul Gann, despite their differences, had begun circulating petitions on July 6 to put what would become Prop 13 on the state ballot. By late September, with no definitive response from the legislature, the two were projecting enough signatures to qualify for the June 1978 ballot. One activist attributed the success of the petition to "*the Legislature refusing to do anything about the tax mess.*"¹¹⁹ Indeed, the governor and the legislature could not agree on a plan for property tax relief when the first half of the 1977-78 session ended in September.

With the legislature out of session, there was little action on the property tax issue as the calendar year came to an end. As is standard practice, word began to be leaked by the administration about the content of the governor's forthcoming January budget proposal. In late December 1977, various legislators and the press were invited to a special briefing - former astronaut Rusty Schweickart was in attendance - on a communications satellite in which California would have a share and for which the budget would provide.¹²⁰ On property taxes, Governor Brown's executive secretary Gray Davis said the governor would favor a bill that included a limit on local governments' ability to raise property tax rates.

Once the legislative session resumed, Governor Brown argued that there would have to be a choice between property tax relief and income tax relief. California's income tax was highly progressive and inflation was pushing taxpayers into higher tax brackets. One remedy would be to index the brackets to inflation. But since there were calls for both income tax indexation and some version of property tax relief, the legislature would have to pick which one it wanted. "*The two ideas are incompatible,*" said Brown in mid-January.¹²¹

In the background of the debate was the 1978 gubernatorial race, already in progress. Attorney-General Evelle Younger, who would eventually emerge from the June primary as the Republican nominee for governor, favored tax relief. Nonetheless, when he formally announced his candidacy, Younger's initial program was along the lines of past legislative efforts at tax relief when initiatives threatened, rather than Prop 13 which by that time was definitely on the June ballot.¹²² At a later point, he criticized the initiative as "*poorly drafted*" but said he might vote for Prop 13 as "*the lesser of two evils,*" the other evil being a bill then pending in the legislature.¹²³ In short, Younger's support of Prop 13 was limited at best.

However, other Republican candidates for the nomination were not so reticent about backing Prop 13. Former LA Police Chief Ed Davis proclaimed that he had "*perceived the angry mood of Californians who are not going to be denied their taxation revolution. I gladly join that revolution.*" Another candidate, Assemblyman John Briggs of Fullerton, also was an enthusiastic Prop 13 supporter.¹²⁴ And there were supporters of the initiative developing even in the local governments that would lose property tax revenue if it passed. LA City Controller Ira Reiner, for example, endorsed Prop 13 as "*an understandable reaction to government excess.*"¹²⁵

By late February, the legislature was still dickering over the terms of a property tax relief program. Real estate agents were opposing a plan that would partly finance relief by a new tax on house sales. Their opposition was delaying a final plan. Assembly Speaker Leo McCarthy fretted that "*if we don't get a bill passed in the next few weeks, there really won't be time to mount an intelligent alternative to the Jarvis initiative.*" But the governor remained silent on Prop 13, saying he was waiting to see what would emerge from the legislature.¹²⁶

It is important to note that Prop 13 was not a sure thing as of early spring 1978. Polling results suggested that among those aware of the initiative, roughly a third favored it, a third opposed it, and a third were undecided.¹²⁷ By early March, the legislature finally did put an alternative Prop 8 on the ballot which provided more modest property tax relief than 13 and was more in the spirit of past legislative endeavors in that area. Governor Brown signed it saying "*This is real property tax relief— not a gimmick.*"¹²⁸

Although Prop 13 was still not a sure thing, by late April it was at least a possibility. Yet, former Legislative Analyst A. Alan Post observed that as far as he could tell, there was no contingency planning going on concerning how to deal with it if it passed. "*Nothing is happening,*" lamented Post, who — after Prop 13 did pass — was named to head a commission on how to deal with it.¹²⁹ However, by mid-May, word leaked out that the Brown administration had begun contingency planning. The governor reportedly told local officials who were warning

of dire consequences if Prop 13 passed that *"The thing is, I don't think people believe you when you're saying all that."*¹³⁰

Information also began to come from other sources. Word began to leak in Los Angeles of large increases to be announced in property assessments.¹³¹ And there were reports that the state surplus would be larger than originally projected.¹³² But despite these leaks, polling suggested Prop 13 was still a toss up, even a few weeks prior to Election Day.¹³³ However, the initiative received a final fillip when the LA County tax assessor released the actual new assessments shortly before the election and Prop 13 passed with 65% of the vote. Prop 8, the legislative alternative, in contrast, lost with 47% of the vote.

Immediate Aftermath

"Governor Brown just discovered 13 after he knew the people were going to vote very heavily for it. By the day after election, he had clutched it to his bosom to the extent that you thought maybe he wrote it."

Former Governor Ronald Reagan

*"A Brown-Jarvis alliance would have seemed bizarre less than a month ago, but that is no longer the case. Politics takes strange turns."*¹³⁴

Columnist David S. Broder
New York Times, June 30, 1978

Almost immediately after Prop 13 passed, Governor Brown addressed the legislature and said a new state budget plan – with no new taxes – would have been enacted in two or three weeks to bail out local governments. Prop 13's co-sponsor Paul Gann commented afterwards that *"for a speech he didn't have much time to prepare, what he said, I liked."*¹³⁵ Hiring was frozen in the state and pay rates were frozen. President Carter declined a request from Governor Brown to return to the state the federal tax windfall that would result from the decline in (income tax-deductible) property taxes.¹³⁶

Although the legislature did not send the governor a final budget bill by the start of the fiscal year, it had one on his desk by July 6. But that was breakneck speed – particularly in view of the magnitude of the post-Prop 13 task – compared with contemporary budget delays. Governor Brown signed the bill but vetoed pay increases and cost-of-living adjustments in various welfare programs. The new budget, said the governor, *"keeps faith with the voters' mandate."*¹³⁷

Governor Brown took up the mantle of tax cutting and spending limitations – supporting a federal balanced budget amendment – and decisively won re-election in November 1978. Paul Gann went on to put Prop 4 on the 1979 ballot which placed an effective cap on government spending and which passed with 78.5% of the vote. By 1980, however, when Howard Jarvis put Prop 9 on the state ballot to cut the state income tax, voters in California had apparently tired of the anti-tax fervor and "Jarvis II" failed with only 39% support. Later in the 1980s, voters gutted the Prop 4 Gann limit by passing Prop 98 and then 111 which earmarked state spending for K-

14. Gann and Jarvis never collaborated after Prop 13 but each went on proposing initiatives. Jarvis died in 1986. Gann died in 1989 of complications related to AIDS.¹³⁸

A. Alan Post's commission on dealing with the longer term fiscal implications of Prop 13 produced a more orderly blueprint for dealing with future bailouts than was possible with the hasty plan enacted for 1978-79. In a 1998 interview, however, Post complained that Governor Brown never focused on its recommendations. *"I wasn't getting much help from Jerry Brown or his director of finance, Dick Silberman,"* he said. *"We even had a tough time getting the report printed and distributed."*¹³⁹

In any event, recession in the early 1980s depleted the state treasury and Brown's new-found popularity faded. He lost a bid for the U.S. Senate to Pete Wilson in 1982. Thereafter, he retired from politics until 1989 when he beat Steve Westly in a race to become chair of the California Democratic Party. From his current post as California's attorney general, Brown is rumored to be planning a run to return to the governorship in 2010. Post, now in his 90s, continues to be active in state affairs and in a second career as a painter.

Leadership and the Budget

"I can't help you with what you must soon face, except to say that the future is not set. You must be stronger than you imagine you can be."

Kyle Reese
Visitor from the future in
Schwarzenegger's film *The Terminator*

California has had governors of varying personalities and leadership styles. All have had to deal with issues of state budgeting. But, depending on the economy and the political winds, fiscal affairs can be more or less challenging. It does appear, however, that when challenges arise, an ability to focus is a necessary – but not sufficient – condition to avoid having what started as a challenge become a crisis.

Of course, governors cannot enact budgets on their own. Legislative leadership is also important. But with term limits – a policy not in effect during the Prop 13 episode – strong leadership is now less likely to come from the legislature on fiscal affairs than it was in earlier times. Jerry Brown as governor let events overtake him when the property tax movement began to coalesce around Prop 13. In terms of winning re-election, he was successful. In terms of guiding the state's fiscal affairs in a troubled period, less so.

Arnold Schwarzenegger came to office in a recall, largely because of a state budget crisis. He clearly wanted to fix the problem. But after an initial short-term fix in 2004 – essentially borrowing to refinance the general fund – he mixed budget reform in 2005 with a variety of other issues and failed to enact any of them. Gubernatorial election year 2006 produced infrastructure plans – always popular – but again based heavily on seemingly-painless borrowing. Nonetheless, as with Brown's abrupt shift in direction in 1978, Schwarzenegger's shift in 2006 led to renewed popularity and re-election.

In 2007, the issue for Governor Schwarzenegger was to be universal health care. However, after an initial health proposal, gubernatorial attention wandered to other issues and by the time attention was refocused on health, the health plan proved to be a near miss: passed in the assembly, killed in a senate committee. And by the summer of 2008, the unresolved structural problem of the state budget had forced itself back as The Issue for California.

There is no guarantee that strong focused leadership could have repaired the state's underlying budgetary problem. Governor Schwarzenegger's favored reform for 2008, redistricting, seems only distantly connected to the budget and can't have an effect until after the 2010 Census. Moreover, the effect it might have could conceivably complicate attaining a two thirds vote on fiscal policy.

A bigger rainy day fund – the favored reform for 2009 – can't hurt. But history tells us that the legislature effectively blew out such a reserve in the early 2000s when the dot-com and stock market bubble burst. And accumulating a sizeable rainy day fund requires economic sunshine, something forecasters are not predicting for the near term.

An ability to make midyear cuts is helpful, absent other remedies, but to the extent such ability is not written into the constitution, it exists only with the will of the legislature. The governor did obtain (constrained) authority to cut as part of the 2008-09 budget deal. Whether he will continue to have such authority is a matter of legislative discretion.

Despite the unfavorable fiscal outlook, the future is not set. Strong and focused leadership from now on would help.

Table 1: Governor's January Budget Proposal and LAO Budget Proposal Under LAO Economic Assumptions (\$ Billions)

	2006-07	2007-08	2008-09	2009-10
<hr/>				
Governor				
Revenues	\$95.9	\$96.5	\$102.4	na
Expenditures	\$101.2	\$103.6	\$101.1	na
Surplus or Deficit	-\$5.3	-\$7.1	+\$1.2	-\$3.8
LAO				
Revenues	\$95.9	\$96.5	\$103.4	na
Expenditures	\$101.2	\$102.5	\$103.6	na
Surplus or Deficit	-\$5.3	-\$5.9	-\$0.2	na
LAO				
End-of-Year Reserve	\$5.0	\$2.4	\$2.2	na

Note: Reserve includes proceeds of \$3.3 billion Economic Recovery Bond sale in 2007-08.

Note: na = not available

Source: California Legislative Analyst's Office, "The 2008-09 Budget: Perspectives and Issues," especially pp. 9, 11, 88, available at:

http://www.lao.ca.gov/analysis_2008/2008_pandi/pandi_08.pdf

Table 2: The Governor's May and August Revise Proposals and LAO May Alternative (\$ Billions)

	Governor - May		LAO - May	August	Final
	2007-08	2008-09	2008-09	2008-09	2008-09
Revenues	\$97.4	\$97.9	\$97.9	Approx. \$101	Approx. \$101
Expenditures	\$103.5	\$101.8	na	\$103.4	\$103.4
Surplus or Deficit	-\$6.1	-\$4.0	na	Approx. -\$2	Approx. -\$2

Note: Figures exclude borrowing under Economic Recovery Bonds in 2007-08 and lottery securitization in 2008-09. Also excluded are proposed loans from other funds in the August Revise and transfers in the final budget.

na = not available

Note: Revenue estimate from the August revise is the sum of revenues reported on p. 7 of the supporting document plus approximately \$6 billion of non-borrowed revenue (\$4 billion from the temporary sales tax increase plus other tax revenues including an amnesty which would technically be assigned to the prior fiscal year.

Source: California Legislative Analyst's Office, "Overview of the 2008-09 May Revision," May 19, 2008, especially p. 8, available at:

http://www.lao.ca.gov/2008/bud/may_revise/may_revise_051908.pdf, and "LAO

Alternative Budget: Revenue-Related and Revenue-Increasing Proposals," June 2, 2008, available at http://www.lao.ca.gov/handouts/FO/2008/060208_SBFR_Hearing.pdf; California Department of Finance, "August 2008-09 Update: Proposed Compromise" available at:

http://www.dof.ca.gov/budget/historical/2008-09/documents/August_Revision_R2-w.pdf.

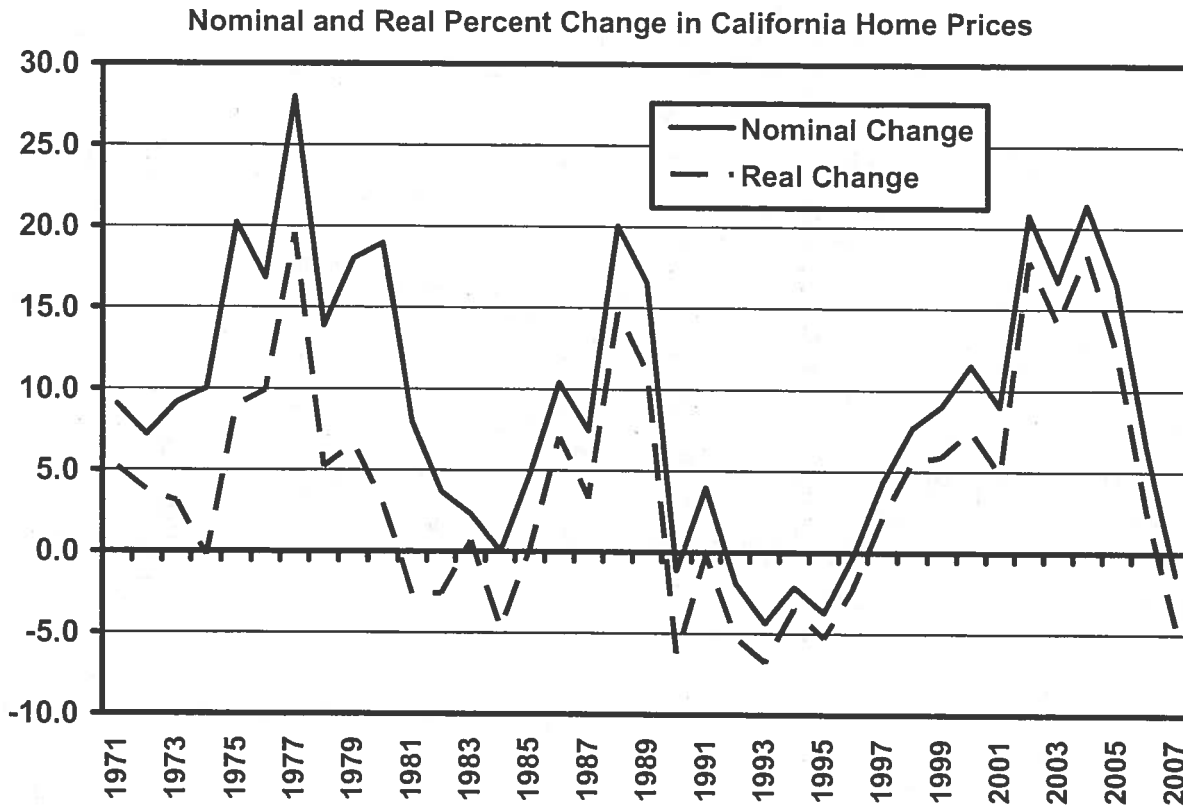
Table 3: California General Fund, 1974-75 – 1978-79 (\$ billions)

Year	Revenues & Transfers	Expenditure & Transfers	Surplus or Deficit	Reserve
1974-75	\$8.6	\$8.3	+\$0.3	\$0.7
1975-76	9.6	9.5	0.1	0.8
1976-77	11.4	10.5	0.9	1.8
1977-78	13.7	11.7	2.0	3.9
1978-79	15.2	16.3	-1.1	2.9

Note: Details may not add to totals due to rounding.

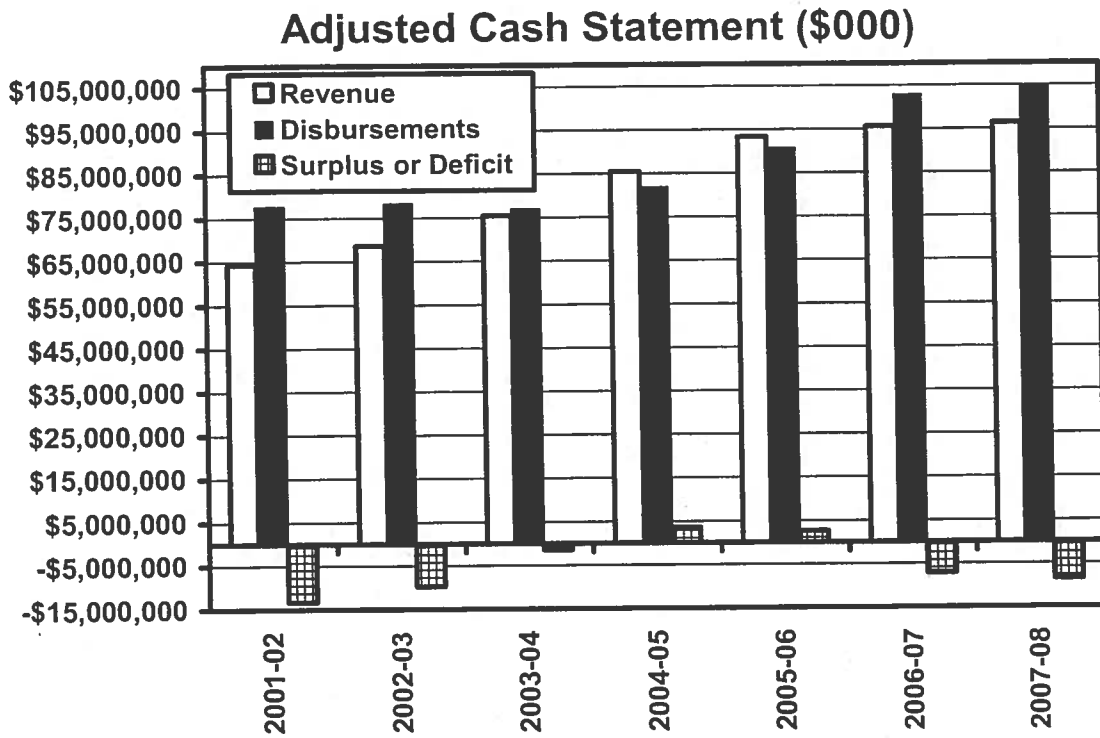
Source: California State Controller, *Annual Report of the State Controller*, various years.

Chart 1



Source: Annual median home price data 1971-78 from Marion S. Beaumont, "Proposition 13 Winners and Losers: Were First-Time Home Buyers Affected Adversely?" in Frederick D. Stocker, ed., *Proposition 13: A Ten-Year Retrospective* (Cambridge, MA: Lincoln Institute of Land Policy, 1991), p. 163; monthly home price data from UCLA Anderson Forecast converted to annual averages, 1979-2007, California Consumer Price Index (CPI-U) from California Department of Finance. All home price data originally credited to California Association of Realtors.

Chart 2



Source: California State Controller, June reports on General Fund Cash Receipts and Disbursements, available at <http://www.controller.ca.gov/ard/cash/index.shtml>.

Endnotes

¹ The author of this chapter quoted in Evan Halper, "Governor Teeters on the Edge of Deficit Abyss," *Los Angeles Times*, November 7, 2007.

² George F. Break, "Proposition 13's Tenth Birthday: Occasion for Celebration or Lament?" in Frederick D. Stocker, ed., *Proposition 13: A Ten-Year Retrospective* (Cambridge, MA: Lincoln Institute of Land Policy, 1991), p. 175.

³ Daniel J.B. Mitchell, "From Jerry-Rigged to Petered Out: Lessons from the Deukmejian Era for Contemporary California State Budgeting," in Daniel J.B. Mitchell, ed., *California Policy Options 2008* (Los Angeles: School of Public Affairs, 2008), pp. 39-76, especially pp. 53-58.

⁴ Joe Mathews, *The People's Machine: Arnold Schwarzenegger and the Rise of Blockbuster Democracy* (New York: Public Affairs, 2006), pp. 79-104.

⁵ The California Teachers Association, a prime mover behind Prop 98, opposed Prop 92 as did the Regents of the University of California. Both groups expressed the concern that tying up more of the state budget was a Bad Thing. In the case of CTA, it had many more members in K-12 than in community colleges. But some unions – notably the California Federation of Teachers, a smaller group representing instructors at community colleges – supported Prop 92. Prop 92 received only 43% of the vote on Election Day.

⁶ Data on initiatives per year comes from a database maintained by Hastings College at http://library.uchastings.edu/library/Research%20Databases/CA%20Ballot%20Measures/ca_ballot_measures_main.htm#ballotinit and recent election reports from the California Secretary of State at www.sos.ca.gov.

⁷ Daniel J.B. Mitchell, "Unions and Direct Democracy in California: A New Pattern Emerging?" in Daniel J.B. Mitchell, ed., *California Policy Options 2008* (Los Angeles: School of Public Affairs, 2008), pp. 197-221.

⁸ Quoted in *Capital Alert* (on-line service of the *Sacramento Bee*), January 31, 2008.

⁹ See Stephen Carroll, Eugene Bryton, C. Peter Rydell, and Michael A. Shires, *Projecting California's Fiscal Future* (Santa Monica, CA: Rand, 1995). A Legislative Analyst's report in 1996 also warned of future budget deficits. See California Legislative Analyst's Office, *California's Fiscal Outlook: The LAO's Economic and Budget Projections, 1996-97 through 1998-99* (Sacramento: LAO, 1996).

¹⁰ Davis' reputation as a micro-manager was emphasized in a lawsuit by one of his top officials – the former head of the Department of Motor Vehicles – claiming he was eligible for unemployment insurance after having been fired after the recall by incoming Governor Schwarzenegger. The lawsuit alleged that despite his high title, the official had no real authority and was thus an ordinary employee entitled to unemployment benefits. See John Hill, "A Juicy Benefits Battle," *Sacramento Bee*, November 18, 2007.

¹¹ The car tax is actually a property tax on motor vehicles that is collected by the state on behalf of local governments. Since it is really a local tax, when the tax was cut, the state reimbursed the local governments for the lost revenue. So reducing the car tax increases state spending on support for local governments. The car tax had been cut during the revenue boom of the late 1990s with a trigger that could raise it back to the old level if the state found itself in fiscal distress. Davis pulled the trigger during the period leading up to the recall and candidate Schwarzenegger promised to cut it back to the reduced level – which he did upon taking office.

¹² The state constitution requires that general obligation borrowing be approved by the voters and that such borrowing should be for specific projects, not general operating purposes. By amending the constitution to allow the borrowing, Governor Schwarzenegger short-circuited these requirements on a one-time basis. The original Davis plan did not involve going to the voters and relied on a questionable legal strategy that surely would have been challenged in court. A pending court challenge would likely have made Davis' proposed bonds impossible to sell, since an adverse ruling could void any investor claim on the state.

¹³ Some of the amnesty money may have to be paid back in the future as tax litigation is completed. It appears that some taxpayers who were disputing tax liabilities paid the state under protest during the amnesty to avoid penalties if their cases ultimately resulted in a liability – even if they expected to win.

¹⁴ Both quoted in Evan Halper, "Brokaw Needles Schwarzenegger on Spending, Economy," *Los Angeles Times*, June 30, 2008.

¹⁵ Daniel Weintraub, *Party of One: Arnold Schwarzenegger and the Rise of the Independent Voter* (Sausalito, CA: PoliPoint Press, 2007), pp. 75-76.

¹⁶ See Daniel J.B. Mitchell. "'They Want to Destroy Me'": How California's Fiscal Crisis Became A War on "Big Government Unions." *WorkingUSA: The Journal of Labor and Society*, (March 2006), vol. 9, pp. 99-121.

¹⁷ See Daniel J.B. Mitchell. "Something Different in the Air? The Collapse of the Schwarzenegger Health Plan in California." *WorkingUSA: The Journal of Labor and Society*, (June 2008), vol. 11, pp. 199-218.

¹⁸ See Daniel J.B. Mitchell. "Something Different in the Air? The Collapse of the Schwarzenegger Health Plan in California." *WorkingUSA: The Journal of Labor and Society*, (June 2008), vol. 11, pp. 199-218.

¹⁹ John G. Matsusaka, "Where Does It All Go?," *Los Angeles Times*, July 17, 2008. In this op ed, Matsusaka cited a 40% increase in the state budget – although he focused on the overall state budget, not just the general fund.

²⁰ James Richardson, *Willie Brown: A Biography* (Berkeley: University of California Press, 1996), pp. 255-271; Willie Brown, *Basic Brown: My Life and Our Times* (New York: Simon & Schuster, 2008), pp. 146-156.

²¹ If all state supported spending on health services, mental health services, development services, and social services is counted, the total of \$28.4 billion is about a fourth of general fund expenditures. Counting only state-supported but locally-delivered SSI/SSP/IHSS, CalWorks, and Medical Assistance brings the total down to \$21.5 billion or about a fifth of expenditures. Source: California State Controller, *Statement of General Fund Cash Receipts and Disbursements: June 2008*, p. A3. Available on line at <http://www.sco.ca.gov/ard/cash/0708/jun.pdf>.

²² Quoted in Evan Halper, "Schwarzenegger Orders Plan for 10% Budget Cuts," *Los Angeles Times*, November 6, 2007.

²³ Quoted in George Skelton, "The State's Money Woes Will Trump Its Big Plans," *Los Angeles Times*, November 15, 2007.

²⁴ Denham was in one of the few legislative districts that were regarded as marginal for the GOP. The recall option remained on the ballot although it was abandoned by Perata in early May after both sides mounted significant TV advertising campaigns and at one point Denham charged Perata with illegal use of state staffers for the recall. Various interpretations could be made of Perata's action ranging from teaching a lesson to other recalcitrants (thereby conceivably easing enactment of the 2008-09 budget) to opening the possibility of adding a new Democratic senator to a mechanism to move campaign funds around to a favored campaign consultant. Dan Walters, "Denham Recall Drive Motivation Still Hazy," *Sacramento Bee*, June 23, 2008. One interpretation of Denham's refusal to provide the needed vote for the 2007-08 budget was that he was planning a run for Lieutenant Governor in 2010 and would need conservative support in the primary. Denham began proposing such steps as a constitutional amendment that would freeze legislative pay if a budget was not passed by the June 15 constitutional deadline. Such proposals had no chance of legislative enactment but could serve a purpose in a future Republican primary campaign.

²⁵ The defeated 2005 initiative would have put districting line drawing in the hands of retired judges and would have affected congressional as well as legislative districts (drawing opposition from congressional representatives in both parties). The new initiative would apply only to the legislature and would set up a panel of Republicans, Democrats, and independents or minor party representatives to do the redistricting and became Prop 11 on the November 2008 ballot.

²⁶ User "fees" are not subject to the two-thirds vote requirement as opposed to taxes. In this case, the insurance industry favored the fee as a way of limiting its fire liability. However, taxpayer groups charged that the fee was in reality a tax. And there was criticism of an across-the-board fee on all property insurance as opposed to a risk-based charge for those with property in high fire regions. See Marc Lifsher and Evan Halper, "Gov. Urges Insurance Assessment to Fund Firefighting," *Los Angeles Times*, January 9, 2008.

²⁷ Judy Lin, "Governor: Slash School Aid," *Sacramento Bee*, January 10, 2008.

²⁸ "Lockyer's Holiday Message: No Tooth Fairy for the Budget," *Capitol Alert*, December 14, 2007.

²⁹ California Field Poll, release #2257, December 28, 2007. (All California Field Polls are available at www.field.com by clicking on "archives.")

³⁰ Quoted in Dan Walters, "Crisis May Lead to a Grand Deal," *Sacramento Bee*, January 11, 2008.

³¹ Dan Weintraub, "On Budgets and Leverage," *Capitol Alert*, January 10, 2008.

³² If the state borrows within a fiscal year using Revenue Anticipation Notes (RANs), the borrowing is handled by the Treasurer with little fanfare. If the borrowing crosses the fiscal year line, however, the state must issue Revenue Anticipation Warrants (RAWs) through the Controller. While there is little difference between the two in financial terms, use of such RAWs might be taken as a signal on Wall Street of particular fiscal distress, since they are rarely used or needed. Courts have long viewed such short-term instruments as essentially a cash management tool rather than the kind of long-term borrowing that requires voter approval.

³³ The sale took place in February 2008. Because the Economic Recovery Bonds were attached to a dedicated revenue stream, investors viewed them as more desirable than other California state general obligation bonds.

³⁴ See Dan Walters, "Two Buddies Part Ways Over Taxes," *Sacramento Bee*, February 13, 2008.

³⁵ These quotes and those of other state officials can be found in the "The Budget Reaction," *Capitol Alert*, January 10, 2008.

³⁶ Evan Halper, "Legislature Considers Raiding Voter-Approved Funds," *Los Angeles Times*, July 18, 2008.

- ³⁷ As it turned out, one of the tribes whose compact was at issue had not actually signed the agreement and seemed as of mid-June to be holding out for better terms. See James P. Sweeney, "Sycuan Withholds Gambling Pact OK," *San Diego Union-Tribune*, June 19, 2008.
- ³⁸ Quoted in Kevin Yamamura, "Governor Backs Off Tax Breaks," *Sacramento Bee*, February 29, 2008.
- ³⁹ Quoted in Kevin Yamamura, "Governor Backs Off Tax Breaks," *Sacramento Bee*, February 29, 2008.
- ⁴⁰ As noted earlier, the sloop hole was eventually removed as part of the budget deal for 2008-09.
- ⁴¹ Quoted in "Governor Suggests No Potty Breaks," *Capitol Alert*, March 10, 2008.
- ⁴² Quoted in Evan Halper, "State Democrats Determined to Raise Taxes," *Los Angeles Times*, March 5, 2008.
- ⁴³ Quoted in Jim Sanders, California Assembly Kills Núñez Oil Tax Plan," *Sacramento Bee*, March 13, 2008.
- ⁴⁴ Loren Kaye, "State Tax Hike Talk Must Be Linked to Budget Reform," *Sacramento Bee*, April 22, 2008.
- ⁴⁵ Judy Lin, "GOP Senators Demand Changes in Business, Environmental Policies," *Sacramento Bee*, April 30, 2008.
- ⁴⁶ Judy Lin, "Lawmakers Take a New Look at Privatizing California Lottery," *Sacramento Bee*, April 22, 2008.
- ⁴⁷ Rani Isaac, "Foreclosures in California," California Research Bureau, CRB 08-006, May 2008. Available at <http://www.library.ca.gov/crb/08/08-006.pdf>.
- ⁴⁸ Kevin Yamamura, "Governor Says Ball is in Lawmakers' Court," *Sacramento Bee*, May 16, 2008.
- ⁴⁹ Judy Lin, "California Officials Expect Revenue to Drop 8 Percent," *Sacramento Bee*, May 21, 2008.
- ⁵⁰ California Field Poll, Release #2272, June 3, 2008.
- ⁵¹ John Myers, "With Hands Tied, A Salary Freeze," *KQED Capitol Notes*, June 10, 2008. Postings available at <http://blogs.kqed.org/capitalnotes/>. Go to archives for past postings. The California Citizens Compensation Commission could have only cut pay of new members of the legislature (all of the assembly and half of the senate) because it cannot cut pay during terms of office. No other elected officials could be cut in 2008 since all were in the midst of terms of office.
- ⁵² Quoted in Evan Halper, "State Republicans See Opportunity Amid Crisis," *Los Angeles Times*, June 16, 2008.
- ⁵³ Dan Walters, "Senate Dems Throw Down the Gauntlet," *Capitol Alert*, June 11, 2008.
- ⁵⁴ "Villines Says Lawmakers 'Not Making a Ton of Progress,'" *Capitol Alert*, June 30, 2008.
- ⁵⁵ Quoted in Kevin Yamamura and Judy Lin, "Schwarzenegger Blasts Budget Inaction," *Sacramento Bee*, July 16, 2008.
- ⁵⁶ Quoted in Evan Halper, "Legislature Considers Raiding Voter-Approved Funds," *Los Angeles Times*, July 18, 2008.
- ⁵⁷ "Perata Insists Democrats Don't Want to Borrow," *Capitol Alert*, July 18, 2008.
- ⁵⁸ Quoted in "Text of Governor's Executive Order," *Los Angeles Times*, posted on-line on July 31, 2008.
- ⁵⁹ "Garamendi: Could You Live on \$262 a week?," *Capitol Alert*, July 29, 2008. The federal minimum wage was \$6.55 per hour. Garamendi's figure of \$262 is the minimum wage times 40 hours.
- ⁶⁰ California State Controller, press release and attached letter dated July 31, 2008.
- ⁶¹ Kevin Yamamura and Jon Ortiz, "Governor Set to Slash State Workers' Pay," *Sacramento Bee*, July 24, 2008.
- ⁶² Certain critical workers were to be exempted from the minimum wage cut. About 180,000 workers were estimated to be subject to the cut and another 50,000 were excluded. Kevin Yamamura, "Schwarzenegger Formally Asks California Controller to Cut Pay," *Sacramento Bee*, August 6, 2008; Kevin Yamamura, "California State Computers Can't Handle Pay Cut, Controller Says," *Sacramento Bee*, August 5, 2008. Original estimates put the layoffs at 22,000, a figure that appeared in various news reports, e.g., Dan Walters, "Legal Picture Muddled in Game of Budget Chicken," *Sacramento Bee*, July 29, 2008. An early tabulation appearing in an on-line database maintained by the Sacramento Bee found about 32,000 potential layoffs.
- ⁶³ Perhaps not surprisingly, an effort by the author to obtain more detail on the calculation of unused borrowable resources from the controller's office was unsuccessful.
- ⁶⁴ Quoted in "'At Loggerheads', Perata Sees 'No End in Sight,'" *Capitol Alert*, August 5, 2008.
- ⁶⁵ Quoted in "Cogdill: Perata is 'Patently Incorrect,'" *Capitol Alert*, August 5, 2008.
- ⁶⁶ Quoted in John Howard, "Job Loss, Business Impacts Seen in Proposed Sales Tax Hike," *Capitol Alert*, August 5, 2008.
- ⁶⁷ Arnold Schwarzenegger, "A Compromise Budget for All Californians," op ed on the on-line *Fox & Hounds Daily*, August 21, 2008, available at <http://foxandhoundsdaily.com/print/1267>.
- ⁶⁸ Quoted in Jim Sanders, Schwarzenegger Proposes Sales Tax Increase," *Sacramento Bee*, August 5, 2008.
- ⁶⁹ Quoted in Matthew Yi, "Governor and Lawmakers Agree on Spending Plan," *Sacramento Bee*, September 19, 2008.
- ⁷⁰ Dan Walters, "Revised State Budget is Still a Sham," *Sacramento Bee*, September 19, 2008.

- ⁷¹ Quoted in Evan Halper and Jordan Rau, "Schwarzenegger, Top Legislators Reach a Budget Deal," *Los Angeles Times*, September 19, 2008.
- ⁷² Quoted in "AM Alert: What's Next," *Capitol Alert*, September 22, 2008.
- ⁷³ Jon Coupal, "CalTax Gets Rolled by the Governor," *Taxpayer Update* (emailed newsletter), September 7, 2008.
- ⁷⁴ Quoted in "The Buzz: Schwarzenegger Has No Regrets About Missing Convention," *Sacramento Bee*, September 9, 2008.
- ⁷⁵ "Put Mike Genest in the Dunk Tank," *Capitol Alert*, September 24, 2008.
- ⁷⁶ Office of the Governor, press release of September 23, 2008.
- ⁷⁷ Dan Walters, "Rosy Fiscal Forecasts? Forget It," *Sacramento Bee*, September 28, 2008.
- ⁷⁸ When there is no budget, legislators and their staffs are not paid. But they receive the back pay owed once the budget is signed. There were proposals simply to dock pay for each day of budget delay and not repay it once the budget was enacted.
- ⁷⁹ "No, But Just Barely, to Recalling Arnold," *Orange County Register*, September 12, 2008.
- ⁸⁰ Doubts about redistricting were raised in Eric McGhee, *Redistricting and Legislative Partisanship* (San Francisco: Public Policy Institute of California, 2008).
- ⁸¹ Quoted in Dan Walters, "Schwarzenegger Flip-Flops Like Jerry Brown," *Sacramento Bee*, July 23, 2008.
- ⁸² It is difficult to find exact statewide figures on pre-Prop 13 tax rates. The range estimates come from Valerie Raymond, *Surviving Proposition Thirteen: Fiscal Crisis in California Counties* (Berkeley, CA: UC-Berkeley Institute of Governmental Studies, 1988), p. 9. Note that the figures given in this source are provided on the basis of a 25% valuation of property – the ratio used prior to Prop 13. The figures have been divided by four to convert them to tax rates on full value. The average estimate comes from Roger L. Kemp, *Coping with Proposition 13: Strategies for Hard Times* (Malabar: FL: Robert E. Kreiger Publishing Co., 1988 [1980]), p. 151.
- ⁸³ Roger L. Kemp, *Coping with Proposition 13: Strategies for Hard Times* (Malabar: FL: Robert E. Kreiger Publishing Co., 1988 [1980]), pp. 93, 145, 171.
- ⁸⁴ It is unclear that – in the rush to deal with the fiscal crisis the localities faced in the short interval between the June election and the July 1 beginning of the new fiscal year – the legislature had good projections of what state revenues and expenditures apart from the bailout would be. Commentary from that period suggests more optimistic results than actually occurred. See Selma J. Mushkin, ed, *Proposition 13 and its Consequences for Public Management* (Cambridge, MA: Abt Books, 1979. See in particular the comments on p. 7 by Edward Hamilton. Hamilton projects a reserve at the end of the 1978-79 fiscal year of \$9 billion, absent the bailout of \$4.2 billion. That would suggest that with the bailout, the reserve should have been \$4.8 billion rather than the actual \$2.9 billion, as shown on Table 3.
- ⁸⁵ California Field Poll, "Proposition 13 Thirty Years After Its Passage," June 2008. Available at: <http://field.com/fieldpollonline/subscribers/COI-08-June-Prop-13-Tax-Matters.pdf>.
- ⁸⁶ Quoted in Mark Lachter, "What's the Harm in Talking About Prop 13?," *San Diego Business Journal*, September 1, 2003.
- ⁸⁷ Both quoted in Mark Simon, "Buffett's Prop. 13 Comments Cause Stir," *San Francisco Chronicle*, August 16, 2003.
- ⁸⁸ The Association sends out periodic email editorials. The statement appears in Jon Coupal, "One More Time: California's Budget Woes are Not Prop 13's Fault," January 7, 2008. Available at <http://www.hjta.org/commentaryV6-01>. As will be noted below, the statement is incorrect.
- ⁸⁹ Jeffrey I. Chapman, *Proposition 13 and Land Use* (Lexington, MA: Lexington Books, 1981).
- ⁹⁰ California Taxpayers' Association, "Cal-Tax 2008: Proposition 13 Revisited," June 2008, available online at <http://www.caltax.org/Proposition13.pdf>.
- ⁹¹ Center for Government Analysis, "An Analysis of Government Revenues in California Since the Enactment of Proposition 13," October 2005. Available from the Howard Jarvis Taxpayers Association at <http://www.hjta.org/content/pdf/CGA-HJTA-P13-Report.pdf>. No reply was received by the author to a request for information to the Center on the inflation deflator used was received.
- ⁹² Quoted in Roger Rapoport, *California Dreaming: The Political Odyssey of Pat & Jerry Brown* (Berkeley, CA: Nolo Press, 1982), p. 233.
- ⁹³ Quoted in Steven F. Hayward, *The Age of Reagan: The Fall of the Old Liberal Order, 1964-1980* (Roseville, CA: Forum/Prima Publishing, 2001), p. 528.
- ⁹⁴ This section relies heavily on Robert Kuttner, *Revolt of the Haves: Tax Rebellions and Hard Times* (New York: Simon and Schuster, 1980); and Clarence Y.H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (Berkeley: University of California Press, 1990). For a contemporary account, see also Robert

B. Hawkins, Jr., "Traveling Through the Tax Barrier: What It Looks Like on the Other Side of Proposition 13," *Publius*, vol. 9 (Winter 1979), pp. 11-25. A jaundiced view from the late 1990s can be found in Peter Schrag, *Paradise Lost: California's Experience, America's Future* (New York: The New Press, 1998), pp. 129-187.

⁹⁵ David O. Sears and Jack Citron, *Tax Revolt: Something for Nothing in California* (Cambridge, MA: Harvard University Press, 1982).

⁹⁶ Jerry Roberts, *Diane Feinstein: Never Let Them See You Cry* (New York: HarperCollinsWest, 1994), p. 74.

⁹⁷ Watson claimed his battle with the supervisors led to heart problems and ultimately received a disability pension. However, when he suggested several years later that he might return to politics, the degree to which he was disabled was questioned by the supervisors and he retreated back to private life. See Jack Jones, "Ex-Assessor Philip E. Watson Dies at 62," *Los Angeles Times*, December 9, 1986.

⁹⁸ Robert J. Dworak, *Taxpayers, Taxes and Government Spending: Perspectives on the Taxpayer Revolt* (New York: Praeger, 1980), p. 72.

⁹⁹ Jack Citron, "Introduction: The Legacy of Proposition 13" in Terry Schwadron, ed., *California and the American Property Tax Revolt: Proposition 13 Five Years Later* (Berkeley, CA: University of California Press, 1984), p. 17.

¹⁰⁰ The *Serrano* case was actually a sequence of three California Supreme Court cases: *Serrano v. Priest*, 5 Cal.3d 584 (1971) (*Serrano I*); *Serrano v. Priest*, 18 Cal.3d 728 (1976) (*Serrano II*); *Serrano v. Priest*, 20 Cal.3d 25 (1977) (*Serrano III*). The first case, however, established the principle that variations in property values between wealthy school districts and poor school districts should not result in substantially disparate school revenues. On the debate over the impact of the *Serrano* case, see William A. Fischel, "Did *Serrano* Cause Proposition 13?," *National Tax Journal*, vol. 42 (December 1989), pp. 465-473; Kirk Stark and Jonathan Zasloff, "Tiebout and Tax Revolts: Did *Serrano* Really Cause Proposition 13?," *UCLA Law Review*, vol. 50 (February 2003), pp. 811-814; William A. Fischel, "Did John Serrano Vote for Proposition 13? A Reply to Stark and Zasloff's 'Tiebout and Tax Results: Did *Serrano* Really Cause Proposition 13?,'" working paper 03-13 (August 2003), Dartmouth College Economics Department.

¹⁰¹ A major figure in the anti-busing movement in the San Fernando Valley was Bobbi Fiedler. Like Jarvis, she was not a politician although she won first a seat on the LA school board and then in Congress as a result of her prominence in the movement.

¹⁰² Mike Davis, *City of Quartz: Excavating the Future in Los Angeles* (New York, Vintage Books, 1992 [1990]), pp. 153-219. Unlike the anti-busing and anti-property tax movements, leadership of the anti-growth movement was primarily political, particularly LA City Councilman Marvin Braude.

¹⁰³ The fact that Jarvis represented apartment house owners was an issue in the campaign. Some observers have challenged the idea that the movement behind Prop 13 was really spontaneous and a grass-roots affair as a result. See Daniel A. Smith, "Howard Jarvis, Populist Entrepreneur: Reevaluating the Causes of Proposition 13," *Social Science History*, vol. 23 (summer 1999), pp. 173-210. However, most political movements involve alliances.

¹⁰⁴ Bruce Keppel, "Edelman, Jarvis in Sharp Clash Over Prop. 13," *Los Angeles Times*, March 15, 1978.

¹⁰⁵ Howard Jarvis (with Howard Pack), *I'm Mad as Hell: The Exclusive Story of the Tax Revolt and Its Leader* (New York: Times Books, 1979).

¹⁰⁶ Unruh's term is quoted in Jackson K. Putnam, *Jess: The Political Career of Jesse Marvin Unruh* (Lanham, MD: University Press of America, 2005), p. 397.

¹⁰⁷ Note that rising property taxes – because they are deductible from income taxes – actually cut into state and federal income tax revenue. When property taxes were cut by Prop 13, the state and federal governments received a windfall gain (that partly offset the gain to property tax payers).

¹⁰⁸ Quoted in Roger Rapoport, *California Dreaming: The Political Odyssey of Pat & Jerry Brown* (Berkeley, CA: Nolo Press, 1982), p. 156.

¹⁰⁹ Quoted in Dan Walters, "Schwarzenegger Flip-Flops Like Jerry Brown," *Sacramento Bee*, July 23, 2008.

¹¹⁰ A state senate subcommittee killed the plan about a month before Prop 13 passed. Prop 13 then ended any prospect for reviving the plan. Larry Stammer, "Panel Shelves State Satellite," *Los Angeles Times*, May 9, 1978.

¹¹¹ Jacques Barzaghi, a French Zen devotee with minor movie credits, became an advisor to Jerry Brown in the 1970s. When Brown was mayor of Oakland, however, Barzaghi was charged with sexual harassment of a female employee and the city ultimately paid \$50,000 to settle the case. A subsequent domestic dispute involving Barzaghi to which police were called led to his departure from the mayoral staff. Steven Rubenstein and Janine DeFao, "Barzaghi Leaves Jerry Brown's Staff," *San Francisco Chronicle*, July 20, 2004. In contrast to his unmarried relationship with pop star Linda Ronstadt while governor, Brown married Anne Gust in both a public ceremony conducted by Senator Diane Feinstein and a traditional Catholic ceremony later. Leah Garchik, "Oakland's Royal Wedding: Nearly 600 Attend Jerry Brown's Nuptials," *San Francisco Chronicle*, June 19, 2005.

- ¹¹² Quoted in Robert Fairbanks, "Property-Tax Issue Awaits Legislators," *Los Angeles Times*, January 2, 1978.
- ¹¹³ Quoted in Kenneth Reich, "Wilson Taking Warmer View of Tax Initiative," *Los Angeles Times*, January 6, 1978. Wilson was at the time a candidate for the Republican nomination for governor.
- ¹¹⁴ Robert Fairbanks, "Lawmakers Agree on Tax Break for the Elderly," *Los Angeles Times*, July 19, 1977; Daniel J.B. Mitchell, "Governor Reagan's Ballot Box Budgeting: One That Got Away," *Southern California Quarterly*, 89, 195-227; Ray Ripton, "Wrath Turns to Action on Tax Burden," *Los Angeles Times*, August 21, 1977..
- ¹¹⁵ Quoted in Scott Moore, "Schools Await Impact of New Financing Plan," *Los Angeles Times*, July 24, 1977.
- ¹¹⁶ Roger Rapoport, *California Dreaming: The Political Odyssey of Pat & Jerry Brown* (Berkeley, CA: Nolo Press, 1982), pp. 185-189.
- ¹¹⁷ Quoted in David Johnson, "Brown Urges Energy, Space Spending," *Los Angeles Times*, August 2, 1977.
- ¹¹⁸ Quoted in Dick Turpin, "Plight of the Newcomer," *Los Angeles Times*, August 7, 1977.
- ¹¹⁹ Quoted in William McPhillips, "Tax Reform Failure Aids Initiative Drive," *Los Angeles Times*, September 22, 1977.
- ¹²⁰ George Alexander, "Proposed State Use of Satellite Detailed," *Los Angeles Times*, December 23, 1977.
- ¹²¹ Quoted in Kenneth Reich, "Brown Sees 2 Ways to Ease Tax Load," *Los Angeles Times*, January 15, 1978.
- ¹²² Kenneth Reich, "Younger Enters Governor's Race," *Los Angeles Times*, February 2, 1978.
- ¹²³ Richard Bergholz, "Younger Raps Drafting of Jarvis, Behr Measures," *Los Angeles Times*, March 30, 1978.
- ¹²⁴ Richard Bergholz, "Davis Says He Will Back Jarvis Initiative," *Los Angeles Times*, March 9, 1978.
- ¹²⁵ Quoted in Erwin Baker, "City Council Urged to Oppose Jarvis Plan," *Los Angeles Times*, April 18, 1978.
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CALIFORNIA'S EDUCATIONAL OPPORTUNITY GAPS

Sophie Fanelli, John Rogers, and Melanie Bertrand
UCLA Institute for Democracy, Education, and Access

Over the last year, California's Superintendent of Public Instruction Jack O'Connell has called for greater public attention to the racial achievement gap in education. Highlighting evidence that white and Asian American students in California consistently outperform their African American and Latino peers, O'Connell has urged a statewide focus on eliminating this gap.¹ Some commentators have responded to O'Connell's appeals by arguing that the persistent racial gap in achievement scores is a product of cultural differences that must be addressed if the gap is to be closed.² This cultural argument suggests that the problem of low test scores resides within the African American and Latino communities. This analysis fails to account for the fact that California students *generally* have lower test scores than students across the nation. Notably, white students in California perform well below white students in almost all other states. Why do California's students underperform relative to their peers in other states? Why do some groups of California students perform, on average, better than others?

Sources of California's Educational Underachievement

This chapter draws upon UCLA/IDEA's *2007 Educational Opportunity Reports*³ to examine California's poor and unequal educational achievement in light of the conditions in California's public schools. We identify two significant *opportunity* gaps that mirror California students' academic performance: the gap between learning opportunities in California and other states and the gap in learning opportunities between different public schools within the state.

Using publically available data from the California Basic Educational Data System, we document the relationship among California's educational infrastructure, rates of high school completion, and enrollment in the state's public four-year colleges and universities; investigate the opportunities provided in schools serving different racial groups; and analyze the math pipeline through middle school and high school.

The four sections of this chapter report on the key findings of the state data analysis:

- Racial Demographics of California Schools highlights the racial segregation in the state and presents data on the schools attended by African American and Latino students.
- Achievement, Graduation, and College Preparation in California shows that the state lags behind most other states in providing fundamental learning conditions as well as in student outcomes. Also, this section examines the effects of the California High School Exit Exam's "diploma penalty" on the class of 2006, the first cohort of students required to pass the Exit Exam as a condition for graduation.
- Inadequate and Unequal Learning Conditions and Opportunities points to the state's insufficient educational resources and their inequitable distribution.⁴

- Restricted Flow Through California's K-12 Mathematics Pipeline demonstrates that the flow of students through California's middle school and high school math curriculum is slowed by students' lack of access to reasonably-sized classrooms, rigorous coursework, and well-trained teachers.

Racial Demographics of California Schools

State Overview

California's public secondary schools (including middle schools and high schools) serve an extraordinarily racially diverse student body. Forty-five percent of California's secondary students are white or Asian, Pacific Islander, or Filipino.⁵ Fifty-three percent are Latino, African American, or American Indian—the three groups that are underrepresented in California's higher education system.⁶

Despite this considerable diversity, California's different racial groups often attend schools isolated from one another. For instance, less than one-third of the state's African American students and approximately one-quarter of Latino students attend secondary schools with majority white and Asian enrollments. Approximately three-quarters of African American and Latino students are enrolled in secondary schools where the majority of students are from underrepresented groups, and a sizeable portion of these students attend highly segregated schools.

These patterns have resulted in California being one of the nation's most racially segregated states for African American and Latino students.⁷ By contrast, less than 2% of California's white and Asian students attend secondary schools where 90-100% of the students are from underrepresented groups.

In the following tables and throughout the remainder of the chapter, data are presented on three categories of schools: 1) schools composed of less than 50% underrepresented students; 2) schools composed of 50 to 80% underrepresented students; and 3) intensely segregated schools where 90-100% of the students are from underrepresented groups.

Racial Composition of California Middle Schools 2005 - 2006

	Percent Underrepresented Students		
	0-49%	50-89%	90-100%
All	41.7%	41.1%	17.2%
White	74.1%	24.7%	1.2%
Asian	62.9%	34.4%	2.7%
African American	25.4%	53.4%	21.2%
Latino	18.5%	51.1%	30.5%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Racial Composition of California High Schools 2005 - 2006

	Percent Underrepresented Students		
	0-49%	50-89%	90-100%
All	50.4%	38.8%	10.8%
White	77.8%	21.6%	0.6%
Asian	66.0%	32.3%	1.8%
African American	30.2%	54.6%	15.2%
Latino	24.8%	53.3%	22.0%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Intensely segregated minority schools are far more likely than other secondary schools to serve high concentrations of low-income students and students learning English. Almost all (95%) of the intensely segregated middle schools enroll a majority of low-income students. In 70% of these middle schools, at least one-third of all students are English learners.

In contrast, few middle schools with small proportions of underrepresented students have high concentrations of low-income students and English learners. Only 13% of predominantly white and Asian schools enroll a majority of low-income students, and only 2% enroll one-third or more English learners. As the table below indicates, similar patterns are found at the high school level. Intensely segregated high schools are more than 10 times as likely as high schools where underrepresented students are in the minority to have high concentrations of low-income students, and 60 times as likely to enroll more than one-third English learners than schools where most students are white and Asian.

Concentrations of Low-Income Students and English Learners 2005-2006

	Percent Underrepresented Students		
	0-49%	50-89%	90-100%
Middle Schools > 50% FRPM⁸	13.2%	76.7%	95.4%
Middle Schools > 1/3 EL	1.9%	26.2%	69.5%
High Schools >50% FRPM	8.7%	50.8%	89.2%
High Schools > 1/3 EL	0.8%	11.7%	49.5%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

The following subsections explore the racial and socio-economic composition of the secondary schools attended by California's African American and Latino students.

California's African American Students

As noted above and as the table below shows, California high schools are extraordinarily racially diverse and they reflect the diversity of the state as a whole. In contrast to most other states, only a slight majority of high schools in 2005-2006 had majority white and/or Asian student bodies. California's 139,334 African American high school students comprise 8% of the state's high school students; even so, almost all California high schools (1027 of 1089) enroll at least some African American students.

Racial Composition of California High Schools Enrolling African American Students, 2005-2006

	Number of California high schools	Percent of California high schools
Schools with few white and Asian students (0-10%)	93	9%
Schools with some white and Asian students (11-49%)	384	35%
Schools that are predominantly white and Asian (50% - 100%)	612	56%
Total	1089	100%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

This overall diversity masks the fact that many African Americans are concentrated in a small number of schools. Less than one-third of African American students attend high schools where white and/or Asian students are the majority. This contrasts with the nearly four-fifths of white students and two-thirds of Asian American students attending schools that are predominantly white and/or Asian.

Distribution of African American Students Across Schools Differing in their Racial Composition (2005-2006)

	African American	White
Schools with few white and Asian students	15%	.6%
Schools with some white and Asian students	55%	22%
Schools that are predominantly white and Asian	30%	78%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

In 2005-2006, half of all African American high school students (69,845) were concentrated in only 107 schools, or about 10 % of the high schools in the state.⁹ Eighty-six percent of these 107 schools have Latino, African American, and American Indian majorities, compared with 39% of the state's other 982 schools (hereinafter, *the 982 other schools*.)

Racial Composition of the 107 Schools Compared to the 982 other schools (2005-2006)

	<i>The 107 Schools</i>	<i>The 982 Other Schools</i>
Schools with few white and Asian students	20%	7%
Schools with some white and Asian students	66%	32%
Schools that are predominantly white and Asian	14%	61%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

In addition, 53% of the 107 schools are high-poverty schools in which over half of the students receive free and reduced price meals (FRPM); 34% of the 982 other schools are high-poverty schools.

Economic Composition of the 107 Schools Compared to the 982 Other Schools (2005-2006)

	The 107 Schools	The 982 Other Schools
Schools where over half of the students receive FRPM	53%	34%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

California's Latino Students

Similar to many African American students, Latino students often attend schools with small populations of white and Asian students and high levels of poverty. Additionally, many Latino students attend schools with high concentrations of English learners.

Large Numbers of Latino Students Attend High-Poverty Schools with High Concentrations of Underrepresented Students

Most Latino students attend schools with high concentrations of underrepresented students. Three-quarters of Latino high school students are concentrated in schools where most students are Latino, African American, or American Indian. One-quarter of Latino students attend high schools that are predominantly white and/or Asian.

Distribution of Latino Students across California's High Schools

	Latino	White	Asian
Schools with few white and Asian students	22%	0.6%	2%
Schools with some white and Asian students	53%	22%	32%
Schools that are predominantly white and Asian	25%	78%	66%

Latinos are more likely than any other racial group to attend schools with large concentrations of low-income students (schools where more than one half of students receive free and reduced price meals). 51% percent of California Latino high school students attend high poverty schools—compared with 11% of white high school students and 25% of Asian students. This concentration is important, because schools with many low-income students require extra educational resources that are often lacking, and thus students of all racial groups tend to exhibit relatively low academic achievement.

Distribution of Latino Students among California's Economically Diverse High Schools

	Latino	White	Asian
Percent of students attending high schools in which more than half of students receive free/reduced lunches	51%	11%	25%

Geographic Distribution of Latino Students

It is also useful to look at the distribution of Latino high school students across the state of California. While there are *some* Latinos in all 58 of California's counties, 89% of all Latino students are enrolled in 16 counties. (These counties are shaded on the map below. In many of these counties, Latinos are the largest group of high school students (counties that are both shaded and crosshatched on Figure 1). Latino students also comprise the largest group of high school students in some counties with relatively small numbers of students (counties that are only crosshatched). Notably, most of the 16 counties that include the highest percentages of Latino students are located in California's rural areas.

Achievement, Graduation, and College Preparation in California

Many California public school students achieve at high levels, enroll in challenging courses, and graduate from high school ready for college, the workplace, and civic life. In the last few years, California schools have made some notable gains. We have seen modest increases in the proportion of California's students scoring proficient on California's Standards Tests since those tests were implemented in 2002-2003. We have seen a growing number of students enrolling in rigorous math classes in California's middle schools and high schools.¹⁰ And between 1997 and 2005, California steadily increased the proportion of 9th graders who graduated high school.

Yet despite this recent progress, California lags behind almost all other states in key markers of student achievement and rates of high school graduation and college enrollment. The 2007 results of the National Assessment of Educational Progress, or NAEP, are particularly sobering. NAEP is commonly referred to as the "nation's report card" because it allows state-by-state comparisons of student achievement at grades 4 and 8 in reading and mathematics. California's 4th graders rank 48th of all states in reading and 46th in mathematics. California's 8th graders rank 47th in reading and 45th in mathematics.¹¹

Although surveys suggest that almost all California students enter high school with aspirations to graduate and enroll in college, few California students achieve these goals.¹² As shown on Figure 2, more than 520,000 students enrolled as 9th graders in Fall 2002. Four years later, fewer than 350,000 Californians graduated from high school. That means the class of 2006 shrunk to two-thirds of its original size. Not since 1997 has California failed to graduate such a high percentage of its 9th grade enrollment. The historically low graduation level in 2006 can be explained in part by California's decision to fully implement its Exit Exam policy in June 2006. This policy meant that the state denied diplomas to students who had not passed the Exit Exam but had fulfilled all other graduation requirements.¹³ As a consequence, California's graduation rate now has fallen far below the national average.¹⁴

The number of 2006 California high school graduates who completed the sequence of courses necessary for enrollment in California's four-year public universities was only one-quarter the size of the 520,000 students in the original class. And, only slightly more than one student for every eight in the original cohort enrolled at a California State University or University of California campus in the fall of 2006. According to data from the College Board, California ranks 48th among the states in the percentage of its senior class that matriculates into a four-year college the following year. Only Mississippi and Arizona have lower rates of sending high school seniors to four-year universities.¹⁵ In part, California's poor ranking on this measure reflects the strength of California's community college system. A number of California high school seniors enroll in community colleges, and some later transfer to four-year colleges. Nonetheless, California still ranks well below most other states in the percentage of high school graduates who receive a bachelor's degree within six years.¹⁶

Some argue that California's low rates of educational achievement are a product of the state's large number of students from low-income families, students of color, and students learning English. However, California's white middle class students perform well below comparable white students across the nation. For example, California's white 8th graders'

NAEP math scores are well below white 8th graders in most states, and their reading scores rank behind white students in all but two states.¹⁷ Similarly, California's non-poor 8th graders rank below non-poor students in all but six states in both reading and math.¹⁸ In sum, California has an education crisis that applies across the state and affects all students from all groups.

The following section investigates this statewide educational inadequacy and demonstrates that it disproportionately affects African American and Latino students, who, as explained above, often attend racially segregated schools. Our analyses reveal racially unequal patterns of distribution of educational opportunities, which affect the likelihood that African American, Latino, and American Indian students will thrive academically and persist in their schooling.

Inadequate and Unequal Learning Conditions and Opportunities

We now turn to analyses of the resources and opportunities provided in California's secondary schools. We find that almost all California students experience fewer educational opportunities than students across the nation. Their schools are more often overcrowded, and they have less access to teachers and counselors than their peers in most other states. Within California, secondary schools enrolling the highest proportion of Latino, African American, and American Indian students are those most likely to face these critical opportunity problems. These shortages are particularly burdensome for students from low-income families that do not have a history of college-going. Without qualified adults available at their schools, such students often lack information and support to navigate toward graduation and college preparation.¹⁹

Overcrowded Schools

California's secondary schools are larger, on average, than schools in every other state except Florida.²⁰ Many of California's middle schools and high schools are among the largest secondary schools in the nation. For instance, 36 middle schools enroll more than 2000 students, and 120 high schools enroll more than 3000 students. Nationally, the average middle school enrolls 605 students and the average high school enrolls 751 students.²¹

Many California schools are overcrowded, but underrepresented students are most affected. More than one-fourth of California middle and high school students attend schools that the state has defined as overcrowded, and almost two-thirds of the affected students attend intensely segregated minority schools where 90% or more of the students are Latino, African American, or American Indian.

Overcrowding creates unsafe environments and makes teaching and learning more difficult. Schools may need to teach students in auditoriums, gymnasiums, storage rooms, and other areas never intended to be used for instructional purposes.²² Schools with too little space may not be able to maintain specially equipped rooms such as science labs or libraries because these spaces need to be "flexible" for teaching multiple subjects. Overcrowding has led some California school districts to employ policies such as year-round, multi-track school calendars in order to keep some portion of the teachers and

students off campus and “on break.” Some of these calendars provide students with fewer days of instruction than are provided to other California students.

The graphic below displays the relationship between race and overcrowding in the three categories of California schools.

Secondary School Racial Composition and Overcrowding 2005 - 2006

	Percent Underrepresented Students			All Schools
	0-49%	50-89%	90-100%	
Students in Overcrowded Middle Schools	20.8%	28.0%	59.3%	30.4%
Students in Overcrowded High Schools	16.8%	30.9%	63.7%	27.4%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Limited Access to Counselors

Counselors provide students and their families with information, guidance, and support as students navigate through secondary schools and toward their postsecondary opportunities. Such counseling is particularly important for students whose families lack both knowledge of available opportunities and how students might take advantage of them. Immigrants and students learning English may be especially dependent on the support of knowledgeable counselors.²³

On average, however, California’s high schools provide one counselor for every 556 students compared with a national average of one counselor for every 229 students. The American School Counselor Association ranked California last of all states in providing high school students with access to counselors.²⁴

Eight in nine California high school students attend schools that provide less access to counselors than the national average. Students attending intensely segregated schools are most likely to attend schools with fewer counselors than the national average. Moreover, middle school students in California have less access to counselors than high school students. On average, California’s middle schools provide one counselor for every 753 students.

Limited Access to Qualified Secondary Teachers

California secondary teachers are responsible for more students than secondary teachers in any other state. Middle school teachers teach 49% more students than the

national median. High school teachers teach 42% more students than the national median.²⁵

Student to Teacher Ratio in Secondary Schools 2003-2004

	U.S. Median	CA Median
Middle Schools	15.8	23.5
High Schools	15.4	21.8

Source: National Center for Education Statistics (NCES), available at <http://nces.ed.gov/>

Qualified secondary teachers are an essential resource, and California has an insufficient supply. Poorly qualified teachers have less content area knowledge, rely heavily on lecturing, and are often unprepared to have students engage in higher-order thinking and work. Schools with a severe shortage of qualified teachers, where more than 20% of the teachers lack full credentials, have high levels of teacher turnover; additionally, these schools do not have enough experienced and qualified teachers to mentor new and less prepared ones.²⁶

As the table below shows, a severe shortage of qualified teachers is rarely found in secondary schools that enroll a majority of white and Asian students. 29% of intensely segregated middle schools have severe teacher shortages; they are 22 times more likely to experience such shortages than are middle schools where fewer than half of students are from underrepresented groups.

School Racial Composition and Teacher Shortages 2005-2006

	Percent Underrepresented Students			
	0-49%	50-89%	90-100%	All Schools
Middle Schools w/ Severe Teacher Shortage	1.3%	7.3%	29.1%	7.4%
High Schools w/ Severe Teacher Shortage	5.4%	13.5%	33.3%	10.7%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Limited Access to High-Quality College Preparatory Curriculum

The California State University and the University of California have the same basic course requirements for admission, commonly referred to as the A-G Requirements. To be eligible to attend any public four-year university in the state, a student must take a minimum of 15 A-G courses—approximately two-thirds of their high school courses. Accordingly, to provide every student with the opportunity to satisfy these college eligibility requirements, California high schools must ensure that *at least* two-thirds of their

courses meet the A-G requirements. In schools with high rates of college-going, it is common for more than three-quarters of the school's courses to satisfy the A-G requirements.²⁷

Nearly a million (995,436) California high school students attend schools that do not offer enough A-G courses for all students to take the college preparatory curriculum. Half of the high schools serving majority white and Asian students lack sufficient courses, while more than two-thirds of the high schools with a majority of underrepresented students face this problem.

School Racial Composition and Access to the College Preparatory Curriculum 2005-2006

	Percent Underrepresented Students			All High Schools
	0-49%	50-89%	90-100%	
Schools w/ too few A-G Courses*	50%	71%	67%	55%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

*A-G Courses refer to the sequence of 15 courses students must complete with a grade of C or higher to meet the UC and CSU course requirements for eligibility.

Sometimes schools offer college preparatory courses without providing high-quality instruction in those courses. For example, in one-quarter of California's high schools, more than 20% of college preparatory courses are taught by teachers teaching outside their subject area expertise. More than 300,000 California students attend schools facing this problem. Again this problem is not shared equally. Intensely segregated minority high schools are three times as likely to have large numbers of teachers teaching college preparatory courses without the appropriate credential as are high schools where less than half of the students are underrepresented.

High School Racial Composition and Unqualified College Preparatory Teachers 2005-2006

	Percent Underrepresented Students			All High Schools
	0-49%	50-89%	90-100%	
Severe Shortage of Qualified College Preparatory Teachers	16%	32%	48%	24%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Unequal Outcomes Mirror Unequal Opportunities

The unequal academic outcomes produced by California's schools strongly mirror the unequal educational opportunities present in those schools. High schools enrolling different proportions of underrepresented students yield dramatically different rates of progress to high school graduation and college. Students in predominantly white and Asian high schools were twice as likely as students in intensely segregated minority schools to complete the course sequence required for admission into California State Universities and University of California campuses.

These differences translate into comparable differences in college enrollment. Students in predominantly white and Asian high schools were more than twice as likely (17% to 7%) as those in intensely segregated minority schools to matriculate into four-year California public universities in fall 2006.

High School Racial Composition, Graduation, College Eligibility, and College-Going

	Percent Underrepresented Students			All California High Schools
	0-49%	50-89%	90-100%	
Out of Every 100 9th Graders in Fall 2002				
Graduated in 2006	78%	59%	43%	66%
Graduated w/ A-G	34%	18%	16%	25%
Enroll CCC Fall 2006	23%	19%	15%	20%
Enroll CSU Fall 2006	10%	7%	5%	8%
Enroll UC Fall 2006	8%	3%	2%	5%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/
California Postsecondary Education Commission, available at www.cpec.ca.gov

These patterns of disparate graduation and college-going rates across these three categories of schools are longstanding. However, the proportions of graduates fell across the board in the class of 2006, the first affected by the California High School Exit Exam's "diploma penalty" policy. The decline was steepest for the intensely segregated minority high schools where the graduation rate fell by 14% from 2005 to 2006. In comparison, the graduation rate decreased by 3.7% in the group of high schools with the smallest proportion of underrepresented students.

High School Racial Composition and the 2006 Decline in Graduation*

	Percent Underrepresented Students			All California High Schools
	0-49%	50-89%	90-100%	
Percent Decline in Graduation Rate from 2005 to 2006	3.7%	6.3%	14.0%	5.7%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

*The above figures refer to the percentage point change in graduation rate from the Class of 2005 to the Class of 2006.

Intensely Segregated Minority Schools are Far More Likely to Face State Sanctions

Over the last decade, California’s legislature has adopted a set of standards and tests of student proficiency that many have praised as among the most rigorous in the nation.²⁸ Following the requirements in No Child Left Behind (NCLB), the California legislature has enacted accountability measures that tie punitive consequences to these standards and tests. Schools are designated as “Program Improvement” (PI) schools if they fail to meet the state’s test-score-increase goals for two or more consecutive years.²⁹

Unfortunately, as the analyses in the previous sections make clear, California has not invested in the conditions necessary for schools to achieve these high standards and meet the requirements of the state’s tough accountability mechanisms. According to the state’s own data, in 2006, 43% of California’s middle schools and 15% of California high schools were identified by the state and federal government as low-performing and in need of serious improvement. California’s intensely segregated minority middle schools were more than six times as likely (89% to 14%) as majority white and Asian middle schools to be designated as PI schools. Although a smaller proportion of high schools than middle schools have been designated as PI schools, the disparities between majority white and Asian high schools and intensely segregated high schools is pronounced. Intensely segregated high schools are more than 19 times as likely (58% to 3%) as majority white and Asian high schools to be designated as PI schools.

Some California middle and high schools face serious sanctions because they have been in Program Improvement status for at least five years. NCLB requires districts to close or “reconstitute” such schools.³⁰ As the graph below shows, almost a third of intensely segregated minority middle and high schools are “PI 5” schools that face these sanctions. Notably, no majority white and Asian high schools are in this stage of Program Improvement.³¹

School Racial Composition and “Program Improvement 5” Status 2005 - 2006

	Percent Underrepresented Students			
	0-49%	50-89%	90-100%	All Schools
Middle Schools in PI Year 5+	0%	20%	32%	13%
High Schools in PI Year 5+	0%	5%	30%	5%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Restricted Flow Through California’s K-12 Mathematics Pipeline

One clear consequence of the state’s combination of high standards and low opportunity is the restricted flow of students through California’s math pipeline—the sequence of mathematics instruction that affect students’ college opportunities and life chances. Students’ success in these math courses, according to many analysts, also holds the key to the state’s future well-being.³²

Attention to math pipeline is especially important in light of new state curriculum policies. California’s math standards, adopted in 1997 and then pushed forward with legislation supporting new textbooks in 2001-2002, called for students to take more and more rigorous math classes. This framework, combined with the state requiring algebra for graduation and the implementation of the California High School Exit Exam, have prompted an increase in secondary math enrollment overall, and in 8th graders taking algebra.³³ Also, a new California policy will require all 8th graders to enroll in algebra by 2011.³⁴

Middle-school Obstructions in the Math Pipeline

The results of the 8th grade math NAEP suggest that California’s standards and accountability reforms alone are not sufficient to promote math proficiency. In 2007, the average NAEP math score for California 8th grade students was 270, placing California behind 44 other states, and below the national average of 280. Fewer than one in four California 8th graders scored at the proficient or advanced level. More than 40% of California 8th graders scored “below basic”—the lowest level.³⁵ As noted earlier in this report, California’s sub-par performance on the math NAEP holds for all students and all sub-groups—including white and non-poor students.

Among the complex mix of factors underlying this outcome are three middle school conditions known to undermine learning—large math classes, lack of access to rigorous mathematics coursework, and shortages of teachers trained in mathematics.³⁶

Math class size

The state’s Quality Education Investment Act (QEIA) of 2006³⁷ calls for secondary schools to limit class size to 25. Although this standard is a move in the right direction, California is far from reaching it, and it would still leave California students

with less access to teachers than most students across the nation. Currently, California ranks last among all the states in the average number of students in its secondary math classrooms, and 93% of intensely segregated middle schools enroll more than 25 students per math class.

Middle School Racial Composition and Math Class Size 2005 - 2006

	Percent Underrepresented Students			All Middle Schools
	0-49%	50-89%	90-100%	
Middle Schools w/ Average Math Class >25	84.2%	87.3%	93.4%	86.7%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Rigor of coursework

California's curriculum framework in math encourages schools to enroll all students in algebra by 8th grade.³⁸ However, 57% of California's middle schools enroll fewer than half of their eighth graders in algebra or its equivalent. More than 600,000 students attend such schools. This problem cuts fairly evenly across all groups of California middle schools.

Middle School Racial Composition and 8th Grade Enrollment in Algebra 2005 - 2006

	Percent Underrepresented Students			All Middle Schools
	0-49%	50-89%	90-100%	
< 50% of 8th Graders in Algebra	55.0%	60.4%	53.0%	56.9%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Math teacher preparation

California state law allows middle school math teachers to hold either a credential in mathematics or a "multiple subjects" credential. And, in more than one-third of California middle schools, the majority of math teachers lack specialized mathematics credentials.

However, California's high math standards require teachers with a strong grasp of the subject matter and a deep understanding of how to convey key mathematical concepts to adolescents. Without sufficient math specialists, middle schools have difficulty mounting high-quality mathematics programs. This shortage of middle school math teachers affects more than 400,000 students statewide, but it is twice as likely to occur in intensely segregated middle schools as in majority white and Asian middle schools.

Middle School Racial Composition and Shortage of Math Teachers 2005 - 2006

	Percent Underrepresented Students			All Middle Schools
	0-49%	50-89%	90-100%	
Severe Shortage of Middle School Math Teachers	29.8%	42.9%	58.3%	38.8%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Ninety-seven percent of all California middle schools experience at least one of the above problems (overcrowded classrooms, insufficient access to rigorous coursework, shortages of prepared teachers) that limit students' access to high-quality mathematics instruction.

Some middle schools in the state face all three of these problems, making it extremely difficult for them to implement a quality mathematics program and for the students enrolled in these schools to meet the state's standards. More than 200,000 California students are enrolled in such middle schools and, as such, experience the combined impact of overcrowded math classes, insufficient access to algebra, and too few qualified math teachers. Intensely segregated minority middle schools are more than twice as likely as majority white and Asian middle schools to face all of these math problems.

Middle School Racial Composition and Multiple Math Pipeline Problems 2005 - 2006

	Percent Underrepresented Students			All Middle Schools
	0-49%	50-89%	90-100%	
Three Problem Middle Schools	14.3%	19.3%	31.1%	18.6%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Given the prevalence of these problems, it is no surprise that so many California students leave middle school insufficiently prepared for the rigor of high school math.

High-school Obstructions in the Math Pipeline

With access to intensive support at the high school level, many students with inadequate middle school preparation might still be able to meet the state's rigorous math standards. But the lack of opportunities for high-quality math instruction in California's middle schools continues in California's high schools. The poor preparation of the state's middle school students combines with poor math preparation at the high school level and

both leave many students at the end of their schooling without core academic skills in mathematics.³⁹

Math class size

As noted above, California’s secondary math classes are the largest in the nation. More than 75% of California high schools average more than 25 students per math class—this is more than the state recommends in its QEIA, and far more than the national average. One and one-half million California high school students attend schools with such overcrowded math classes. This problem is more common in schools where the majority of students are from underrepresented groups.

High School Racial Composition and Math Class Size 2005 - 2006

	Percent Underrepresented Students			All High Schools
	0-49%	50-89%	90-100%	
High Schools w/ Average Math Class >25	72.9%	78.4%	78.5%	75.3%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Rigor of coursework

In the last four years, the proportion of California high school students taking higher-level math classes has increased. According to a widely acclaimed U.S. Department of Education study, enrolling in a rigorous high school curriculum is vital to students increasing their chances of earning a bachelor’s degree.⁴⁰ The study also found that of all the high school courses, the highest level of mathematics taken is the most important for college success. The study also reported that taking rigorous high school courses had a greater impact on African American and Latino students than on white students.

Despite the recent increases, the proportion of students enrolling in such rigorous math classes remains quite small in most California high schools. In 75% of California high schools, less than one-quarter of 10th, 11th, and 12th grade students enroll in courses that the state designates as “higher level” math classes. Students in schools serving majority African American and Latino students are more likely than those in majority white and Asian schools to experience this problem.

High School Racial Composition and Enrollment in Advanced Math Classes 2005 - 2006

	Percent Underrepresented Students			
	0-49%	50-89%	90-100%	All High Schools
Schools < 25% Students Enrolled in Advanced Math	69.1%	83.3%	81.7%	75.2%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Math teacher preparation

High-quality math instruction at the high school level requires a deep understanding of the subject matter. Yet, almost one-third of California high schools face severe shortages of fully certified math teachers, and, as such, fail to meet NCLB requirements. In these schools, more than 20% of the college preparatory math classes are taught by teachers without state credentials to teach mathematics. This problem affects more than one-half million California students. Schools serving predominantly African American and Latino students are almost three times as likely as majority white and Asian schools to face this problem.

High School Racial Composition and Math Teacher Shortages 2005 - 2006

	Percent Underrepresented Students			
	0-49%	50-89%	90-100%	All High Schools
Severe Shortage of High School Math Teachers	20.3%	43.8%	57.0%	31.7%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

As is the case with middle schools, 97% of California's high schools face at least one of the three math problems that create serious challenges for student learning—large class sizes, few students enrolled in advanced math, and shortages of qualified math teachers. However, these three math problems converge in one out of every six California high schools, affecting 398,426 students. Here, too, students attending intensely segregated minority schools are affected disproportionately. Students in these schools are more than four times as likely as students in predominantly white and Asian schools to experience all three of these problems.

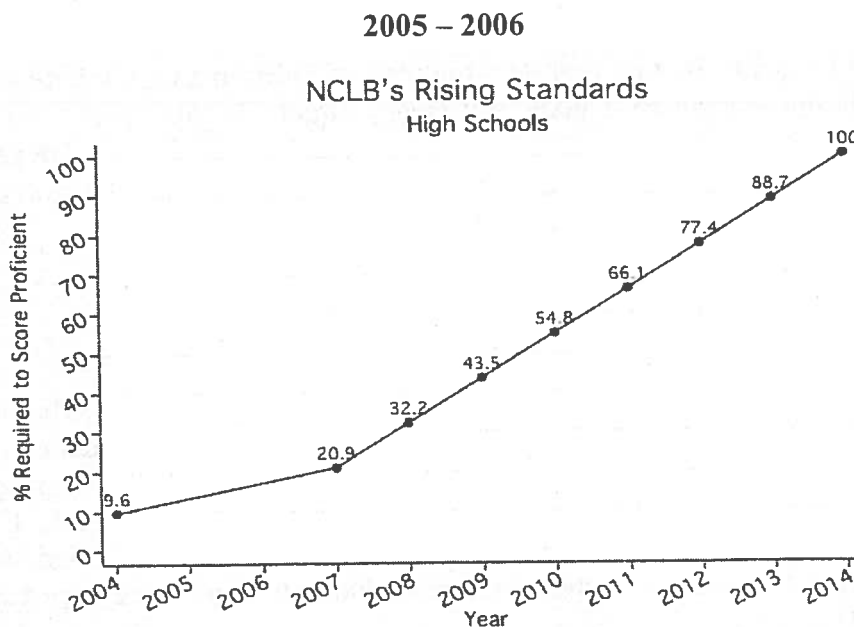
High School Racial Composition and Multiple Math Pipeline Problems 2005 – 2006

	Percent Underrepresented Students			
	0-49%	50-89%	90-100%	All High Schools
Three Problem High Schools	8.8%	25.5%	35.5%	17.0%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Almost all students in California's class of 2006 attended a school with at least one of these math problems sometime during their middle and high school years. And because middle schools with poor resources often feed into high schools with poor resources, a sizeable number of students in the class of 2006 experienced a convergence of math problems both in middle school and in high school. California lacks a longitudinal data system that would allow us to say with certainty how many students faced how many problems for how many years. What is clear, however, is that many California students, and particularly those attending predominantly African American and Latino schools, did not have sufficient opportunities to prepare for, and reach the state's goals in mathematics instruction.

One important consequence of these inadequacies and inequalities in the math pipeline is that few if any California secondary schools are on track to meet the goal of promoting universal proficiency. NCLB calls for all students to reach proficiency in mathematics and English/Language Arts by 2014. In the years leading up to 2014, high schools must demonstrate that they are moving toward this goal by enabling more and more of their students to achieve proficiency on standardized tests.



Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

For example, in 2007, high schools are required to show that at least 21% of their students have attained proficiency in mathematics. By 2010, 55% of students must attain proficiency. This accountability framework assumes that California schools have the capacity to improve student performance continually. However, the prevalence and distribution of math problems in the state's middle and high schools that we described above calls that assumption into question.

In fact, only about one in three California high school students attend schools that currently meet the math achievement goal for 2010. And, as the table below shows, less than 1% of those California students enrolled in intensively segregated schools are in schools that already meet this goal.

High School Racial Composition and Failure to Meet 2010 Math Proficiency Goal

	Percent Underrepresented Students			
	0-49%	50-89%	90-100%	All High Schools
Students in schools failing to meet 2010 Math Proficiency Goal	32.8%	92.0%	99.2%	63.0%

Source: California Basic Education Data System, available at www.cde.ca.gov/ds/sd/cb/

Many California high schools have increased the proportion of students scoring proficient in math over the last two years, and these schools hope to sustain their improvement. But it won't be enough for California high schools to continue to increase at their current rates (a very challenging prospect indeed). California's accountability scheme within NCLB requires that the yearly increases that schools make in the proportion of students that attain proficiency grow larger and larger over time. So, at their current rates of progress, nearly every high school in the state will be a failing school by 2014. By that year, less than 5% of California high school students will attend schools that achieved the math proficiency target. In fact, more than half of California students attend high schools that would need *more than 50 years* beyond 2014 to attain NCLB's math goal—even if these schools continue to improve every year at the rates they have demonstrated over the last two years.

Conclusion

California needs to address the gaps that this chapter highlights. The fact that California public schools offer fewer of the fundamental conditions all students need to learn is compounded by the fact that California's fundamental conditions for learning are not equally distributed. These two gaps combine in many harmful ways. For example, California's worst-in-the-nation student-to-teacher ratio and its unequal distribution of qualified teachers means that students in intensely segregated schools are more likely to experience very large classes taught by unqualified teachers.

Closing these gaps requires that California look beyond the rhetoric of “accountability” and “standards” in isolation, and focus on the opportunities for learning that students experience in their classrooms. California has enacted educational standards designed to produce a highly educated workforce for a technology-based economy and a well-informed citizenry. But achieving these standards is not a simple matter of motivating teachers and students to “try harder.” California has not invested in its schools at a level commensurate with its standards, and our educational infrastructure is incapable of providing the opportunities these goals demand.

Further, the quality of education students receive is strongly related to their race or ethnicity and that of their classmates—replicating the inequalities historically associated with racial segregation. Truly closing the gaps that divide California’s students will require directing new resources to those students who are most deprived of fundamental learning conditions. It is a necessary step if the state is serious about making California’s learning standards accessible to all, regardless of race.

Figure 1

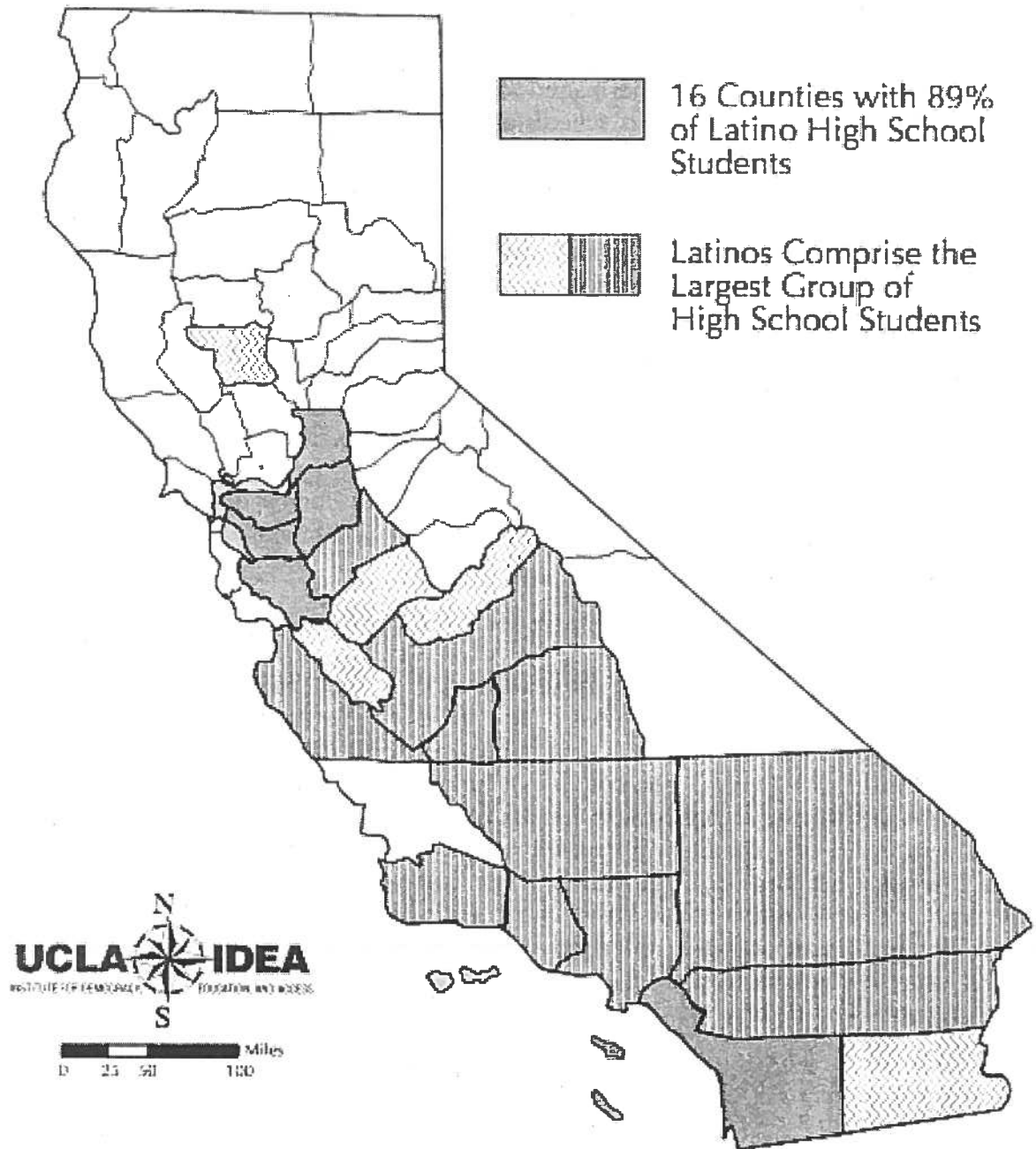
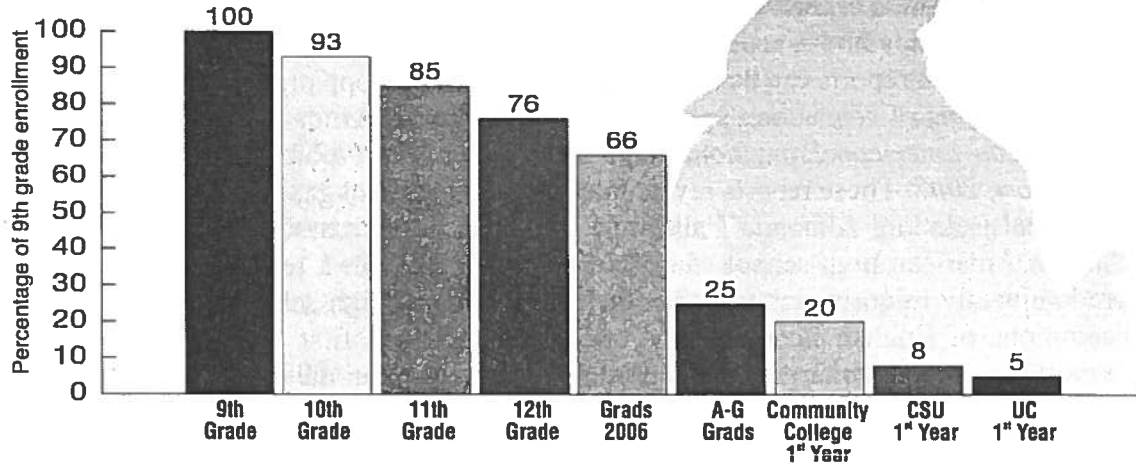


Figure 2

California

Class of 2006: **Pathway to College**



Produced by **UCLA/IDEA** and **UC/ACCORD**

Endnotes

¹ See, for example, Jack O'Connell, (November 9, 2007). "Starting Early to Fix the Achievement Gap," *Sacramento Bee*. B7.

² See, for example, *A way to close the achievement gap between white and minority students in California*, editorial in the San Francisco Chronicle, Tuesday, August 21, 2007.

³ UCLA's Institute for Democracy, Education, and Access (IDEA) annually produces reports on the conditions and outcomes across California's public schools. In 2007, IDEA released a statewide report and separate reports for each California legislative district. IDEA also produced a report on Latino students and a report on African American students in California's public schools. The entire set of reports can be accessed online at www.edopp.org.

⁴ For additional analyses of education opportunity for California's African American and Latino students, see *African American Educational Opportunity Report, 2007* and *Latino Educational Opportunity Report, 2007*. These reports reveal that California's racial gaps occur in concert with considerable racial isolation. Although California high schools are extraordinarily diverse, half of all of African American high school students are concentrated in a relatively small number (107) of predominantly minority schools. Another 90 California high schools enroll especially high concentrations of English Learners who speak Spanish as a first language. These two groups of schools experience more severe opportunity problems than the rest of the state's high schools.

⁵ Hereinafter, we use the shorthand "Asian" to refer to students designated as Asian, Pacific Islander, or Filipino.

⁶ Hereinafter, we use the shorthand "Underrepresented" to refer to students designated as African American, Latino, and American Indian. These groups are underrepresented in the University of California system.

⁷ Orfield, G. and Lee, C. (2007, August). *Historic Reversals, Accelerating Resegregation, and the Need for New Integration Strategies*. Los Angeles, California: Civil Rights Project/ Proyecto Derechos Civiles, University of California, Los Angeles.

⁸ Free and Reduced Price Meals (FRPM) is the only indicator available to measure concentrations of poverty at the school level. See *California Educational Opportunity Reports Data Sources and Definitions*. Available online at www.EdOpp.org.

⁹ Each of the 107 schools enrolled at least 370 African Americans. Not included in this group are some small high schools with high proportions of African American students.

¹⁰ Ed Source. (2007). *Higher Standards + Support = More Students Taking Tougher Math*.

¹¹ United States Department of Education: National Center for Education Statistics. (2007). *National Assessment of Educational Progress*. Available online at <http://nces.ed.gov/nationsreportcard/naepdata/>

¹² Parents and Students for Great Schools. (2007). *Now That We Have the Facts: California Parents and Students Voice Their Demands for Public Education*. Available online at www.caljustice.org/cfj_live/images/stories/07_reports/Education%20Survey.pdf and Baldasare, M. et al. (2007). *Californians and Higher Education*. San Francisco, CA: The Public Policy Institute of California.

¹³ Rogers, J. (2007). Constructing Success: Accountability, Public Reporting, and the California High School Exit Exam. *Santa Clara Law Review* 47:755-80.

¹⁴ The National Center for Educational Statistics (NCES) reported that California's graduation rate was only marginally lower than the national average in 2005. NCES calculates graduation what it calls an Average Freshman Graduation Rate by dividing the number of graduates by the

average of the number of students enrolled as 8th, 9th and 10th graders 5, 4, or 3 years before. In 2005, NCES reported a national average graduation rate of 74.7 and a California average of 74.6. While NCES has not yet reported graduation rates for the Class of 2006, we expect that California's graduation rate will now fall roughly 4% points below the national average.

¹⁵ College Board. (2007). *Higher Education Landscape*. Available online at <http://www.collegeboard.com/highered/res/hel/hel.html>.

¹⁶ National Center For Higher Education Management Systems. (2007). *Completion: Bachelor's degrees awarded per 100 high school graduates 6 years earlier*. Available online at <http://www.higheredinfo.org/dbrowser/index.php?submeasure=85&year=2005&level=nation&mode=data&state=0>.

¹⁷ United States Department of Education: National Center for Education Statistics. (2007). *National Assessment of Educational Progress*. Available online at <http://nces.ed.gov/nationsreportcard/naepdata/>

¹⁸ United States Department of Education: National Center for Education Statistics. (2007). *National Assessment of Educational Progress. The Nation's Report Card*. Available online at http://nces.ed.gov/nationsreportcard/naepdata/http://nationsreportcard.gov/math_2007/m0005.asp

¹⁹ McDonough, P. (2004). Counseling Matters: Knowledge, assistance, and organizational commitment in college preparation. In William G. Tierney, Zoë B. Corwin & Julia E. Colyar (Eds.) *Preparing for College: Nine Elements of Effective Outreach*. Albany, NY: SUNY Press.

²⁰ United States Department of Education: National Center for Education Statistics. Available online at <http://nces.ed.gov>

²¹ Table 5. – Average public school size (mean number of students per school), by instructional level and by state: School year 2000-2001; Available online at nces.ed.gov/pubs2002/overview/table5.asp

²² Oakes, J. (2002). *Education Inadequacy, Inequality and Failed State Policy: A synthesis of expert reports prepared for Williams v. State of California*. Los Angeles, CA: UCLA/IDEA. Available online at www.idea.gseis.ucla.edu.

²³ McDonough, P. (2004). Counseling Matters: Knowledge, assistance, and organizational commitment in college preparation. In William G. Tierney, Zoë B. Corwin & Julia E. Colyar (Eds.) *Preparing for College: Nine Elements of Effective Outreach*. Albany, NY: SUNY Press.

²⁴ The American School Counselor Association analyzed the most recent available data (covering the school year, 2004-05) from the National Center for Educational Statistics' Common Core of Data. Available online at <http://www.schoolcounselor.org/content.asp?contentid=460>.

²⁵ We report here on NCES' most recent published data (from 2003-2004) on student-teacher ratio. See: Table C-8. Median public school student/teacher ratio, by instructional level: United States and other jurisdictions, school year 2003-2004. Available online at <http://nces.ed.gov/>

²⁶ Darling-Hammond, L. (2004). Inequality and the Right to Learn: Access to Qualified Teachers in California's Public Schools. *Teachers College Record*, 106, No. 10.

²⁷ We provide data about the percentages of A-G courses and rates of college-going separately for each high school in the on-line version of this report. Available online at www.EdOpp.org

²⁸ Finn, C., Petrilli M. and Julian, L. (2006). *The State of State Standards*. New York, NY: The Fordham Foundation. See also: Cronin, J. et al. (2007). *The Proficiency Illusion*: New York, NY: The Fordham Foundation.

²⁹ NCLB requires that state and school districts annually review the academic progress of all schools receiving federal Title I funds and to identify those schools that do not make annual progress toward 100% proficiency by 2014. Schools are identified as Program Improvement (PI) schools after two consecutive years of not making adequate yearly progress (AYP). California determines AYP for high schools by considering the following four measures: 1) The percentage of students scoring at the "proficient" or "advanced" level on the California Standards Tests for English-language arts and mathematics; 2) The percentage of students participating in those tests; 3) The graduation rate for high schools; 4) California's own accountability measurement of progress, the Academic Performance Index (API).

³⁰ United States Department of Education. No Child Left Behind Act: Part A Sec. 1116.b.8.B. Available online at www.ed.gov/policy/elsec/leg/esea02/pg2.html#sec1116.

³¹ We report here on the number of California middle schools and high schools in at least their fifth year of Program Improvement in the 2006-2007 school year.

³² For discussion of the need for California to improve its math instruction to sustain its competitive advantage in STEM related industries, see: California Council on Science and Technology and Center for the Future of Teaching and Learning (2007). *Critical Path Analysis of California's Science and Mathematics Teacher Preparation System*. Sacramento, California.

³³ Ed Source. (2007). *Higher Standards + Support = More Students Taking Tougher Math*. Mountain View, California: Ed Source. Available online at www.edsource.org.

³⁴ H. Blume. (September 22, 2008). *California's new 8th-grade algebra rule gets some poor marks*. Los Angeles Times.

³⁵ National Center For Educational Statistics. (2007). *Mathematics 2007 State Snapshot Report: California Grade 8 Public Schools*. Available online at <http://nces.ed.gov/nationsreportcard/pdf/stt2007/2007495CA8.pdf>

³⁶ National Center For Educational Statistics. (2007). *Mathematics 2007 State Snapshot Report: California Grade 8 Public Schools*. Available online at <http://nces.ed.gov/nationsreportcard/pdf/stt2007/2007495CA8.pdf>

³⁷ The Quality Education Investment Act (QEIA) was created through Senate Bill (SB) 1133 (Chapter 751, Statutes of 2006). The legislation provided approximately \$3 billion for use by schools ranked as either decile 1 or 2 in the state's Academic Performance Index to reduce class sizes, improve teacher and principal training, and hire more school counselors.

³⁸ The introduction to California's math framework states: "A goal of this framework is to prepare all students to study Algebra by 8th grade." California Department of Education (2006). *Mathematics Framework for California Public Schools: Kindergarten through grade 12*. Sacramento, CA. Available online at <http://www.cde.ca.gov/ci/ma/cf/documents/math-front-intro.pdf>.

³⁹ For example, more than 1 in 3 (37%) of the Fall 2006 first-year students in the California State University system required remediation in Mathematics. See California State University, CSU Analytic Studies Development (2007). *Fall 2006 Regularly Admitted First-Time Freshmen Remediation Campus and Systemwide*. Available online at http://www.asd.calstate.edu/remediation/06/Rem_Sys_fall2006.htm.

⁴⁰ C. Adelman. (2006). *The Toolbox Revisited: Paths to Degree Completion from High School Through College*. Washington, DC: United States Department of Education.

THE UNIVERSITY OF CALIFORNIA AT THE MILLENNIUM

Werner Z. Hirsch Professor-Emeritus
Dept. of Economics, UCLA

At the start of the new Millennium, 20 members of the Glion Colloquium, Western leaders of Higher Education, met for four days in Glion, Switzerland, and issued a Declaration after having reflected on the challenges facing public higher education. The members of the Glion Colloquium include Regents, presidents, chancellors and rectors of leading universities, and other academic leaders. The group issued the Glion Declaration stating that Universities are learning communities created and supported for students to learn, clearly a function of critical importance to society in the pursuit of new knowledge." Those functions... "form the basis of an unwritten social contract by which, in exchange for the effective and responsible provision of those services, the public... contributes to its finance. ... Universities are experiencing severe financial constraints... (due to) other public needs which demand public investment."¹

The Glion Declaration reminds us that "scholarship is a public trust in which, though it is rooted in individual insight and personal inquiry is a cooperative venture, supported though by public funds and private patrons as a social enterprise, because it enriches human understanding and contributes to human well-being." In the spirit of the Glion Declaration, this chapter examines major challenges facing higher education and, in particular, challenges facing the University of California. Three initiatives are offered to meet those challenges.

The University of California is one of the top universities in the world and one of the leaders of America's public research universities. As with many public universities, it faces serious challenges which deserve to be promptly addressed. Among these challenges, the focus will be on two which stand out: First, declining public financial resources for university support, and second, the need for new approaches which can keep the university at the cutting edge and in a position to carry out its mission with the help of new organizational structures.

Challenges

A. Financing

At a time that the demand for the admission of students and for world class faculty are at an all-time high, financial resources are a major problem. Funds provided by the state are shrinking, uncertain, and unstable and therefore threaten the ability of the university to meet its responsibility. Although states other than California have similar problems, the challenges have become especially serious in respect to the University of California, since the State is incurring particularly serious financial difficulties. At the same time, legislators and other elected officials press the university to admit more and more undergraduates. The state has about \$15 billion budget deficit. Moreover, there is vigorous competition for faculty, particularly from well endowed private institutions.

Why does California have such severe financial difficulties? The reason is an imbalance between the demand for public services and capital investments on the one side, and the supply of tax dollars on the other. The latter fact can be traced to the passage in the late 1970s of Proposition 13.² Prop 13 greatly reduced local governments' ability to raise revenue from

property taxes, which had been a major source of local government funding, leaving the state to backfill support for local services, especially K-12 education. At the same time it requires the legislation to have a two thirds majority in voting for tax increases.

Unable to get a two thirds majority in votes to increase taxes, the state has turned to borrowing large amounts of money by selling bonds. As a result, the state must pay ever larger annual debt service charge. As an example, there are four general obligation bond measures on the November 2008 ballot totaling \$16.8 billion in new authorizations. According to estimates by the Legislative Analyst, if the four measures were to pass, they would increase the General Fund's debt service by \$2.7 billion a year and bring the debt Service ratio to 6.1 percent by 2011-12.³ One result has been that the annual cost of servicing the debts is taking a major and increasing amount of money from the General Fund i.e., the money designed to fund government's operations.

Thus, the state's financial difficulties affect its ability to fund public education in general and public higher education in particular. The funding of higher education is at a disadvantage because it has a much delayed impact compared with that of most other services. For example, funds for health and personal security services will have an immediate life or death effect on the population, whereas UC's teaching and research effects will only be felt many years in the future. Moreover, the disadvantages of higher education in receiving state funding will further increase in the future. As California's population ages and loses interest in the future benefits of higher education, its willingness to pay taxes in support of UC is likely to decline.

The resulting financial challenges not only have an immediate negative effect on today's teaching and research. They will also affect the university's future. It will have great difficulty in hiring and retaining quality faculty as it competes with better-funded competitors, such as the many well-funded private institutions.

B. Organizational Structure

For quite sometime, few organizational changes have been made by universities including UC, while significant changes have taken place in the outside world. One example is the cyberspace information-communication revolution which tends to eliminate physical distance. A consequence for universities that faculty will be spending less time in campus offices and thereby spend less time commuting. For students, who are increasingly competent computer users, it means that they, too, will spend less time on campus. For university libraries, hard copies of books and scholarly journals can be replaced with electronic versions so that less money and fewer new library buildings are necessary. Another consequence is the almost universal need for the young generation to gain an education, a change which implies a far-reaching societal adjustment. Constituents expect the University of California to adjust its teaching and research to the new possibilities and they want to benefit personally from them.

In view of these developments, the old organizational structure of UC must be adapted. Two organizational features deserve special review. Undergraduate university programs can benefit from enhanced vertical integration as will be explained below. However, the fact that several countries have shortened the time needed to obtain a bachelors degree is important to note.

Campus specialization is another reform that needs to be implemented. Disciplinary comprehensiveness on each UC campus is costly and given the new forms of communication is increasingly unnecessary. UC became a multi-campus system by expanding from UC-Berkeley but insisting that each new campus emulate the original Berkeley model. But that approach, based in the climate of the 1960s, is no longer appropriate.

Three Proposed Initiatives

A. Financing and the Michigan Model

The University of California as a public university at one time relied heavily upon the state for financing. Circumstances have changed and the state's financial support has become increasingly unstable and inadequate interfering with the ability of UC to fulfill its mission. State support has declined from more than 60 percent of the UC's budget in the era of the 1960s Master Plan to about one sixth in recent years.⁴ Since it can no longer depend upon adequate state support and since student fees are low compared to private universities, other sources, e.g., private giving, government and private sector research grants, and sale of services, have made up part of the shortfall. Increases in-state standard student fees to a large extent have been controlled by political considerations.

Under these circumstances a new funding system is needed to assure excellence, even if it moves the University of California from being a full-fledged public university to what former University of Michigan President James J. Duderstadt calls a "privately supported but publicly committed institution" which strives to assure access to every qualified student.⁵ The initiative proposed in this chapter is built on the "Michigan Model" which was in large part developed by Duderstadt.⁶ It freed the University of Michigan to determine student and tuition for in-state and out-of-state undergraduate students.

In-state undergraduates benefit from a high-fee/high-financial-aid policy. They are guaranteed that the university will meet their full financial need through a combination of grants and loans and work-study assistance. The high sticker price allows redistribution of revenues using needs-based pricing. Out-of-state undergraduate's tuition and fee levels are set at market rates, i.e., approximately comparable with private institutions. For graduate programs, in-state and out-of-state tuition and fees are set about equal to rates of competitive, mainly private, institutions.

One way to appraise the academic effect of the Michigan Model of financial is to consider the health of the University of Michigan. There can be no doubt that the economy of Michigan has suffered more in recent years than that of California due to the problems of the auto industry. Yet there are many indications that the University of Michigan's academic program has been more insulated from state economic conditions than has occurred at UC. But there are aspects of the Michigan Model that could be improved.

Under the present Michigan Model, all in-state students – rich or poor – are subsidized to some extent – a situation costly and unfair. In order to introduce increased fairness into the Michigan Model, the subsidy of tuition should become more progressive, i.e., more closely related to the student's family income and ability to pay. In short, the move would be to an almost purely income-determined model. Specifically, neither tuition nor fees would be paid by

in-state undergraduates with a relatively low family income, perhaps set as a fraction of the state's average family income. If their family income were higher, the payments would increase appropriately. For example, in-state students with a family income above a specified high level would pay tuition equal to the private market minus the per-student state appropriation. Out-of-state undergraduates would pay full cost or rates of comparable private universities. Thus, attracting out-of-state (possibly foreign) students would be financially rewarding and would help to finance the university grant/redistribution program.

UC should incur no legal obstacles in adopting the proposed initiative, since it, similar to the University of Michigan, has constitutional autonomy. A special UC Committee on University Constitutional Autonomy concluded that, based on various court rulings and an opinion by California's Legal Counsel, that unreasonable impairment by the State of the Regents' powers with respect to 'University affairs' is invalid, depending on" (a) the centrality of the subject matter to the functioning of the University as a university i.e., whether the subject matter falls within the scope of 'University affairs'; (b) the degree of impairment of the Regents' 'full' powers of governance; and (c) the public interest advanced by the legislative or executive action."

While the courts have never ruled on whether fee setting by Regents along Michigan Model lines is allowed, they very likely have that power since UC must have the necessary funds to carry out its academic mission. In fact, the Regents have set fees for a long time, albeit it under political constraints, since "full" powers of governance have been assumed to include authority to raise fees. While the necessary condition appears to be met, effective political accommodation is a sufficient condition. There would need in practice to be an understanding between the Regents, the governor, and the legislature before a Michigan Model approach could be implemented. In particular, UC would have to demonstrate how the Model would deal with political concerns about access and about support for qualified but needy students.

Finally, since unforeseen financial circumstances can never be ruled out, it would be wise for UC to have a sufficient "rainy-day fund" or reserve and make sure to replenish it in good years. If UC is to be autonomous in rating setting, it needs sufficient reserves to guarantee that already-enrolled students can avoid sudden hikes in tuition in the midst of their academic careers.

B. Effectiveness and Efficiency

Two initiatives to improve the university's organizational structures for the purpose of raising its effectiveness and efficiency will be discussed below. One involves expanding vertical integration of key parts of the education system. It draws on a central aspect of the path-breaking 1960 California Master Plan which has greatly facilitated the transfer of community college students who have completed two years successfully into a UC campus' upper division baccalaureate program.⁷ If such integration can occur with community colleges, it could also be extended to the K-12 system.

Vertical Integration: The Three Year Undergraduate Program

Under the proposed initiative, the 12th grade of high school would be integrated with first year of university undergraduate education. The latter would be reduced to three years to follow 12th grade of high school which would be significantly improved with the help of university faculty. This arrangement of moving well-prepared 12th grade students directly into the university's three-year baccalaureate program could result in a number of benefits.

- 1) Nine of the ten campuses of the university could devote more faculty time to teaching of pretty prepared undergraduates. (UC-San Francisco is a graduate medical school and thus would not be included.)
- 2) The shortened undergraduate program requiring undergraduate teaching could free funds to support graduate programs, the key mission of a research university.
- 3) Learning could improve, as 12th grade boredom – commonly acknowledged – is replaced by a more challenging curriculum. High school students could also avail themselves of Advanced Placement and Honor Classes and take advantage of summer school and university extension opportunities.
- 4) Students could reap gains due to a reduction time in the undergraduate program from four to three years. They would be able to save a year's living expenses, to gain a year's income due to entering the labor market one year earlier, and to save a year's worth of university fees.
- 5) In terms of the mission of a research university reducing a four year undergraduate program by a year would enable UC to focus more on graduate education and research, the intent of the original Master Plan.

Of course, there could be a downside to a vertical integration which reduces undergraduate education from four to three years. A more compressed and intensive learning environment can impose intangible costs for students from families with a limited academic background and learning tradition. Moreover, a three-year undergraduate program would sacrifice some of today's college experience. However, it is important to realize that the United Kingdom, Australia, Canada and other commonwealth countries, among others, have had three-year baccalaureate programs for some time.⁸

The above initiative would require significant cooperation and leadership from various government and university officials and those of the K-12 system. They include elected officials, U.C. Regents, president, chancellors, and faculty leaders as well as school board members and superintendents. All would have to play a major role in both the program origination and the allocation of funds. As an experiment, a pilot program could be established with a few schools and then expanded.

C. Reduction in Comprehensiveness and Duplication – Increased Specialization

The University of California, as it has moved from being one campus to ten campuses has supported disciplinary comprehensiveness and duplication on its campuses. Former UC

President Clark Kerr, a key author of the Master Plan, believed that new campuses deserved support for an immediate rapid development. However, this generosity and the relative affluence of the university during the era of rapid growth in the 1960s led to substantial horizontal disciplinary comprehensiveness and duplication. That policy is too costly for the current era, particularly in the face of modern communications advances.

Given interdisciplinary cooperation, selective specialization has merit. Specialization can benefit from opportunities created by the cyberspace information-communication revolution in reducing the importance of the location where teaching and research take place. Nine of the ten campuses (UC-San Francisco is the exception), stimulated by UC-Berkeley's disciplinary comprehensiveness and universally-recognized excellence, have sought to emulate its comprehensive approach. However, the present expansive duplication academic offerings by so many of the campuses can lead to reduced quality at all of them.

While most UC campuses now exhibit extensive horizontal disciplinary comprehensiveness, each could benefit from specializing in a select number of academic clusters in which they can build and maintain excellence and pursue emerging areas of inquiry. Each cluster might be composed of a number of disciplines and programs which have much in common, which complement one another, and which have rational internal synergy. The following are examples of potential clusters:

- Physical Sciences Cluster: Chemistry, mathematics, physics and engineering;
- Biological or life Sciences Cluster: evolutionary biology, genetics, microbiology, molecular biology, organic biology, and medicine;
- Social Science Cluster: anthropology, economics, political science, psychology, sociology and management and law;
- Humanities and arts: history, languages, literature, philosophy and arts.⁹

Further, if the campuses were to be divided into two groups – north and south – collaboration within each group could raise the total strength of UC significantly in the future. This arrangement could produce economies of specialization and scale, in part resulting from increases in the size of presently small classes (higher student/faculty ratios). Moreover, clustering could benefit research by faculty and graduate students as a campus gains great distinction in select disciplinary areas. Much can be learned from the experience of such outstanding, highly-specialized institutions as Caltech, MIT, and Rockefeller University.

A policy of carefully selected disciplinary specialization and of clusters will be easier to implement in new institutions than in established ones. It would require strong leadership coming from the Board of Regents, administrators, and academic leaders. The initiative can be undertaken by the university by itself, given its constitutional autonomy. But as with other major reforms, acceptance by key political figures would be essential in practice.

Summary and Conclusion

Public research universities, and especially the University of California, face a difficult future with many challenges. State funds are now, and will be, scarce and unreliable.

California's budget for 2008-09 was passed more than 3½ month late and remained in deficit. Increased reliance on borrowing is leading to higher levels of debt service. At the same times, political pressure for the admission of ever more undergraduate students is increasing. In order for the University of California to maintain its excellence, new initiatives, even if painful and controversial, must be taken.

Undoubtedly, there are many initiatives that could be undertaken to improve UC. In this chapter, however, the focus has been on the key issues of finance and adaptation to new technology. Proposed for UC is the Michigan Model, vertical integration with K-12, and campus specialization. None will be easy to implement, given the political realities of California and the internal politics of UC itself. It is to be hoped, however, that sufficient leadership can be found to make the essential changes.

Endnotes

¹ Werner Z. Hirsch and Luc E. Weber, "The Glion Declaration: The University at the Millennium", *The Presidency*, Fall, 1998.

² Proposition 13, enacted in 1978, rolled back initial property tax assessments to their 1975 levels or the sales price, whichever came later, and restricted increases in assessments to 2% per year for as long as the property is retained by the same owner. Property taxes exceeding 1% of the property's full value were prohibited; increases in state taxes were permitted only if approved by a two thirds majority of both houses of the state legislature; and local taxes had to be approved by a two thirds majority of a jurisdiction's voters.

³ Legislative Analyst, An Overview of state Bond Debt, Sacramento, July 2008.

⁴ September 8, 2008 Communication to author of UCLA Vice Chancellor Steven A. Olsen.

⁵ May 27, 2008 Communication to author of President James J. Duderstadt.

⁶ Master Plan for Higher Education in California, California State Department of Education, Sacramento, 1980.

⁷ University Education – Making it Pay, *Economist*, September 20, 2008.

⁸ May 5, 2006 Communication to author of UCLA Executive Vice Chancellor Daniel Neuman.

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THINKING OUTSIDE THE BUS: UNDERSTANDING USER PERCEPTIONS OF WAITING AND TRANSFERRING IN ORDER TO INCREASE TRANSIT USE

Brian D. Taylor, School of Public Affairs, UCLA

Hiroyuki Iseki, University of Toledo

Mark A. Miller, UC Berkeley & UCLA

Michael Smart, UCLA

Efficiently and effectively run public transit systems in California are essential components of and crucial contributors to the proper functioning of a region's overall transportation network. Rising gasoline prices have raised public awareness of transit systems as alternatives to the personal automobile. However, travel by public transit is a complex process that involves more than simply people moving about on buses and trains. A typical door-to-door trip involves walking from one's origin to a bus stop or train station, waiting for a vehicle to arrive, boarding the vehicle, traveling in the vehicle, alighting from the vehicle, and then walking to one's final destination. In many cases, the trip involves transfers; travelers alight from one transit vehicle, move to a new stop or platform, wait for another transit vehicle, board that vehicle and continue this process until they reach their last stop or station at which they walk to their final destination.

Transit travelers, in other words, expend a great deal of their time, energy, and patience outside of buses and trains, which contributes greatly to both their actual and their perceived burden of transit travel. This perceived burden, in turn, helps to determine travelers' decisions whether or not to take transit in the future. Given the relative convenience of door-to-door travel by foot, bicycle, taxi, or private vehicle for many trips, public transit systems are often at a competitive disadvantage when competing for passengers. Accordingly, this chapter examines ways to increase the attractiveness and to reduce the perceived burden of the time spent outside of vehicles during transit trips.

Reducing the Burden

As California's cities have grown more dispersed and auto-oriented, the out-of-vehicle portion of transit trips has grown. In an effort to accommodate increasingly dispersed patterns of trip-making, many transit systems in U.S. metropolitan areas now require transit users to make frequent transfers among lines, modes, and operators. As such, transit stops and stations are integral parts of transit networks, playing an important role in connecting multiple transportation modes and systems. The effectiveness of these connections governs waiting and walking times at transit stops and stations, and, in turn, travelers' choices whether or not to take a particular transit trip. Given the effect of travel time on travel choices, good connectivity at transit stops and stations is critical to overall transportation network effectiveness.

Thus, reducing such burdens can contribute significantly to enhancing the attractiveness of transit as a travel mode resulting in increased transit ridership. Nonetheless, despite the importance of out-of-vehicle transit travel, the in-vehicle travel experience has tended to capture the lion's share of attention from transit managers. For managers, acquiring, maintaining, and, in

particular, operating vehicles is the core mission of any transit system.

Methods

Our primary objective in this chapter is to determine the best ways to reduce out-of-vehicle travel burden and improve transit users' experience at stops, stations, and transfer facilities. To achieve our objective, the authors initially developed a theoretical framework to understand how improvements at stops, stations, and transfer facilities affect people's travel behavior. Clearly, California transit systems' primary foci are their passengers and their perceptions and needs are central. Beyond passenger needs, however, transit stops, stations, and transfer facilities also must meet operational needs of transit systems. Additionally, transit stops, stations, and transfer facilities affect and are affected by stakeholders from their neighboring communities, such as businesses – both owners and patrons – and residents. We therefore explored the perspectives of these three stakeholders – passengers, transit managers, and stop-adjacent residents and business owners.

In our investigation of each of the three stakeholder perspectives, we employed a variety of research methods. We designed and administered a user survey based on the five principal transit stop and station attribute categories thought in the literature to affect transfer penalties: Access, Connection and Reliability, Information, Amenities, and Security and Safety. Our objective was to provide an accurate portrait of transit riders at the system-wide level, by service-type, by time of day and day of week, and by location.

For each of the five attribute categories, the research team crafted a series of specific questions. The resulting survey, which was made available in English and Spanish, consisted of 29 questions and was self-administered to 749 transit users at 12 transit stops and stations around metropolitan Los Angeles. In total we approached 1,023 transit users and 274 of them refused to participate in the survey yielding a 73% response rate. Moreover, the 749 surveys were not entirely completed as some users had to stop providing responses to catch their bus or train.

We also designed a transit system manager survey to collect the following information on operators' estimation of how important various evaluation factors are to their own passengers, and operators' views of what evaluation factors are important from their own perspective. The survey was administered by means of a web-based online nationwide survey of transit managers. The survey instrument was designed to both mirror many of the questions in our user survey, and to ask about political and operational concerns not directly related to passenger use of stops or stations.

From the Federal Transit Administration's 2005 National Transit Database we selected all 400 transit operators with at least one fixed-route/fixed-schedule transit line in service in the United States. We sent the general manager of each an electronic invitation to either respond to our survey or to designate a member of his/her staff to do so. We received a total of 175 completed responses, for a 43% response rate.

Finally, we developed a set of questions that were used during telephone interviews with a representative sample of transit operators in the United States in order to gain further insight

into the transit operators' perspective, as well as to gather illustrative anecdotes about transit stops and stations. Twenty agencies were selected by a weighted sampling methodology, with the probability of inclusion in our sample weighted by the agency's annual ridership figures. Of these, 8 agencies participated, for an effective response rate of 40%. During these interviews, we also gathered data on the role of stop and station neighbors – both private and commercial – in shaping the design, location, and operation of transit stops and stations. These interviews focused in particular on community advocacy for and against the location, re-location, and/or expansion of transit stops and stations.

Findings

From our analysis of the passengers'/users' perspective, one principal finding stands out clearly:

The most important determinant of user satisfaction with a transit stop or station is frequent, reliable service in an environment of personal safety, and only indirectly the physical characteristics of that stop or station.

In other words, most transit users would prefer short, predictable waits for buses and trains in a safe, if simple or even dreary, environment, over long waits for late-running vehicles. This is true even if such long waits occur in the most elaborate and attractive transit stations and especially so if users fear for their safety. While this finding will come as no surprise to those familiar with past research on the perceptions of transit users, it does present a contrast to much of the descriptive and design-focused research on transit stops and stations. California's transit operators would do well to consider this key finding in allocating resources.

Transit User Perceptions

In total, we surveyed approximately 750 transit users at 12 transit stops and stations in metropolitan Los Angeles about their perceptions of 16 stop/transfer facility attributes. We used a technique known as Importance-Satisfaction Analysis to identify which of these attributes passengers found most important (importance) and which needed the most improvement (satisfaction). Initially we grouped the 16 attributes into the following five categories:

- **Access:** Management of passenger flow control and directional information
- **Connection and Reliability:** Distance and time to make connections; on-time performance/frequency of bus/train
- **Information:** What, where, and how passengers acquire information
- **Amenities:** Comfort, service, weather protection, and cleanliness of station/stop
- **Security and Safety:** Station/stop equipment, infrastructure, or personnel that provide passengers with a safe and secure environment

Respondents' reported level of satisfaction with their wait/transfer experience indicates that, in general, they are least happy with factors related to access, followed by some factors related to security and safety and connection and reliability. When we considered the level of satisfaction and importance ratings in tandem, factors that require improvement at the 12 stops and stations surveyed pertain most to security and safety and connection and reliability, and least to amenities. Regardless of satisfaction levels, however, users ranked safety and service quality factors as most important (the top six of sixteen attributes) as is shown in the following list:

Most Important

1. I feel safe here at night (78%)
2. I feel safe here during the day (77%)
3. My bus/train is usually on time (76%)
4. There is a way for me to get help in an emergency (74%)
5. This stop/station is well lit at night (73%)
6. I usually have a short wait to catch my bus/train (70%)

In contrast, the following stop and station-area attributes were ranked as least important (bottom six of sixteen attributes) by users:

Least Important

11. It is easy to get route and schedule information at this stop/station (62%)
12. There is a public restroom nearby (59%)
13. This stop/station is clean (58%)
14. It is easy to get around this stop/station (57%)
15. There are enough places to sit (50%)
16. There are places for me to buy food or drinks nearby (34%).

However, when we related users' satisfaction statistically with various stop/station attributes with their overall satisfaction with their wait/transfer experiences we got similar, though not identical, results:

Most Important

1. It is easy to get around this stop/station.
2. I feel safe here during the day.
3. Having security guards here makes me feel safer.
4. It's easy to find my stop or platform.
5. The stop/station is well lit at night.
6. My bus/train is usually on time.

Least Important

11. This stop/station is clean.
12. There is shelter here to protect me from the sun or rain.
13. There is a way for me to get help in an emergency.
14. There are enough places to sit.

15. There are places to buy food or drinks nearby.
16. There is a public restroom nearby.

These findings revealed the power of station/stop attributes to increase overall satisfaction with the transfer experience.

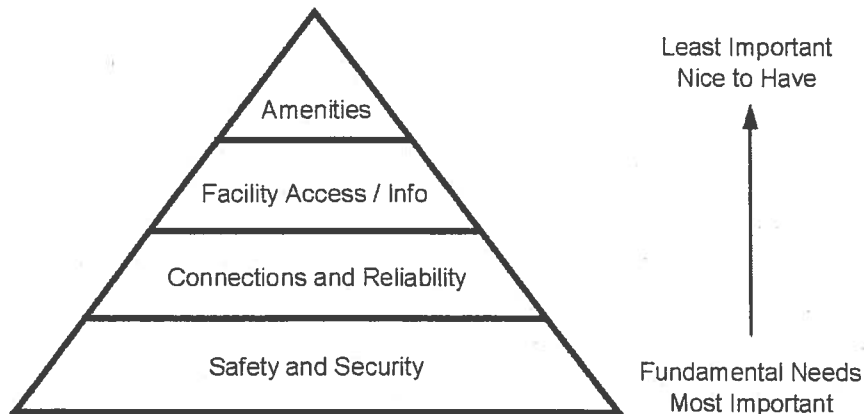
While informative, rank-ordered lists like these can be problematic if users “split their votes” among similar, though important factors such as “I feel safe here at night” and “This stop/station is well-lit at night.” To correct for this problem, we employed an ordered-logit regression model to measure the independent influence of each of 16 wait/transfer attributes on overall user satisfaction. This sort of analysis tends to eliminate all but one of closely related factors, while elevating ostensibly less-important factors that independently influence users’ overall levels of satisfaction. The results of this modeling exercise are telling:

Most Important

1. My bus/train is usually on time.
2. Having a security guard here makes me feel safer.
3. This stop/station is well lit at night.
4. I feel safe here during the day.
5. It is easy to get around this station/stop.
6. The signs here are helpful.

Of our 16 stop and station attributes evaluated, transit users assigned the highest importance to factors related to security and safety, and then to factors related to connection and reliability. In contrast, stop and station-area amenities were ranked as least important by users. We do not claim that amenities are not important to travelers; more than half ranked information, the presence of public restrooms, cleanliness, and ease of navigation as important attributes. However, travelers prefer safe, frequent, and reliable service over these factors. From this analysis, we have developed what we call the *Hierarchy of Traveler Wait/Transfer Needs* (Figure 1) to summarize the findings of this research succinctly.

Figure 1. A Hierarchy of Transit User Needs



A companion part of our analysis compared how transit managers and neighboring communities viewed transit stops and stations. Perhaps reassuringly, our principal finding precisely matches that of the transit user investigation:

For operators, safety- and security-related factors far outweighed other attribute factors at transit stops, stations, and transfer facilities.

Following safety and security (#1), ten other factors cluster relatively closely as important factors in the views of the transit managers surveyed – some of which obviously relate to factors beyond the experience of transit travelers. They are, in order of priority:

2. Pedestrian/vehicle conflicts
3. Schedule coordination
4. Operating costs
5. Stop/station equipment reliability
6. Comfortable environment
7. Adequate stop/station space
8. Inter-agency coordination
9. Facilitate passenger flows
10. Accommodate vehicle movements
11. Protect passengers from weather.

Transit Operator Perceptions

We also compared transit managers' views of what was important to their riders with riders' own views from our previous analysis of Los Angeles County transit riders. While transit operators appear to have a fairly accurate understanding of what attributes are important to their riders at transit stops and transfer stations, there are several points of disparity. The transit managers surveyed correctly assumed that safety and security were very important to riders, but they tended to underestimate the importance of specific safety-related factors, such as the presence of security guards and emergency assistance.

It also appears that, controlling for other factors, transit managers overestimate the importance of station cleanliness and schedule information to their riders. We note, however, that there was a mismatch in geographical coverage for this comparison; our riders' survey collected data from Los Angeles County transit riders, while our operators' survey collected data nationwide. It is possible that this mismatch has overemphasized some disparities, while downplaying others. For that reason, these findings should be considered preliminary; our future research will examine both subgroups that cover the same general location to circumvent this problem.

Finally, we spoke with eight transit operators in telephone interviews regarding the role of stop/station-adjacent stakeholders in planning, operating, and maintaining transit stops and transfer facilities. Many of those interviewed reported community opposition to the

development or expansion of stops and stations as a significant issue, with this opposition often coming indirectly through elected officials and community leaders. During the course of this phase of the research we determined that municipal and county governments control most of the land on which bus benches, shelters, and stations sit; moreover they are an integral, and often overlooked part of the transit stop/station planning process. Transit agencies, in other words, often have surprisingly limited control over the siting and design of stations and stops. Accordingly, we intend to examine the roles and perceptions of local governments in the development and operation of transit stops and stations in a subsequent phase of this research.

An Assessment Tool

Based on the projects' findings we developed a Preliminary Assessment Tool whereby transit managers in California and elsewhere can employ a 3-step process to guide them as they consider making improvements to already existing transfer facilities or developing initial plans for new facilities.

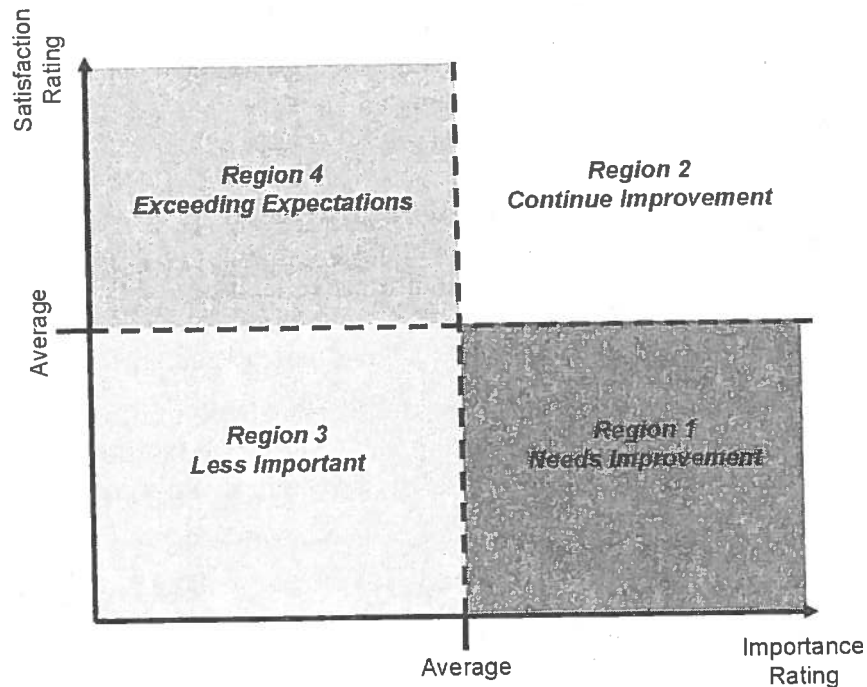
Step 1: Use the Hierarchy of Traveler Wait/Transfer Needs above to determine the priority of improvements to any stop or station. We endeavored in this research to produce generalizable findings from our analysis by surveying a large number of transit users at a wide variety of facilities.

Step 2: For transit stops and stations serving particular user populations (children, immigrants, the elderly, etc.) or for stops/stations in unique environments (adjacent to airports, amusement parks, hospitals, etc.), the user perception survey instrument developed and tested in this study can be used to survey the perceptions of passengers.

Step 3: Analyze the survey results with respect to produce a ratings matrix with respect to the importance and satisfaction levels for the users and/or stops surveyed.

Relative to both the average importance and satisfaction levels, stop/station attributes may fall in to one of the following four regions:

Thinking Outside the Bus



- **Region 1** is an area where – for the surveyed users or stops – facility attributes have above-average importance but a less than average level of satisfaction, meaning that these attributes should be high priorities for improvement.
- **Region 2** is an area where attributes have above-average importance and above-average level of satisfaction, meaning that priority should be given to maintaining the quality of these attributes.
- **Region 3** is an area where attributes have less than average satisfaction levels and less than average importance ratings; improvement to such attributes are warranted only at low cost or if all of the attributes in Regions 1 and 2 have been fully addressed.
- **Region 4** is an area where attributes have above average levels of satisfaction and importance ratings less than average; such attributes exceed expectations and warrant no further attention.

The next step in our Preliminary Assessment Tool is to identify each attribute within each of these four regions beginning with Region 1 and continuing in sequential order through Region

4. Within each Region attributes are identified in the following order consistent with the above Hierarchy of Traveler Wait/Transfer Needs and based on users' priorities:

1. Safety and Security
2. Connections and Reliability
3. Facility Access and Information
4. Amenities

So, starting with Region 1, we will first identify any "Safety and Security" attributes. Any such attributes should be improved in increasing order of satisfaction beginning with the lowest satisfaction level. If there are no "Safety and Security" attributes in Region 1, then we identify any "Connections and Reliability" attributes in Region 1 and continue this process for Region 1. After completing this process for Region 1, repeat the entire process for Region 2's attributes, followed by Region 3's attributes.

Conclusion and Next Steps

Our evaluation framework has provided us with a strong theoretical foundation to expand our study of transit users and facilities beyond Los Angeles County, which we are now doing in the next phase of this research. We aim to expand our inventory of stops and stations from 12 to 50 across California, with a goal of surveying approximately 2,000 users. This expanded approach will help make the findings of this effort considerably more generalizable to cities and transit operators in large and small cities around California. Moreover, by field testing the findings of our Phase I and II work at specific transit stops and stations, we can conduct before and after testing to determine if, indeed, this research can help the state's transit operators attract more riders by cost-effectively addressing the specific aspects of waiting for and transferring among transit vehicles that transit users find most burdensome.

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For Further Reading

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PUTTING CALIFORNIA'S CITIES BACK ON THEIR FEET

Donald Shoup, Professor of Urban Planning
UCLA School of Public Affairs

Property has its duties as well as its rights.

Thomas Drummond

Public infrastructure usually decays so slowly and so invisibly that we are shocked whenever a bridge collapses, a levee breaks, or a tunnel floods. But sidewalks decay right under our feet and in front of our eyes. Sometimes we even trip over a broken sidewalk and end up in the emergency room.

In Los Angeles, for example, 4,600 miles of the city's 10,750 miles of sidewalks need some repair, at an estimated cost of \$1.2 billion. Figure 1 shows examples of these broken sidewalks. From 2002 to 2006, the city paid an average of \$3 million a year to settle lawsuits over trip-and-fall accidents on broken sidewalks. In some years, Los Angeles has paid more to settle trip-and-fall lawsuits than it paid to repair sidewalks. In the eight years since 2000, the city repaired only 67 miles of broken sidewalks per year.¹ Even if the sidewalks miraculously stopped breaking, at the current pace it would take 69 years to repair all the existing damage.

Broken sidewalks make the city less walkable and thus discourage pedestrian travel. Broken sidewalks can especially impede travel by people with disabilities. This impediment has become an important legal issue since the United States Court of Appeals for the Ninth Circuit ruled in 2002 in *Barden v. City of Sacramento* that the Americans with Disabilities Act applies to city sidewalks. In 2003 the United States Supreme Court rejected the appeal by Sacramento to overturn the Ninth Circuit ruling.²

The Americans with Disabilities Act

In *Barden v. City of Sacramento*, a class-action suit on behalf of persons with disabilities, Joan Barden and others alleged that Sacramento violated the Americans with Disabilities Act (ADA) by letting its sidewalks fall into disrepair. The Ninth Circuit Court of Appeals ruled that the city must ensure that its sidewalks satisfy the accessibility requirements of the ADA. The ADA, the Court ruled, covers "anything a public entity does" and any "normal function of a governmental entity," including sidewalks.³

After the Supreme Court denied Sacramento's appeal of the case, the city entered into a settlement that requires it to dedicate 20 percent of its annual transportation funding for up to 30 years to make public sidewalks accessible. Specifically, the settlement requires, "Changes of level of greater than ½ inch, whether caused by tree roots or any other deterioration or displacement of the surface of the Pedestrian Right of Way, will be remedied by providing a ramp with an appropriate slope or by creating a level path of travel."⁴

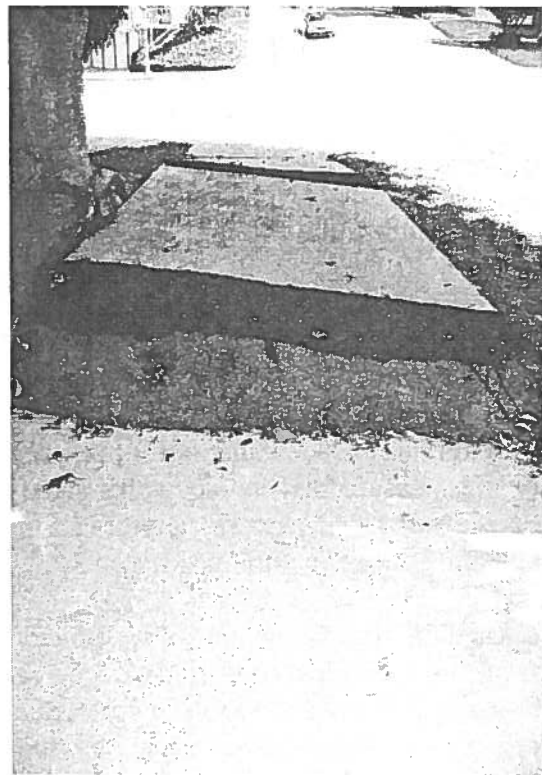
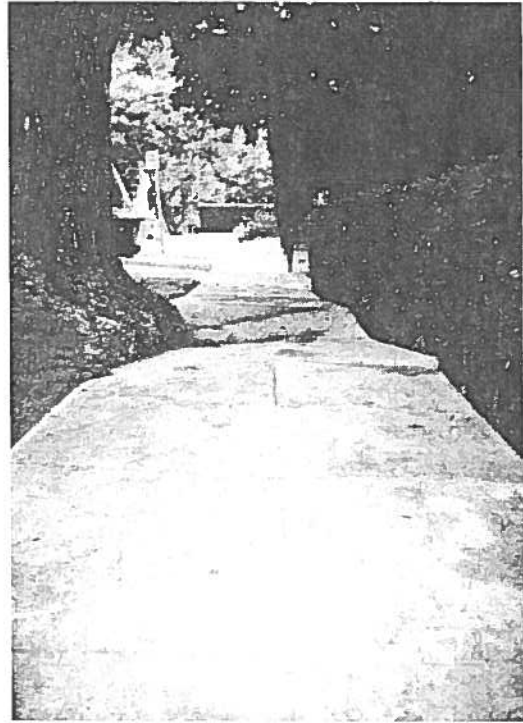
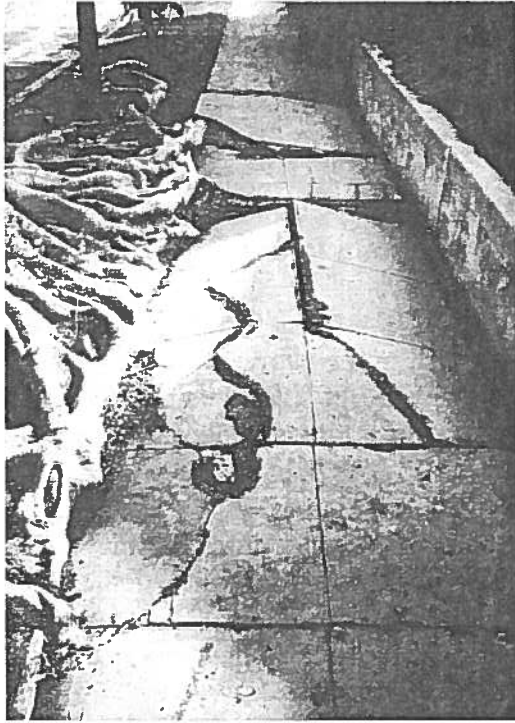


Figure 1. Broken sidewalks in Los Angeles

The plaintiffs in *Barden v. City of Sacramento* had asked the city to adopt a transition plan for its sidewalks to remove barriers to persons with disabilities. Section 35.150 of the regulations implementing the ADA requires all cities to have a transition plan that sets forth the steps they will take to make public facilities accessible. The plan shall, at a minimum:

- (i) Identify physical obstacles in the public entity's facilities that limit the accessibility of its programs or activities to individuals with disabilities;
- (ii) Describe in detail the methods that will be used to make the facilities accessible;
- (iii) Specify the schedule for taking the steps necessary to achieve compliance with this section and, if the time period of the transition plan is longer than one year, identify steps that will be taken during each year of the transition period.⁵

Other ADA lawsuits about inaccessible sidewalks have also been filed. For example, Kohrman and Nepveu (2008, 5) discuss a class-action lawsuit against the California Department of Transportation. They report that one of the plaintiffs "frequently has been required to ride in the street in his wheelchair, just inches alongside speeding vehicular traffic because of inadequate or absent curb cuts, ramps, or sidewalks. Because many curb cuts and slopes do not comply with the law, he is often in danger of tipping over on dangerously slanted rights of way."

Who Should Pay to Repair Sidewalks?

In California, property owners are liable for making sidewalk repairs, as stated in Sections 5610 and 5611 of the California Streets and Highways Code:

The owners of lots or portions of lots fronting on any portion of a public street shall maintain any sidewalk in such condition that the sidewalk will not endanger persons or property and maintain it in a condition which will not interfere with the public convenience . . . When any portion of the sidewalk is out of repair or pending reconstruction and in condition to endanger persons or property or in condition to interfere with the public convenience in the use of such sidewalk, the superintendent of streets shall notify the owner or person in possession of the property fronting on that portion of such sidewalk so out of repair, to repair the sidewalk.

Under this state code, city inspectors cite property owners whose sidewalks are damaged, and if the owner does not repair the sidewalk, the city makes the repairs and bills the owner. Property owners are similarly responsible for sidewalk repairs in many other states and cities.⁶

Until 1973, Los Angeles followed the state code. In 1973, however, federal funds became available to repair sidewalks at no cost to property owners. The City Council adopted an exception to its previous policy of requiring property owners to repair their sidewalks. Section 62.104 of the Los Angeles Municipal Code, adopted in 1973, states:

Preventive measures and repairs or reconstruction to curbs, driveways or sidewalks required as the result of tree root growth shall be repaired by the Board at no cost to the adjoining property owner.

In effect, the city assumed responsibility for most sidewalk repairs. In 1976, however, the federal funding for sidewalks ran out, and the end of three years of well-intended federal subsidies left the city with no sidewalk repair program. Then, in 1978, California voters adopted Proposition 13 to reduce property tax rates, and public funds became even scarcer. In 1980, the city attempted to reinstate the previous policy of requiring property owners to pay for sidewalk repairs, but the tax revolt was in full swing. Property owners objected to the “new” mandate for sidewalk repairs, so the city halted citations. Because the city was short of money, it began to make only temporary asphalt patches to broken sidewalks or—more commonly—did nothing at all.

In 1998, after allowing its sidewalks to deteriorate for over two decades, the city placed Proposition JJ on the ballot. It would have authorized \$679 million in bonds to repair the city’s sidewalks, and, to repay the debt, it would have increased taxes on all property in Los Angeles for 20 years—even on property without sidewalks or with sidewalks that were in good condition. Opponents of Proposition JJ argued that a citywide tax did not guarantee the sidewalks in their own neighborhoods would ever be repaired—and they had a point. Most residents would have had to wait years before their taxes paid to fix the sidewalks in front of their homes. On election day, only 43 percent of the voters supported Proposition JJ—well short of the 2/3 majority California requires for approval of municipal bonds.

In 2000, the city began to repair sidewalks using general revenue. Despite the backlog of \$1.2 billion in accumulated damage, however, the budget for repairs averaged only \$10.8 million per year up to 2008.⁷ This slow pace leads to the question: Is there another way to pay for sidewalk repairs?

A New Solution: Requiring Sidewalk Repairs at the Point of Sale

Although Los Angeles voters have rejected a tax to improve their broken sidewalks, the city can adopt a new strategy that already works well in other cities: require owners to repair broken sidewalks before they sell their property. Owners pay for sidewalk repairs when they receive cash from the sale of their property, which is often when they are leaving the city.

How does this strategy work? Before any real estate is sold, the city inspects the sidewalk fronting the property. If the sidewalk is damaged, the owner must fix it before sale. For example, the municipal code in Piedmont, CA, requires, “New sidewalks and/or driveways must be constructed if required by the superintendent of streets . . . in conjunction with the sale of real property.”⁸ Piedmont requires repairs if the vertical displacement of a break in the sidewalk is $\frac{3}{4}$ of an inch or less, and reconstruction if the vertical displacement exceeds $\frac{3}{4}$ of an inch.

A point-of-sale program like Piedmont’s has several advantages. First, owners will not have to pay for or do anything until they sell their property. The sale will then provide the cash to pay for any required repairs. Sellers will fix only the sidewalk in front of their own property, so they will know exactly where their money is going.

Second, sidewalk repairs at sale will be gradual but inevitable because about half of all properties are sold at least once every decade. The property turnover rate is similar throughout the city, so damaged sidewalks will be repaired everywhere at roughly the same rate (Shoup 1996).

Third, sidewalk repairs will increase a property's "curb appeal" and its market value. A property's value will increase not only because of its own sidewalk repairs but also because of all the neighbors' sidewalk repairs. If all the repaired sidewalks in the neighborhood increase a property's sales price by more than the owners' individual cost of repairs, the point-of-sale program will create a net capital gain for an owner. In return for accepting the obligation to repair one's sidewalk at sale, everyone will live in a city with better sidewalks. Many properties will not require any repairs, so the general increase in property values as a result of better sidewalks in the neighborhood will be net capital gains for all the owners of these properties.

Fourth, the city will not have to raise taxes to pay for sidewalk repairs. The repairs cost the city nothing, and the city even saves money because there will be fewer trip-and-fall lawsuits. Many properties are sold by owners who are leaving the city or by absentee owners, so everyone who stays in the city will enjoy better sidewalks while absentee owners and those who are moving away will pay much of the cost.

In addition to all these political and economic advantages of a point-of-sale program, the city will also have a legally enforceable ADA transition plan to make its sidewalks accessible for persons with disabilities.

Cities have been adopting point-of-sale programs for a variety of purposes. For example, Los Angeles and many other cities require owners to retrofit their property with water-saving toilets when they sell the property. The administrative, economic, and political advantages of gradual but inevitable improvements can allow cities to renew themselves without raising taxes and without trying to do everything at once. In Los Angeles it took more than 30 years of neglect for the sidewalks to disintegrate into such an appalling condition, and it will take many years to make \$1.2 billion in repairs.

How Does a Point-of-Sale Program Work?

How can a city require property owners to bring their sidewalks up to the ADA's standards? In 2007, the Los Angeles Bureau of Street Services, the agency responsible for the city's sidewalks, appointed a committee to study this issue. After considering all the options, the committee recommended a point-of-sale program. In addition, the committee recommended including street trees in the program to help achieve the Mayor's goal to plant a million trees in the city.⁹

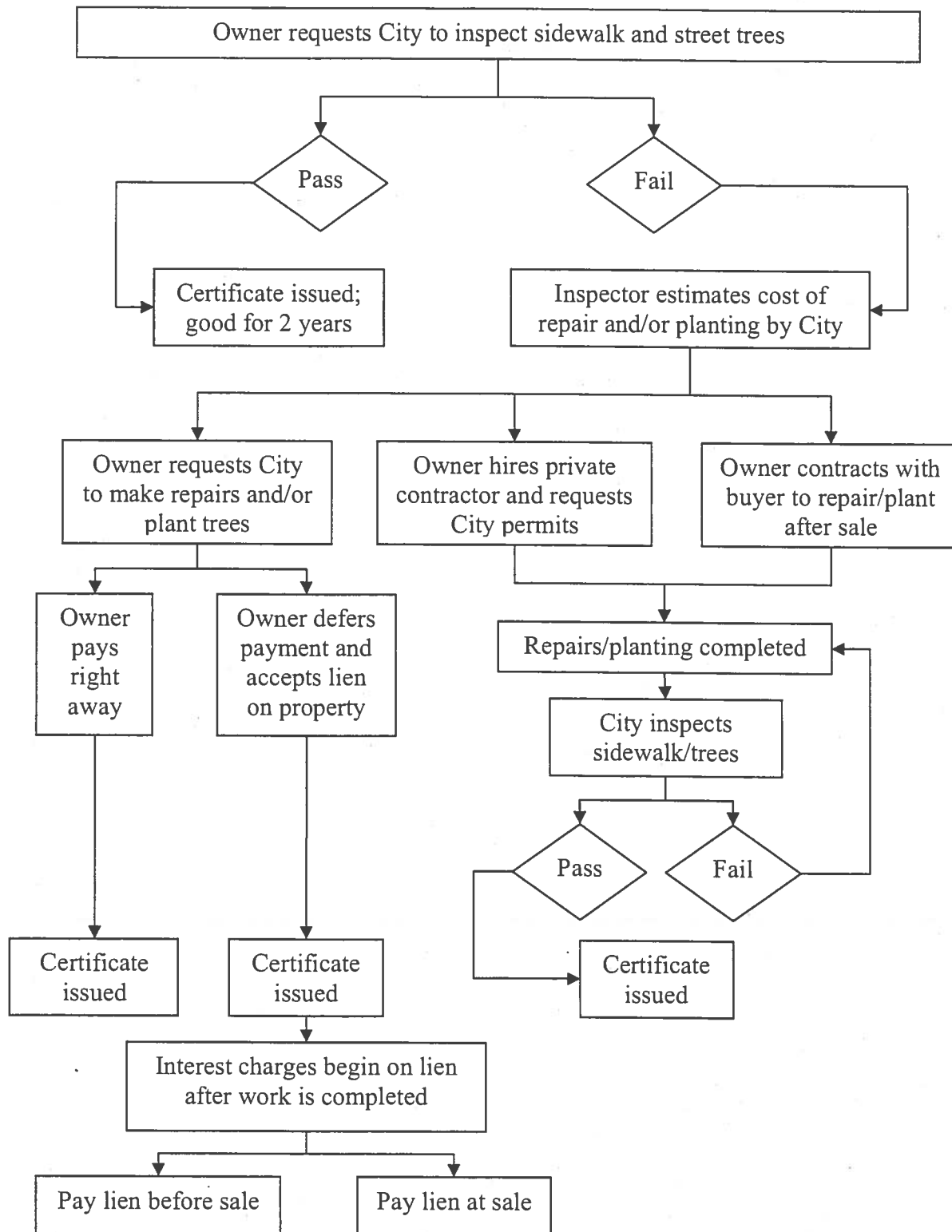
To enforce the point-of-sale mandate, the city can require that a certificate of compliance for safe sidewalks and healthy street trees must be included in the escrow documents at sale. Figure 2 shows a flowchart of the steps necessary to obtain a certificate of compliance.¹⁰ Several outcomes are possible after an owner requests the city to inspect a property before sale.

1. If the sidewalk is in good repair and street trees have been planted, the inspector issues a compliance certificate.
2. If there is no sidewalk and street trees are not required in front of the property, the inspector issues a compliance certificate.
3. If the sidewalk is damaged and/or street trees are required, the inspector estimates what the city would charge to repair the sidewalk and/or plant the street trees. There are several possible actions at this point.
 - a. The owner requests the city to repair the sidewalk and/or plant the trees and pays the estimated cost. The inspector then issues a compliance certificate, and the city repairs the sidewalk in front of the property.
 - b. The owner requests the city to repair the sidewalk and/or plant the trees and accepts a lien on the property for the estimated cost. The inspector then issues a compliance certificate, and the city repairs the sidewalk in front of the property. The lien is cleared at sale and the city is paid from the proceeds.
 - c. The owner chooses to have a private contractor carry out the work.
 - i. The owner or contractor requests a permit and completes the work.
 - ii. The city inspects the work, and if it passes, the inspector issues a compliance certificate.
 - d. If the next owner intends to redevelop the property, repairing the sidewalk at sale may be premature. In this case, the city can allow the owner to contract with the buyer to have the work done within a specific time period after sale (such as one year). The city can inspect the property at the end of this period, and cite the owner if the required repairs have not been completed.

The inspectors can enter the records of their inspections into a geographic database that shows the condition of sidewalks and street trees throughout the city. The point-of-sale program will be part of the city's transition plan to make its public sidewalks accessible, and the point-of-sale database will show the city's progress toward meeting the plan's goals.

Along with fixing the sidewalks, the point-of-sale plan can help to create a healthy urban forest. Almost everyone agrees that tree-lined streets improve a neighborhood and increase property values. Allan Jacobs (1990, 84) observed, "If, in an American city, you wanted to make a major positive impact on an existing street and had a limited budget, you might well recommend planting trees as the way to get the most impact for your money." If property owners accept the individual obligation to plant a street tree before they sell their property, the whole city will slowly become much greener.¹¹

Figure 2. Obtaining a Certificate of Compliance



Deferring Payments until Sale

A key feature of the point-of-sale program is that property owners can pay for sidewalk repairs when escrow closes for the sale. If an owner requests the city to repair a sidewalk but prefers to delay paying until sale, the owner can accept a lien on the property for the cost of the repairs. The city is repaid from the proceeds of the sale when all liens are cleared. The city charges interest on the debt, but payment of the accrued interest is also delayed until sale. The city, in effect, lends owners the money to pay for sidewalk repairs for as long as they continue to own the property. Owners can repay all or part of the debt at any time before they sell the property, but any remaining debt is due at sale. If owners pay a market interest rate on the debt, the government loses nothing by the delay.

The option to defer payment until sale has several benefits. First, the program will increase public investment without any public subsidy. The city runs no risk of borrowers' defaulting on the cost of sidewalk repairs because cash is available from the sale of the property when the debt is due. A public lien is senior to any mortgage, so even if property values decline and the owner has no equity, the city will be repaid in full.¹²

Second, allowing owners to defer payments until sale has a strong political advantage. If the city allows owners to defer paying for sidewalk repairs until cash from the sale provides the ability to pay, elected officials can vote for a point-of-sale requirement with a clear conscience. Offering owners the option to defer payment until sale can thus increase the political will to require sidewalk repairs. Finding the cash to repair the sidewalk *before* sale would be difficult for many owners, but allowing owners to pay for sidewalk repairs *at* sale will eliminate any cash-flow problem. Offering the option to defer payment until sale will also allow the city to cite property owners whose severely damaged sidewalks create an immediate danger to pedestrians and increase the likelihood of a trip-and-fall lawsuit (see the examples in Figure 1). Requiring prompt repairs in these cases will increase public safety, remove barriers to persons with disabilities, and reduce claims from trip-and-fall lawsuits, but it will not create a financial hardship for property owners.

Third, because the goal of an ADA transition plan is to make sidewalks accessible as quickly as possible, cities can allow all owners to repair their sidewalks early and defer payment until sale. The requirement to repair sidewalks *at* sale, combined with the ability to delay payment *until* sale, may spur some owners to repair their sidewalks early. They may repair early because (a) they want to enjoy the smooth sidewalk they will eventually have to provide anyway, (b) they expect it will be cheaper to repair early, (c) they want to avoid trip-and-fall accidents on the sidewalk in front of their property, (d) they want to participate in improving their neighborhood, or (e) they want to make their property more accessible to persons with disabilities.

Financing the Deferred Payments

The proposal is for the city to fund sidewalk repairs and recoup the cost plus accrued interest when properties are sold. But how can the city finance this unknown quantity of work (and therefore unknown cost) if it cannot afford a conventional sidewalk repair program? One option is to borrow the money from the city's interest-earning investment pool, and to repay the

cost plus interest at sale. If this is not possible, the city can contract with private financial institutions to fund them. If the city contracts with a private financial institution, the lenders in this public-private partnership will be repaid when liens are cleared as properties are sold. Because the property liens will pay for public investments, the interest payments will be tax exempt to the lenders. The debts will be short-term, tax-exempt, and almost totally default-proof even if property values decline.¹³ The deferred debts for sidewalk repairs should therefore be an attractive investment for many lenders, and the interest rate charged to the property owners should be low. The private lenders can administer the sidewalk debts like mortgages, and the city can also notify property owners about the debt, plus accrued interest, on their annual property tax bills. In choosing among prospective lenders for the program, cities could select the one that offers property owners the lowest interest rate on the deferred payments, or could select several lenders and let individual property owners choose the one that offers the lowest interest rate.

An interest-bearing lien due at sale resembles a low-interest credit card debt secured by real property, but with no payments required until sale. The cost of repairing a sidewalk is low in proportion to most property values, so the collateral for most loans will be high. Although sidewalk loans will be small relative to property values, the total value of the loans can be quite high if a private lender funds all the sidewalk repairs throughout a city. Lenders could even partner with local construction companies to repair sidewalks in accordance with city regulations and the ADA. The consortium could both repair sidewalks and then finance the cost until properties are sold.¹⁴

Public-private partnerships have become a major source of project finance for large public infrastructure investments, such as bridges or toll roads. Financing a collection of individual sidewalk repairs will be a new form of distributed project finance.¹⁵ The lender will finance a collection of many small projects rather than one big project. The collateral for a collection of sidewalk repairs will be much greater, the risk much lower, and the payback period much shorter than for a single large infrastructure project. Financing the deferred payments for sidewalk repairs may therefore be a profitable investment for risk-averse lenders who prefer tax-free income.

The Speed of Repairs

How fast will a point-of-sale program repair a city's sidewalks? For example, how long will it take before half of all the sidewalks have been repaired? We can answer this question by estimating how long it takes before half of the properties in the city have been sold at least once. Table 1 shows the history of property sales for the City of Los Angeles between 1977 and 2006. Column 2 shows the number of properties that were sold in each year of column 1 and were not sold again through the end of 2006, so repeat sales of the same property are not double counted. For example, 27,412 properties were sold in 2000 and had not been sold again by the end of 2006.

Column 3 shows the total number of properties that had been sold at least once between the beginning of each year in column 1 and the end of 2006; this total is the cumulated number of properties in Column 2. For example, column 3 shows that 277,396 properties had been sold at least once between the beginning of 2000 and the end of 2006.

Finally, Column 4 shows the share of all properties that had been sold at least once between the beginning of each year and the end of 2006. For example, 36 percent of all properties in the city were sold at least once between 2000 and 2006.¹⁶ If in 2000 the city had begun requiring owners to repair any broken sidewalk at sale, 36 percent of all sidewalks in the city would have been fixed over the next seven years.

Figure 3 is a graph of the property sales rates. The vertical axis shows, in 2007, the share of properties sold at least once during the previous number of years shown on the horizontal axis. The graph shows the share of the sidewalks that would have been repaired by 2007 as a function of how long ago the point-of-sale program began. For example, if the program had begun 11 years earlier (in 1995), 50 percent of all the sidewalks would have been repaired by 2007.

In addition to the sales rate for all properties (taken from Column 4 of Table 1), the graph also shows the sales rates for several categories of properties (single-family, multifamily, commercial, and industrial). Commercial and industrial properties have slightly slower sales rates than residential properties, but the results are similar for all types of property. Although a point-of-sale program might seem slow to produce results, city planning often produces slow results, and some planning produces no results at all. Compared to many planning efforts, a point-of-sale program will improve the city swiftly.

Periodic booms and busts in real estate sales will temporarily accelerate and decelerate the rate of sidewalk repairs. Nevertheless, about half of all owner-occupied housing units in both Los Angeles County and the United States are sold at least once within ten years, similar to the rate for the City of Los Angeles in Table 1.¹⁷ Because short-term fluctuations in sales have little effect on long-term sales rates, they will have little effect on the long-term rate of sidewalk repairs.

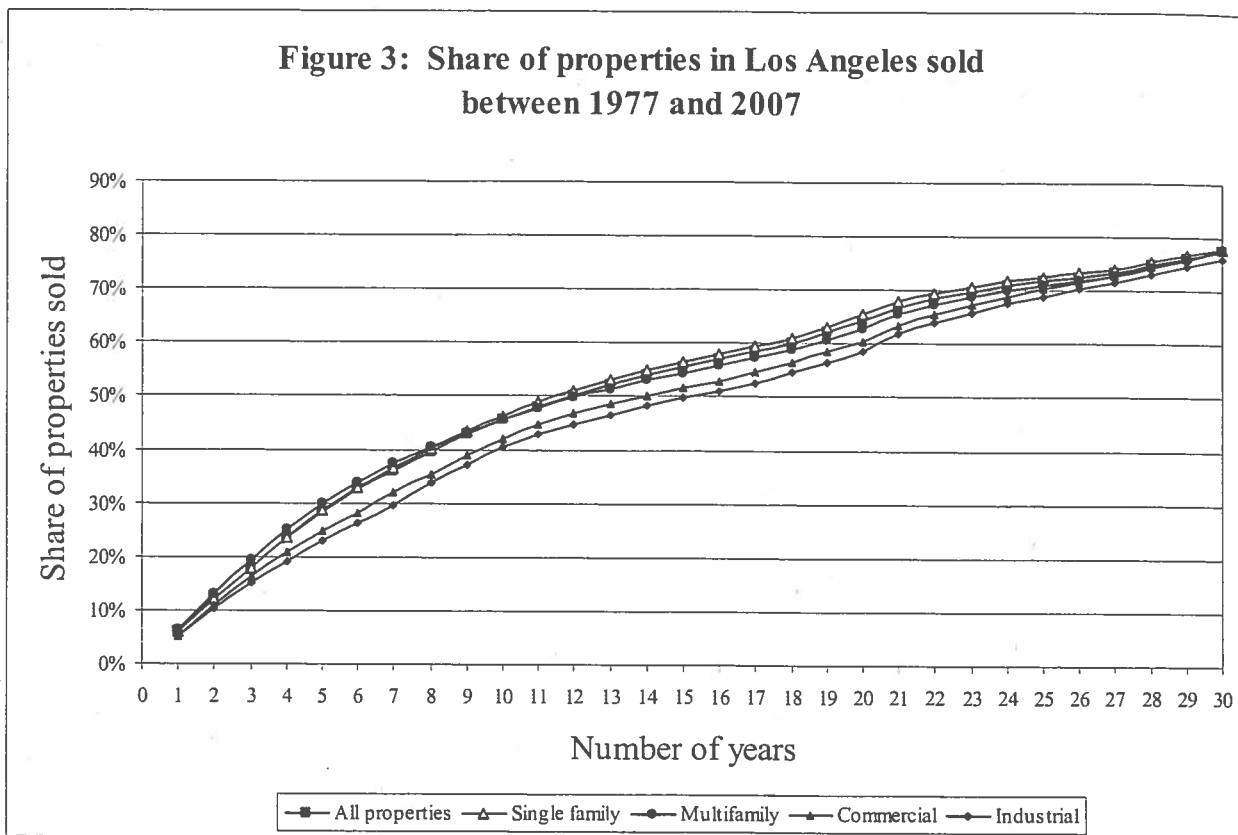
If the city allows owners to delay paying the cost until sale, some owners may repair their sidewalks early. Inspectors who require sidewalk repairs at sale could solicit nearby property owners whose sidewalks are broken and suggest they might also like to have their sidewalks repaired when work is being done on their block. If owners know the repairs will have to be done eventually, and the cost can be delayed until sale, many owners may decide to repair their sidewalks even if they don't intend to sell their property. For these reasons, the actual repair rate should be faster than the sales rate in Figure 3.¹⁸

Table 1
Share of all properties in the City of Los Angeles sold at least once
between January 1 of each year and December 31, 2006

Year	Number of properties with last sale date in each year	Total number of properties sold since each year	Share of all properties sold since each year
(1)	(2)	(3)	(4)
2006	45,327	45,327	6%
2005	47,470	92,797	12%
2004	44,921	137,718	18%
2003	43,127	180,845	24%
2002	38,155	219,000	28%
2001	30,984	249,984	33%
2000	27,412	277,396	36%
1999	27,169	304,565	40%
1998	24,982	329,547	43%
1997	21,453	351,000	46%
1996	18,964	369,964	48%
1995	16,129	386,093	50%
1994	15,679	401,772	52%
1993	13,793	415,565	54%
1992	11,930	427,495	56%
1991	11,279	438,774	57%
1990	10,970	449,744	58%
1989	12,571	462,315	60%
1988	15,359	477,674	62%
1987	16,886	494,560	64%
1986	18,873	513,433	67%
1985	13,275	526,708	68%
1984	10,259	536,967	70%
1983	8,848	545,815	71%
1982	5,967	551,782	72%
1981	6,086	557,868	73%
1980	7,118	564,986	73%
1979	10,130	575,116	75%
1978	10,369	585,485	76%
1977	10,473	595,958	78%

Calculated by Norman Wong, UCLA Center for Neighborhood Knowledge.
The Los Angeles County Assessor provided the last sale date for all properties in the City of Los Angeles.

Figure 3: Share of properties in Los Angeles sold between 1977 and 2007



Economic Effects of Requiring Sidewalk Repairs at Sale

How will a point-of-sale program affect the economy? Investment in sidewalks will increase local employment, but diverting money to pay for sidewalks will also reduce private consumption. Public investment, however, creates more jobs in the local economy than does private consumption because more of the goods and services that produce public investment are local rather than imported from outside the region. To investigate the question of how spending more on sidewalks and less on private consumption will affect the economy, I have used a model of the Southern California economy to estimate how a point-of-sale program will alter local employment and income.

The Lusk Center Research Institute of the University of Southern California has adapted the IMPLAN input-output model to represent the economy of Los Angeles, Orange, Riverside, San Bernardino, and Ventura Counties.¹⁹ This 509-sector model makes it possible to estimate not only the direct effects created by changes in spending, but also the indirect and induced effects created by intersectoral linkages. The model can thus estimate the net effects of increasing public investment and reducing private consumption by any given amount.

We can use the model to estimate the effects of the point-of-sale program in the first full year of operation. Table 1 shows that if the program had begun on January 1, 2006, by the end of

the year 6 percent of all the sidewalks in the city would have been inspected. The Bureau of Street Services has estimated that repairing all the broken sidewalks in Los Angeles would cost about \$1.2 billion. If 6 percent of all properties were sold in the first year of the program, and if the sidewalks in front of these properties were typical of all sidewalks in the city, the cost of the required repairs would be about \$72 million ($\$1.2 \text{ billion} \times 0.06$).

Suppose owners spend \$72 million to repair their sidewalks, and they pay for these repairs by spending \$72 million less on private consumption. We can estimate the effect of reducing private consumption by reducing the final demand for each consumption category in proportion to its share of consumption found in the Consumer Expenditure Survey conducted by the Bureau of Labor Statistics in 2002–2003. Estimating the effect of increasing public investment in sidewalks is more difficult because the input-output matrix does not have a category for repairing sidewalks. The closest analogy in the matrix is maintaining and repairing streets, which is similar in its labor demands to repairing sidewalks. Therefore, the effect of increasing spending on sidewalks is estimated by increasing spending on streets. Table 2 shows the results of shifting \$72 million from private consumption to repairing sidewalks.

Table 2

Estimated regional effects of shifting \$72 million from private consumption to public investment in Southern California

	Private Consumption	Public investment	Net change
1. Spending	-\$72,000,000	\$72,000,000	\$0
2. Jobs	-1,656	+1,750	+94
3. Average wage per job	\$30,900	\$35,600	+\$4,700
4. Total wages	-\$51,264,000	+\$62,208,000	+\$10,944,000
5. Proprietary income	-\$9,000,000	+\$14,904,000	+\$5,904,000
6. Total labor income	-\$60,264,000	+\$77,112,000	+\$16,848,000

Calculated using the 2001 IMPLAN Model for Southern California. The region consists of Los Angeles, Orange, Riverside, San Bernardino, and Riverside Counties.

- Row 2 shows that shifting \$72 million a year from private consumption to public investment will eliminate 1,656 existing jobs but also create 1,750 new jobs. Therefore, the shift will create a net increase of 94 local jobs.
- Row 3 shows that the jobs eliminated as a result of reducing private consumption pay an average wage of \$30,900 a year, while the jobs created by repairing sidewalks pay an average wage of \$35,600 a year. Not only does the shift from private consumption to public investment create more jobs than it eliminates, but the created jobs also pay \$4,700 a year more than the eliminated jobs.

- Row 4 shows that reducing private consumption by \$72 million a year will reduce local wages by \$51 million, but that increasing public investment in sidewalks by \$72 million will increase local wages by \$62 million. Therefore, the shift in spending from private consumption to public investment will increase *total* local wages by \$11 million (\$62 million – \$51 million).
- Row 5 shows that proprietary income (the income received by self-employed individuals, such as contractors) increases by \$6 million a year.
- Finally, row 6 shows that total labor income (for both employed and self-employed workers) in Southern California increases by \$17 million a year.

Why does spending for sidewalks increase local wages by more than spending for private consumption does? Many of the goods and services consumed by Southern Californians are not produced in the region (such as cameras from Japan, cars from Germany, clothes from China, gambling in Las Vegas, gasoline from Saudi Arabia, vacations in Hawaii, whisky from Scotland, wine from Napa). In contrast, sidewalks are repaired locally (we cannot import sidewalks). Therefore, shifting spending from private consumption to repairing sidewalks will increase the demand for local labor.

The sidewalk repairs are assumed to be financed by reducing local private consumption. Absentee owners who pay for sidewalk repairs when they sell their property will take less cash out of the region, and their reduced private consumption will occur elsewhere. Resident owners who sell their property and move out of the region will also take away less cash after paying for sidewalk repairs, so their reduced private consumption will also take place elsewhere. Therefore, the point-of-sale program can stimulate economic activity within Southern California even more than estimated here.

These rough estimates suggest that a point-of-sale program in Los Angeles will increase employment and income, but that is not the reason to repair sidewalks. The point-of-sale program will save money in settling trip-and-fall lawsuits, will increase property values, will be politically feasible, and will allow the city to do something that almost everybody wants—repair broken sidewalks. At the very least, the model results show that the point-of-sale program will not *hurt* the economy.

When it comes to job creation, politics are often more important than economics. Those who might lose their jobs if private consumption declines do not know who they are, and the job losses will be invisible in an economy that destroys and creates tens of thousands of jobs a month. In contrast, many of those who will benefit from increased public investment do know who they are. In Los Angeles, the 85,000-member Service Employees International Union Local 721, which represents city employees who repair sidewalks, has strongly supported a point-of-sale program. Repairing broken sidewalks will benefit almost everyone in the city, but the jobs that will be created for union members who repair sidewalks may provide a stronger incentive for political leaders to act.

Opposition to Requiring Sidewalk Repairs at Sale

Despite the advantages of requiring sidewalk repairs at sale, the proposal has aroused some opposition. When the Los Angeles City Council began to consider the point-of-sale program in 2008, four associations of realtors wrote to the Council to protest it:

We strongly protest the suggested Point of Sale mandate for sidewalk repair. . . The Point of Sale program as proposed simply will not meet the City's goal to fix the \$1 billion backlog of broken sidewalks and reduce the average \$3 million in liability settlements paid out every year due to trip-and-fall injuries.²⁰

The realtors instead proposed issuing bonds to finance sidewalk repairs: "No serious discussion has yet occurred to explore this option. Repairs funded by bond moneys will get the job done at no additional cost to the city." The realtors seem unaware that taxes must be increased to repay bonds, and that in 1998 Los Angeles voters rejected Proposition JJ to issue \$769 million in bonds to repair sidewalks.

Realtors have consistently opposed point-of-sale requirements. For example, Los Angeles requires owners to install a gas shut-off valve when a property is sold. These motion-sensitive valves shut off the gas supply to a building after an earthquake. The city adopted this requirement after many gas pipes broke in the Northridge earthquake in 1994, and the escaping gas fueled catastrophic fires. Realtors opposed requiring gas shut-off valves at sale on the same grounds they now oppose requiring sidewalk repairs at sale, claiming "the measure will slow home sales."²¹ Nevertheless, 46 percent of all properties in the city were sold at least once in the ten years after the program was adopted in 1977. If the City Council had also adopted a point-of-sale program for sidewalk repairs in 1997, about 1,060 miles of broken sidewalks (4,600 x 46%) would have been repaired by 2007.

Two quotes from the website of the Southland Regional Association of REALTORS® help explain why they object to the point-of-sale program. (Real estate brokers often capitalize all the letters in their copyrighted name.)

REALTORS® are a special interest group working to promote and protect private property rights and to protect and promote the brokerage and management of real estate.

We are against point of sale items because it [sic] increases the work load and liability of REALTORS®.²²

It doesn't get much clearer than that. In their own words, the Southland Regional Association of REALTORS® are a special interest group who oppose point-of-sale programs because the programs increase their work load. In effect, realtors want the right to broker the sale of property that endangers pedestrians, impedes the disabled, and increases the city's liability for trip-and-fall lawsuits.

Property has its duties as well as its rights, but realtors focus on the rights, not the duties. If cities adopt point-of-sale sidewalk programs, the realtors' initial objections will probably seem, in retrospect, misguided. Sidewalk repairs will increase the "curb appeal" of properties, and thus increase both property values and the realtors' commissions on the sales. Once again we can quote the experts. According to Jim Link, chief executive officer of the Southland Regional Association of REALTORS®,

A broken sidewalk is the first sign of potentially more serious problems afflicting a neighborhood. Fixing damaged sidewalks may prevent a neighborhood from going into decline, protect property values, improve the environment, and make homeowners proud.²³

Realtors thus acknowledge that broken sidewalks threaten both the public interest and their own private interests. If I were trying to sell a property, I would not want prospective buyers to have to pick their way along a broken sidewalk to get to the front door. A point-of-sale program will require me to repair any damaged sidewalk before I sell my property, but it will also require all other owners to repair any damaged sidewalks before they sell their property. Entire neighborhoods will improve. My property value (and thus the realtor's commission) will increase not only because of my own repaired sidewalk but also because of the whole neighborhood's repaired sidewalks.

Broken sidewalks show that a city has neglected its public infrastructure for many years, and buyers may look for property in other cities that do maintain their sidewalks. Realtors who oppose a point-of-sale program that will increase the value of the properties they sell are extremely short-sighted. Part of the value realtors offer their customers is their ability to navigate municipal regulations. The addition of a socially beneficial regulation like sidewalk repairs at sale will make realtors more rather than less valuable. Realtors can become a key source of new information necessary for property owners who want to sell their property. Realtors' experience with obtaining the required certificates of compliance will improve the services they can provide for property owners.²⁴ Once realtors have become familiar with the point-of-sale program, they may be astonished by their previous complaints that it will increase their work load. After all, the work they do is what makes realtors useful in property transactions.

When real estate values are declining, mortgage lenders may also object to the point-of-sale program, at least at first. Lenders would have to pay for any sidewalk repairs when the owner has no equity. If the sidewalk repairs increase the sale prices by less than their cost, the lenders would lose money. It would be a mistake, however, to think that this is a long-term problem. Any point-of-sale program would probably not start until well after the current real estate crisis fades into history. If lenders know that the program won't start soon, and that it will be tried out first in a pilot project before going citywide, they might find that the program will increase property values. To protect lenders, however, cities can exempt foreclosures and short sales from the requirement to repair broken sidewalks at sale.²⁵

Exempting foreclosures and short sales from the point-of-sale requirement can remove a political objection to the point-of-sale program, with little effect on the long-run rate of sidewalk repairs. But how legitimate is this objection? Many recent foreclosures were caused in large part

by abuses in the real estate industry, including no-documentation, subprime loans to people who could not afford the properties they bought. Realtors and mortgage lenders are in a weak position to argue that the current spike in foreclosures, which the realtors' and mortgage lenders' own malpractices created, prevents the city from implementing a reform to fix the sidewalks, especially if the reform is necessary to avoid an ADA lawsuit.

Another possible objection to the point-of-sale program might be aesthetic. If different contractors repair the sidewalks at different times, inconsistent materials and craftsmanship could disrupt the visual unity of the streetscape. To avoid this problem, the city requires contractors to obtain a permit before repairing any sidewalk, and the permits carefully specify the texture, color, cement mix, aggregate material, depth, and surface appearance of the sidewalk. The city also inspects the sidewalk after the work is done to ensure that the contractor has complied with the permit. If the city makes the repairs, it follows the same specifications. In most cases, the repairs can carefully match the original sidewalk. After some weathering, the repairs are barely noticeable. To achieve economies of scale in the process, the city can wait until it has accumulated a substantial number of orders in a neighborhood, and then make all the repairs at the same time.

A more far-fetched objection might be that the point-of-sale program amounts to privatization of public space. Sidewalks are public space, and we normally expect public space to be public not only in use but also in construction and repair. The point-of-sale program does assign responsibility for repairs to the adjacent landowners, but the sidewalk itself will remain fully public.

A more substantial objection would arise if the required sidewalk repairs amount to a substantial share of the equity an owner receives from the sale of a property. Suppose, for example, a low-income homeowner receives only \$10,000 after paying off all a property's debts at sale, and the sidewalk repairs cost \$1,000. Unless the repairs increase the property value, the cost will reduce the owner's equity by 10 percent. If paying for sidewalk repairs does create a hardship for any low-income homeowners when they sell their property, exemptions or subsidies for these homeowners can address this issue directly.

A Pilot Project

The city can test a point-of-sale program with a pilot project in one or more neighborhoods, or in an even smaller area. To avoid the objection that the project will harm homeowners, the city could undertake the first one in a business district. Repairing broken sidewalks in a business district with high pedestrian traffic should be a priority for the city, and opponents cannot claim the pilot project will slow home sales because all the properties will be nonresidential.

A pilot project will not only show the effects of a point-of-sale program but will also enable the city to train inspectors, develop the necessary administrative procedures, and work with realtors and escrow firms to establish the best way to manage the program. By comparing the pilot project area with an otherwise similar control area, an evaluation can answer many important questions about the point-of-sale program, such as:

1. How quickly can the city inspect a property after an owner requests an inspection?
2. How many properties require repairs before sale?
3. How much do the required repairs cost?
4. How quickly can the repairs be made?
5. How many city staff are required to inspect properties and make repairs?
6. How large are the repair costs compared to the property sale prices?
7. How quickly does the city recoup the cost of making the repairs?
8. How much must the city charge to recover the cost of inspecting a property's sidewalk?
9. Does requiring a compliance certificate in the escrow process slow property sales?
10. Do repaired sidewalks increase property values or reduce the time needed to sell a property?

The answers to these and other questions will help to improve the point-of-sale program and demonstrate its effects. If the pilot project is considered a success, the requirement for sidewalk repairs at sale can be adopted in other areas, and perhaps ultimately citywide.

Four Additional Strategies for Accessible Sidewalks

Requiring sidewalk repairs at sale can be combined with additional strategies to ensure compliance with the ADA. My focus is on point-of-sale programs, but four other strategies can help cities achieve the goal of accessible sidewalks.

First, cities can cite properties with severely damaged sidewalks that are a threat to safety, and require the owners to pay for repairs, as Los Angeles routinely did until 1974. To make this option politically viable, the city can allow owners to defer paying for the repairs until they sell their property. Requiring immediate repairs will increase public safety, reduce barriers to the disabled, and reduce claims from trip-and-fall lawsuits, and allowing owners to defer payment until sale means that paying for the repairs will not impose a financial hardship on any owner.

Second, cities can require owners to fix their sidewalk when they apply for a building permit to improve their property. Pasadena, for example, requires sidewalk repairs before issuing any building permit for more than \$5,000 of improvements. Section 12.04.031 of the Pasadena Municipal Code states, "All such permits, prior to final issuance, shall require a notation that a sidewalk inspection was completed and that either the sidewalk is not in need of repair, that repair has been completed or that repair has been bonded to the satisfaction of the engineer."

Third, cities can use the revenue from parking meters to pay for sidewalk repairs on the metered streets. Pasadena has used this strategy with great success. When the city agreed to commit the revenues from new parking meters in the Old Pasadena business district to pay for replacing all the sidewalks on the metered streets, merchants and property owners strongly supported the proposal. The city borrowed against the future meter revenues and rebuilt all the sidewalks in Old Pasadena.²⁶

Fourth, cities can enforce the law against parking on sidewalks. Wheelchair users find it difficult or impossible to navigate sidewalks blocked by cars, and Section 22500 of the California Vehicle Code prohibits parking on sidewalks:

No person shall stop, park, or leave standing any vehicle whether attended or unattended, except when necessary to avoid conflict with other traffic or in compliance with the directions of a peace officer or official traffic control device, in any of the following places:

(f) On any portion of a sidewalk, or with the body of the vehicle extending over any portion of a sidewalk.

Although parking on the sidewalk is illegal, Figure 4 shows pictures of a common sight in some parts of Los Angeles—many cars parked on the sidewalks.²⁷ Enforcing the law against parking on sidewalks can be a quick way to make cities more accessible to persons with disabilities.

A point-of-sale program will not fix the sidewalks in front of properties that are not sold. Nevertheless, combining a point-of-sale program with these four other programs—(1) citing owners for broken sidewalks and deferring the payments for repairs until sale; (2) requiring repairs when building permits are issued; (3) using parking meter revenue to pay for sidewalk repairs; and (4) citing drivers who park on sidewalks—can fix all the sidewalks in a city and keep them accessible.

Putting Cities Back on Their Feet

Almost all travel involves sidewalks at the origins and destinations of trips, and some travel is entirely on sidewalks. Nevertheless, sidewalks may seem too mundane for serious academic study. After all, what topic could be more pedestrian than sidewalks?

Perhaps because we take sidewalks for granted, and because they fail gradually rather than collapse spectacularly, many cities have allowed their sidewalks to decay and their neighborhoods to become less walkable. In 2003, however, the U. S. Supreme Court ruled that the Americans with Disabilities Act applies to public sidewalks. As a result, all cities must develop transition plans that will, over a reasonable period, ensure their sidewalks are accessible. In this case, as in many others, what is good for persons with disabilities—repairing broken sidewalks—is good for everyone. The ADA will force cities to begin doing what they should have done anyway: maintain their public infrastructure.

I have used Los Angeles as an example of how a city can finance sidewalk repairs without raising taxes, but the analysis is applicable to any city. To ensure a steady flow of sidewalk improvements, cities can require property owners to fix their sidewalks when they sell their property. Before any real estate is sold, the city will inspect the sidewalk fronting the property. If the sidewalk is in good condition, the owner will not be required to do anything. But if the sidewalk is broken, the owner will be required to fix it before selling the property.



Figure 4. Cars parked on the sidewalks in Los Angeles

Deferring the obligation to fix sidewalks until sale will help to gain the voters' approval, and enforcing the obligation at sale will ensure the owners' compliance, both of which are necessary for a successful program. In return for accepting the obligation to improve one's own sidewalk at sale, the whole city will have good sidewalks. In return for accepting the obligation to plant one's own street tree at sale, the whole city will have tree-lined streets. These are both great bargains. I'll do my part if everybody else does their part, and we will all be better off.

Only the property owners whose sidewalks are broken will pay anything; owners will pay only for the cost of repairing their own sidewalks; and owners will not have to pay anything until they sell their property. With only a minimal obligation to repair sidewalks at sale, about half of all the city's broken sidewalks will be repaired in ten years. Walkable cities need good sidewalks, and requiring sidewalk repairs at sale will help put cities back on their feet.

Our sidewalks have decayed slowly, and they can improve slowly. A better world often arrives in small steps, but we need reasons to take these steps. With a point-of-sale program, all property owners will, sooner or later, have to do their part. In the words of Danish urban designer Jan Gehl, we will be able to say, "How nice it is to wake up every morning and know that your city is a little better than it was the day before."

Endnotes

1. These data were supplied by the Los Angeles Bureau of Street Services and the Los Angeles City Attorney.
2. The text of the Ninth Circuit Court's decision is available at this website: http://www.dralegal.org/downloads/cases/barden/usca_opinion.txt, accessed on October 24, 2008.
The text of the Americans with Disabilities Act of 1990 is available at this website: www.ada.gov/pubs/ada.htm, accessed on September 21, 2008.
3. Class Action Settlement Agreement, *Barden v. City of Sacramento*, www.dralegal.org/downloads/cases/barden/settlement.pdf, p. 3, accessed on August 12, 2008.
4. Class Action Settlement Agreement, *Barden v. City of Sacramento*, www.dralegal.org/downloads/cases/barden/settlement.pdf, p. 13, accessed on August 12, 2008.
5. <http://www.ed.gov/policy/rights/reg/ocr/edlite-28cfr35.html#S150>, accessed on August 12, 2008.
6. New York City, for example, requires property owners to bear the cost of repairing sidewalks: <http://home2.nyc.gov/html/dot/html/sidewalks/sidewalkintro.shtml>, accessed on October 8, 2008.
7. The Los Angeles Bureau of Street Services provided the data for the miles of repaired sidewalks and the expenditure on sidewalk repairs for fiscal years 2000–2008.
8. Sections 18.26–28 of the Piedmont Municipal Code.
9. <http://www.milliontreesla.org/index.htm>
10. The Bureau can collect a cost-recovery fee to verify the condition of the sidewalk and street trees. Properties in neighborhoods that do not have sidewalks and street trees can automatically receive a certificate of compliance on request. The city's website can show all the streets that are automatically in compliance, and the owner would be able to download the certificate for the specific property at no charge.
11. Shoup (1996) analyzes the policy of requiring street trees at the point of sale. Los Angeles already requires street trees when issuing building permits in some parts of the city. For example, the Wilshire–Westwood Scenic Corridor Specific Plan requires, "No building or structure shall be erected, structurally altered or enlarged unless shade-producing street trees are planted and maintained in the adjacent public way at a ratio of one tree for every 30 feet of lot frontage." The point-of-sale program would accelerate the required planting of street trees. Requiring street trees at sale will also encourage owners to take better care of their existing trees, because owners will eventually have to replace any trees that die.

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12. Where land values are high and sidewalk improvements raise them further, most owners should have more than sufficient equity to repay the cost of repairs, plus accrued interest, at sale. They can also voluntarily pay before sale to avoid the interest expense.
13. The liens would resemble short-term “silent” mortgages, but would be senior to other mortgages. The lien is silent in the sense that the owner does not have to make any payments to amortize the debt, but must repay the debt plus accrued interest at sale.
14. Shoup (1980, 1990, and 1994) explains the theory and practice of deferring the payments for special assessments until owners sell their properties. An arrangement between lenders and construction companies to finance local public infrastructure might be especially well suited for developing countries where the infrastructure deficit is much greater. Shoup (1994) explains the benefits of using deferred special assessments to finance public investments in developing countries.
15. For example, see the Harvard Business School’s Project Finance Portal at: <http://www.people.hbs.edu/besty/projfinportal/>, accessed on October 9, 2008.
16. The percent of all properties in the city that were sold at least once between the beginning of each year and the end of 2006 is calculated by dividing the number of properties in Column 3 by the 768,922 properties in the city in 2007.
17. Shoup (1996) uses both the Los Angeles Assessor’s data and U. S. Census data to analyze the long-term sales rates of real estate in Los Angeles City and County and the United States.
18. Just as the “broken windows” theory suggests that if broken windows in a building are not repaired, vandals may break a few more windows, perhaps a “repaired sidewalks” theory would suggest that if some property owners repair their sidewalks, and all others know that they must repair their sidewalks eventually, many property owners may repair their sidewalks early. Similarly, requiring street trees at sale may also spur some owners to plant early. They may plant early because (a) they want to enjoy the tree they will eventually have to plant anyway, (b) they expect that it will be cheaper to plant early, (c) they anticipate that a mature tree will add more to the value of their property, (d) they realize that the best time to plant a tree is usually 20 years ago, and/or (e) they simply want to contribute their fair share to a plan they know will be accomplished.
19. Scott Lindall and Douglas Olson explain the IMPLAN input-output system at this link: www.implan.com/library/documents/implan_io_system_description.pdf, accessed on September 29, 2008. I am grateful to Peter Gordon and Qisheng Pan for using this model to estimate the effects of regulating land use at sale.
20. Memo to the Los Angeles City Council from the Pasadena-Foothills Association of REALTORS®, Glendale Association of REALTORS®, Beverly Hills Association of REALTORS®, and South Bay Association of REALTORS®, February 20, 2008, page 1.
21. Martin (1997). See also Martin (1996). In addition to gas shut-off valves, Los Angeles requires property owners to install other items at sale, such as smoke detectors, water-

conservation devices, and impact glazing for sliding doors. These requirements are detailed in the city's report required at sale:

<www.ladbs.org/permits/permit_related_forms/9aform_Autores.pdf>, accessed on December 12, 2008. Requiring owners to fix their sidewalks at sale has many precedents.

22. Website of the Southland Regional Association of REALTORS®, Inc., <www.srar.com/members/politicalgovaffairs.php>, accessed on August 7, 2008.

23. "Public at Risk as Nearly 50% of L.A. City's Sidewalks are Unsafe and Efforts to Fix them Prove Ineffective," website of the Southland Regional Association of REALTORS®, December 5, 2007. <www.lasidewalks.org/pressreleases/120507-sidewalk2-2.php>, accessed on August 20, 2008.

24. Stockbrokers, for example, would not complain about a new complication in the law that makes do-it-yourself stock transactions more difficult. They would welcome the increase in their work load.

25. A short sale occurs if the lender accepts less than the total amount due on the mortgage when a property is sold. With the lender's approval, the owner who sells the mortgaged property for less than the outstanding loan balance turns over all the proceeds of the sale to the lender.

26. Kolozsvari and Shoup (2003) and Shoup (2005, Chapter 16) explain the economics and politics of using parking meter revenue to pay for sidewalk repairs.

27. This website documents the common practice of parking on sidewalks in Los Angeles: <www.its.ucla.edu/shoup/NorthWestwoodVillageDatav3.pdf>. A second website documents emails and letters to city officials about inaccessible sidewalks in Los Angeles: <www.its.ucla.edu/shoup/CorrespondenceAboutADA.pdf>, accessed on September 21, 2008.

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FIGHTING CRIME WITH PUBLICLY-FINANCED SURVEILLANCE CAMERAS: THE SAN FRANCISCO EXPERIENCE

**Jennifer King, Samuelson Clinic for Law, Technology, and Public Policy,
UC Berkeley**

**Deirdre K. Mulligan, School of Information, UC Berkeley
Steven Raphael, Goldman School of Public Policy, UC Berkeley**

1. Introduction

The direct and indirect costs of criminal victimizations are quite large. By one estimate, the direct monetary losses and the costs of pain and suffering among crime victims in the United States amounts to 0.5 to 0.7 percent of GDP (Freeman 1996). Beyond these direct costs, however, are substantial indirect costs generated by public and private expenditures designed to prevent crime, and to adjudicate and punish criminal offenders. For example, U.S. state and local government as well as the federal government spend over \$60 billion a year on corrections (Raphael and Stoll 2008). In 2005, total U.S. expenditures on police topped \$94 billion while judicial expenditures exceed \$44 billion.¹ In addition, private citizens expend personal resources and alter behavior (for example, limit outings after dark) with an aim on reducing the likelihood of becoming victimized.

Given these large social costs generated by criminal activity, policy interventions that have even small impacts on crime often generate social benefits that exceed costs. A great deal of research has been devoted to evaluating the impacts of changes in incarceration on crime rates (Levitt 1996, Johnson and Raphael 2008), impacts of the size of a city's police force on local crime rates (Levitt 1997, McCrary 2002, Evans and Owens 2007), as well as the effects of policing strategies on crime, such as community policing (Donohue and Ludwig 2007) or concentrated "hot-spot" policing efforts (Sherman 2001, Braga et. al. 1999).

II. Urban Use of Surveillance Cameras

Recently, several U.S. cities have experimented with the use of publicly financed, maintained, and monitored surveillance cameras. In California alone, 37 cities currently have some form of surveillance program in operation, with at least 18 of these cities actively monitored by the local police (Shlosberg and Ozer 2007). While the use of public surveillance cameras has been more common in other countries (in the U.K. in particular), the installation of such systems in such major U.S. cities like Los Angeles, San Francisco, and Chicago is a relatively new and little-studied development.²

III. Surveillance Analysis in San Francisco

This paper presents an empirical evaluation of the effect of crime camera installation on local crime rates for the city of San Francisco. We estimate the impact of the installation of surveillance cameras in nineteen locations throughout the city on the level of criminal activity in

areas within the cameras' view as well as criminal activity occurring in areas just beyond the cameras' view-sheds. We assess whether the installation of crime cameras affected the level of serious felony offending defined in terms of the seven Federal Bureau of Investigation "part 1" felony offenses.

Our evaluation employs a simple quasi-experimental research design to isolate the effects of this program intervention on criminal offending. We present a series of comparisons of before-after changes in crime rates in areas within the immediate vicinity of the camera and areas just beyond the purview of the cameras. Changes in crime rates within view of the cameras are driven by the impact of the cameras as well as the effects of any other changes in criminogenic conditions that determine the offending level (for example, local trends, changing demographics, local economic conditions etc). In the absence of crime displacement, changes in crime rates in adjacent areas should reflect only the effect of all other environmental factors affecting crime on the specific city block.

To the extent that surveillance cameras deter criminal activity, the before-after change in crime for the area within a camera's view should differ from the comparable change in the area beyond the camera's view, with crime declining in the area near the camera relative to crime in the adjacent area. To assess whether crime is displaced from one region to another, we choose multiple comparison regions outside of the camera's view. In the absence of a displacement effect, the relative change across different comparison regions should be similar.

To further refine these comparisons, we exploit the fact that surveillance cameras are only likely to deter criminal incidents occurring in public places. Thus, if cameras deter criminal activity within their view, we should observe declines in crimes occurring in public places but no decline in crimes occurring in private places. Thus, we present separate estimates for criminal incidents occurring in public places as well as for criminal incidents occurring in private areas, or areas unlikely to be captured by the camera. A priori, a deterrent effect would predict a decline in crime in public places, but not in private places.

The principal results of our analysis of the San Francisco program are the following:

- We find statistically significant and substantial declines in *property crime* within view of the crime cameras. Within 100 feet of camera locations, part 1 felony incidents decline by 24 percent. We do not see corresponding declines in the immediately adjacent areas nor do we observe increases in *property crime* in these areas. When we analyze incidents occurring in public and incidents occurring in private places separately, we find statistically significant and substantial declines (on the order of 30 percent) near the cameras for crimes occurring in public only, and no relationship between distance from the camera and the change in crime for *property crime* occurring in private locations.
- We find no evidence of an impact of the surveillance cameras on *violent crime*. Violent incidents do not decline in the areas near the cameras relative to areas further away, and we observe no decline in *violent crimes* occurring in public places.

IV. Description of the Evaluation Methodology

Installing surveillance cameras may influence local crime rates through several avenues. First, to the extent that those who commit crime are sensitive to the likelihood of being apprehended, the presence of a surveillance camera may deter criminal activity in the area captured by the camera. Whether such a local deterrent effect reduces overall crime rates will depend on whether the locally deterred reduce their overall offending or simply choose a location outside of the camera's view. If the locally deterred simply move down the street, crime will be displaced from the area covered by the camera to alternative areas of the city without video surveillance coverage. We will refer to this effect throughout this report as a *crime-displacement effect*.

Second, if crime cameras aid in the apprehension and prosecution of perpetrators, crime cameras may have an *incapacitation effect*. Alternatively stated, if camera surveillance is helpful in capturing and incarcerating individuals with a high propensity to offend, this additional surveillance tool may reduce local crime rates through the incapacitation of those individuals responsible for disproportionate shares of crime.

Impact by Distance from the Cameras

We evaluate whether the installation of cameras deters criminal incidents and whether any such locally deterred criminal activity is displaced to immediately adjacent areas.³ We employ a simple non-experimental estimation strategy to isolate the deterrent effects of the San Francisco crime camera program on local offending levels. Our principal strategy is to assess whether the before-after installation change in crime rates in areas receiving crime cameras depends on the physical distance of the area from the camera location. Presumably, surveillance cameras will deter crime within areas in view of the camera, but not in areas outside the camera's view. Thus, to assess whether cameras are having a deterrent effect, we estimate the change in crime rates for areas of varying distance from the camera location.

Specifically, let $Crime_{idt}$ be the number of daily criminal incidents occurring at camera location i , where $i=(1, \dots, 16)$ reflecting the sixteen location clusters that we will define below, $d=(1, 2, 3, 4, 5)$ indexes distance groups for sub-areas defined by 100-foot concentric circles drawn around specific camera locations, and t indexes specific calendar dates. Define the installation date for cluster i by the variable T_i . The before-after change in average daily crime rates for each of the distance clusters is given by the equations

$$\begin{aligned}\Delta_1 &= E(Crime_{i1t} | t \geq T_i) - E(Crime_{i1t} | t < T_i) \\ \Delta_2 &= E(Crime_{i2t} | t \geq T_i) - E(Crime_{i2t} | t < T_i) \\ \Delta_3 &= E(Crime_{i3t} | t \geq T_i) - E(Crime_{i3t} | t < T_i) , \\ \Delta_4 &= E(Crime_{i4t} | t \geq T_i) - E(Crime_{i4t} | t < T_i)' \\ \Delta_5 &= E(Crime_{i5t} | t \geq T_i) - E(Crime_{i5t} | t < T_i)\end{aligned}$$

where Δ_1 , Δ_2 , Δ_3 , Δ_4 , and Δ_5 give the before-after changes in average daily crime rates within 100 feet of cameras, within 100 to 200 feet of a camera, within 200 to 300 feet of a camera, within 300 to 400 feet of a camera, and within 400 to 500 feet of a camera.

To clarify our estimation strategy, we need to discuss the factors that determine these five changes in average crime rates. Beginning with the change in the immediate vicinity of the camera, Δ_1 will depend on (1) the effect of the camera on crime rates within the 100 foot circle surrounding the camera, (2) the impact of other changes in crime determinants that affect this area but not the remainder of the circle defined by the 500 foot radius surrounding the camera location under question, and (3) the effect of crime determinants that affect the entire area defined by the 500 foot radius. Based on our site visits to each of the camera locations, we concluded that the cameras' views do not extend beyond 100 feet.⁴ Thus, changes in the remaining areas (Δ_2 , Δ_3 , Δ_4 , and Δ_5) will depend only on (1) factors that impact the specific distance area only, and (2) crime determinants that influence the entire area defined by the 500 foot concentric circle.

Our estimation strategy involves comparing the change in crime within the camera's view (Δ_1) to changes in crime in the areas outside of the camera's view (Δ_2 , Δ_3 , Δ_4 , and Δ_5). All such changes will be affected by crime determinants that have a common impact on the 500 foot area. Thus, if crime in the specific area, or citywide, is trending in a specific direction, this will be reflected in each of the five crime change tabulations. However, only the crime change in location one (Δ_1) will be affected by a local deterrent effect associated with increased surveillance. Thus, our empirical test is to assess whether crime declines in region one relative to regions two through five – i.e., do we observe $\Delta_1 < \Delta_2$, $\Delta_1 < \Delta_3$, $\Delta_1 < \Delta_4$, $\Delta_1 < \Delta_5$. To the extent that this is the case, we would have evidence that something is affecting crime in region one beyond all of the other determinants of criminal activity in the larger area surrounding the camera location.

Study Limitations

The chief limitation of this strategy concerns the fact that such a comparison of changes does not permit ruling out changes in crime determinants that differentially impact each of the five distance groups that we have defined. For example, if the installation of the crime camera coincided with a change in lighting in area one or a shift of police patrolling resources to or away from area one, a relative change in crime near the camera may be attributable to these other factors.⁵ Most importantly, areas two through five may be affected by criminal activity displaced from area one, a factor that would yield a larger relative decline in crime in region one. More generally, any factors that change during the study period that will affect one of the five regions but not the other regions (beyond the new deterrent effect in region one) will not be captured by this simple differencing.

Use of Multiple Comparisons

Nonetheless, the multiple comparisons of region one to regions two through five should assuage this concern to some degree. One might argue that non-camera related factors that impact the change in criminal offending should be more similar in regions one and two than in regions one and five. In addition, one might also expect to see larger displacement effects further down the block (say 400 to 500 feet away) rather than just beyond the camera's view

(for example, 100 to 200 feet away). Changes in crime that are similar across groups two through five would be inconsistent with this speculation. In the empirical work below, we draw many such multiple comparisons.

We estimate these before-after changes in crime for all criminal incidents as well as for criminal incidents defined by the location of the incident. This latter stratification serves as a falsification check on the main before-after comparisons. The incident data provided to us by the San Francisco Police Department (SFPD) include information on the location of the incident. One might expect local deterrent effects to operate only on criminal offending occurring within public spaces visible to crime cameras. One would not expect criminal activity occurring in private areas or public areas not within the camera's view to be affected. Thus our falsification test involves defining incidents that occur in public spaces more likely to be captured by a camera and incidents occurring in spaces unlikely to be captured by a camera, and applying our evaluation strategy to each of these more restrictive dependent variables. Evidence consistent with a local deterrent effect would involve observing patterns for crimes occurring in public spaces that differ from those for crimes occurring in private spaces.

Using the incident coding provided by the SFPD, we define all incidents where the location is described as occurring on the sidewalk (30.1% of all part 1 felony incidents in our public spaces sub-sample), street (23.53%), San Francisco Municipal Transportation Authority (MUNI) facility (2.94%), vehicle parked on street (2.06%), parking lot (0.98%), miscellaneous outside area (0.49%), park (0.38%), alley (0.35%), Bay Area Rapid Transit (BART) facility (0.17%), and construction area (0.1 percent) or where the location was unknown (38.88%) as occurring in public places. We define all other incidents as occurring in private locations or locations unlikely to be captured by a camera.⁶ Using these definitions, roughly 72 percent of property crimes in our main analysis sample and 73 percent of violent crime occur in public places.

V. Data Description

The San Francisco Police Department provided us with a data set describing 76,930 incidents occurring within 1,000 feet of nineteen crime camera locations. The data query involved pulling all incidents within 1,000 feet of each camera location occurring between January 1, 2005 and January 28, 2008. Since many of the cameras are within a 1,000 feet of one another, the structure of this query produced many duplicate incident counts – e.g., an incident occurring in the 1700 block of Mission St. would be recorded as occurring within 1,000 feet of both, the 16th and Mission as well as the 19th and Mission locations. We tabulate that there are 59,706 independent incidents occurring within 1,000 feet of the camera (that is to say, 78 percent of the total incident count represent independent events with the remainder being duplicates).

Dealing with Double Counting

We impose several restrictions on the data set that largely eliminate this double-counting problem. First, we restrict our analysis to incidents occurring within 500 feet of one of the

19 camera locations. Given the short radius of the area in view of the camera, this gives plenty of space to define various comparison groups and to test for displacement effects.⁷ This greatly reduces the overlap in the analytical areas surrounding each location. For example, the 500 foot concentric circles around the 16th and Mission and 19th Mission locations do not overlap while the 1,000 foot concentric circles do.

Second, we restrict our analysis to incidents occurring during the 209 days prior to camera installation and the 264 days following camera installation. The length in days of the chosen pre and post period are the maximum number of days for which we have pre and post data for all of the nineteen camera locations. Since several of the cameras that are in close proximity to one another have installation dates that differ by more than a year, imposing the time restrictions eliminates many of the remaining double-counted incidents.

Moreover, since several of the locations near one another have installation dates that differ by more than 264 days, there will be many instances where it will indeed be analytically correct to count incidents more than once.⁸ Imposing these two restrictions reduces the proportional importance of incorrectly double-counted incidents from 22 percent of observed incidents to less than five percent of observed incidents.

The remaining incorrectly double-counted incidents occur near camera locations that are within 500 feet of one another and where installation dates are chronologically close. We deal with these remaining double-counted incidents in the following manner. For camera locations that are within 500 feet of one another and have installation dates that are less than three months apart we define subsuming location clusters. For criminal incidents reported more than once within a cluster, we retain the record with the minimum distance to a camera location and discard the remaining duplicates.

This specification choice means that the surveillance areas around camera clusters will be defined by the union of the surveillance areas of the individual cameras, and that more distant areas are only defined as such if they are not covered by a closer camera location. That is to say, a location within 50 feet of one camera within a given cluster but 500 feet from another camera in the same cluster is classified as being within 50 feet of the camera cluster. In addition, in order for a location to be classified as 500 feet from a camera, it must be at least 500 feet from all cameras.

Camera Location

Table 1 presents a list of the 19 surveillance camera locations along with the installation dates. The final column of the table listed our created camera clusters that we use to define the concentric circles around the camera location. Note, 14 of the 19 locations are in single-location clusters –i.e., they are sufficiently distant from other camera locations that the area swept by the 500 foot radius does not overlap with that of any other location. The remaining five locations are grouped into two geographic clusters.

Table 1**Surveillance Camera Locations, Installation Dates, and Cluster Categorization**

Location	Installation Date	Cluster
Telegraph Hill	12/18/2006	1
1050 McAllister	3/27/2007	2
16th & Mission	2/15/2007	3
19th & Mission	12/30/2005	4
24th & Mission	3/23/2007	5
26th & Shotwell	4/24/2007	6
26th & Treat	12/13/2005	7
3rd & Kirkwood	11/21/2005	8
3rd & Newcomb	1/25/2007	9
Allemany & Ellsworth	12/22/2005	10
Eddy & Buchanan	7/29/2005	11
Eddy & Pierce	12/31/2005	12
Scott & Eddy	12/31/2005	12
Turk & Scott	2/27/2006	12
Haight & Webster	5/11/2007	13
Jones & Ellis	3/7/2007	14
Turk & Taylor	3/8/2007	14
Middle Pt & W. Pt	12/6/2005	15
Mission St & Geneva	3/16/2007	16

Locations that are clustered together are those in extremely close proximity that have installation dates within three months of one another.

Table 2. Average Daily Property Crimes Before and After Camera Installation by Distance from the Camera Location

	Average Daily Crime Before	Average Daily Crime After	Change, After – Before
Panel A: All Property Crime			
Within 100 feet	0.052 (0.004)	0.040 (0.003)	-0.012 (0.005) ^b
100 to 200 feet	0.025 (0.003)	0.023 (0.002)	-0.002 (0.003)
200 to 300 feet	0.023 (0.003)	0.023 (0.002)	0.000 (0.003)
300 to 400 feet	0.073 (0.005)	0.070 (0.005)	-0.002 (0.007)
400 to 500 feet	0.060 (0.004)	0.061 (0.004)	0.001 (0.006)
Panel B: Property Crime in Public Places or Where Crime Location is Unknown			
Within 100 feet	0.044 (0.004)	0.031 (0.003)	-0.013 (0.002) ^a
100 to 200 feet	0.010 (0.002)	0.011 (0.002)	0.001 (0.002)
200 to 300 feet	0.018 (0.002)	0.016 (0.002)	-0.002 (0.003)
300 to 400 feet	0.054 (0.004)	0.053 (0.004)	-0.001 (0.006)
400 to 500 feet	0.043 (0.004)	0.042 (0.003)	0.001 (0.005)
Panel C: Property Crime in Private Locations or Locations Unlikely to be Covered by a Surveillance Camera			
Within 100 feet	0.007 (0.001)	0.008 (0.001)	0.001 (0.002)
100 to 200 feet	0.015 (0.002)	0.012 (0.002)	-0.003 (0.003)
200 to 300 feet	0.005 (0.001)	0.008 (0.001)	0.003 (0.002)
300 to 400 feet	0.019 (0.002)	0.018 (0.002)	-0.001 (0.003)
400 to 500 feet	0.017 (0.002)	0.019 (0.002)	0.002 (0.003)

Standard errors are in parentheses. Averages are based on 209 days before installation and 264 days after installation for each of the 16 camera location clusters.

a. Statistically significant at the one percent level of confidence.

b. Statistically significant at the five percent level of confidence. c. Statistically significant at the ten percent level of confidence.

IV. Empirical Results

In this section, we present the main empirical findings of our evaluation. We first investigate the deterrent effect of crime cameras on local property crime rates. We next test for an effect of cameras on the overall violent crime rate and specific types of violent offenses.

The Effect of Installing Surveillance Cameras on Local Property Crime Rates

We begin our analysis by documenting average daily property crime levels for the time period preceding camera installation and the time period following installation. We define total property crimes as the sum of burglaries (residential and otherwise), larceny theft, and motor vehicle theft. Recall, our pre-period consists of the 209 days prior to the camera installation date for all sites while the post period consists of the 264 days following the camera installation.

Table 2 presents average daily crime rates for the pre and post periods by distance from the camera. Within each distance band, we also tabulate the pre-post change in average daily crimes and perform a test of whether this change is statistically significant. Panel A of the table presents results for all property crimes, Panel B presents results for crime that we have deemed as occurring in a public place likely to be captured by a camera, while Panel C presents tabulations for crimes that occur in private places or locations that are unlikely to be captured by a camera.

Beginning with the results for all property crimes, we observe a statistically significant decline (at the five percent level of confidence) in the areas within 100 feet of the new surveillance cameras. The decline in average daily incidents from 0.052 to 0.040 constitutes a 23 percent decline in property crime levels. Note, we have concluded from our site visits that the view shed of the cameras do not extend beyond 100 feet. Thus, this inner area is the principal area directly treated by a new crime camera.

For more distant areas – i.e., the 100 foot concentric bands between 100 and 500 feet from the cameras – there are no measurable pre-post changes in average daily property crimes. While several sites register small declines, all are small relative to the sampling error, rendering these changes statistically indistinguishable from zero.

The results for property crimes occurring in public places are similar, yet somewhat sharper. For the areas within 100 feet of the camera, we observe a decline in average daily property crimes of 0.013 (approximately 30 percent of the baseline crime rate of 0.044). This change is statistically significant at the one percent level of confidence and is measured more precisely than the overall change in property crimes present in Panel A. Again, there are no measurable changes in the areas from 100 to 500 feet from the cameras. The results for property crimes occurring in either private places or places unlikely to be captured by a camera stand in stark contrast to the results in Panels A and B. Here, we observe no statistically significant changes in any of the areas, near or far. This falsification check provides support for the interpretation of the results in Panels A and B as a true causal impact of the cameras on local property crime rates.

Table 3. Difference-in-Difference Calculations of the Change in Property Crime Within 100 Feet of Camera Relative to the Change in Crime in More Distant Areas

Panel A: All Property Crime

	$\Delta_1-\Delta_2$	$\Delta_1-\Delta_3$	$\Delta_1-\Delta_4$	$\Delta_1-\Delta_5$
No Controls	-0.010 (0.006)	-0.012 ^b (0.006)	-0.010 (0.008)	-0.014 ^c (0.008)
Calendar month and year effects	-0.010 (0.006)	-0.012 ^b (0.006)	-0.010 (0.009)	-0.014 ^c (0.008)

Panel B: Property Crime in Public Places or Where Crime Location is Unknown

	$\Delta_1-\Delta_2$	$\Delta_1-\Delta_3$	$\Delta_1-\Delta_4$	$\Delta_1-\Delta_5$
No Controls	-0.014 ^a (0.005)	-0.011 ^c (0.006)	-0.012 (0.007)	-0.012 ^c (0.006)
Calendar month and year effects	-0.014 ^a (0.005)	-0.011 ^c (0.006)	-0.012 (0.007)	-0.012 ^c (0.006)

Panel C: Property Crime in Private Locations or Locations Unlikely to be Covered by a Surveillance Camera

	$\Delta_1-\Delta_2$	$\Delta_1-\Delta_3$	$\Delta_1-\Delta_4$	$\Delta_1-\Delta_5$
No Controls	0.004 (0.003)	-0.001 (0.003)	0.002 (0.004)	-0.001 (0.004)
Calendar month and year effects	0.004 (0.003)	-0.001 (0.002)	0.002 (0.004)	-0.001 (0.004)

Standard errors are in parentheses. The first set of estimates provides simple difference-in-difference calculations. The second set of estimates come from a regression of daily criminal incidents on a dummy for being within 100 feet of the camera, a post installation dummy, an interaction term between the within-100-feet dummy and the post-installation dummy, a complete set of fixed effects for calendar month, and a complete set of year fixed effects. The reported statistics and corresponding standard errors are for the coefficient on the interaction term.

- a. Statistically significant at the one percent level of confidence.
- b. Statistically significant at the five percent level of confidence.
- c. Statistically significant at the ten percent level of confidence.

Table 3 formally tests whether the changes in property crime in the areas within 100 feet of a camera differ from the comparable changes observed in the other four 100 foot concentric areas bands. For all property crimes, property crimes occurring in public places, and property crime occurring in private places, the first row of figures presents the difference-in-differences calculated by subtracting the change in one of the comparison areas beyond 100 feet from the change in crime occurring within 100 feet. The second row of figures presents a comparable regression-adjusted difference-in-difference estimate which includes a complete set of fixed effects for calendar months and calendar years. These latter results control for seasonal crime patterns as well as year-to-year differences in the overall crime level. Since the basic results and the regression-adjusted estimates are nearly identical in all cases, our discussion will focus on the unadjusted results.

Beginning with the estimates for all crime in panel A, the relative change in crime within 100 feet of the camera are numerically comparable across all comparisons, with relative changes of -0.01 to -0.014. Given the size of the standard errors on these estimates, all of these relative changes are statistically indistinguishable from one another. These relative changes are statistically significant in the difference-in-difference estimate using the area 200 to 300 feet away as the comparison area (at the 5 percent level of confidence) and in the comparison using the area 400 to 500 feet away (at the 10 percent of level of confidence). Similar to the basic patterns in Table 2, we observe stronger evidence when we restrict our attention to crimes occurring in public places. Here the relative changes ranges from -0.011 to -0.014, with the change relative to the area 100 to 200 feet away significant at the one percent level of confidence, the change relative to the are 200 to 300 feet away significant at the 10 percent level of confidence, and the change relative to the are 400 to 500 feet away significant at the 10 percent level of confidence. With regards to crimes occurring in private places, we find no evidence of a relative changes in crime near the cameras.

Violent Crime

Tables 4 and 5 present corresponding estimation results for overall violent crime. Violent crimes are calculated as the sum of murders, rapes, robberies, and assaults. Beginning with the basic pre-post patterns in Table 4, there is little evidence that the installation of crime cameras affected the average number of violent crimes in any of the five distance groups. The results for all violent crime indicate slight increases in violent crime that are all statistically indistinguishable from zero and that exhibit no discernable pattern with regards to distance from the camera location. We find similar results when we look at crimes occurring in public places as well as violent crime occurring in private places or places unlikely to be captured by the camera.

Table 5 presents difference-in-difference calculations for the relative change in crime near the cameras and formal tests of the statistical significance of these relative changes. In all comparisons, the point estimates are small relative to the standard errors. For many, the changes are near zero. There isn't single statistically significant estimate in the table. Hence, in conjunction with the results presented in Table 4, we conclude that there is little evidence of an impact of the surveillance cameras on violent crime.

Table 4. Average Daily Violent Crimes Before and After Camera Installation by Distance from the Camera Location

	Average Daily Crime Before	Average Daily Crime After	Change, After – Before
Panel A: All Violent Crime			
Within 100 feet	0.061 (0.005)	0.065 (0.004)	0.004 (0.006)
100 to 200 feet	0.030 (0.003)	0.038 (0.003)	0.008 (0.005)
200 to 300 feet	0.022 (0.003)	0.023 (0.002)	0.001 (0.003)
300 to 400 feet	0.082 (0.006)	0.083 (0.008)	0.001 (0.008)
400 to 500 feet	0.059 (0.005)	0.063 (0.003)	0.004 (0.006)
Panel B: Violent Crime in Public Places or Where Crime Location is Unknown			
Within 100 feet	0.054 (0.004)	0.054 (0.004)	0.000 (0.006)
100 to 200 feet	0.018 (0.002)	0.023 (0.003)	0.006 (0.004)
200 to 300 feet	0.016 (0.002)	0.015 (0.002)	-0.001 (0.003)
300 to 400 feet	0.058 (0.005)	0.056 (0.004)	-0.002 (0.006)
400 to 500 feet	0.040 (0.004)	0.042 (0.003)	0.002 (0.005)
Panel C: Violent Crime in Private Locations or Locations Unlikely to be Covered by a Surveillance Camera			
Within 100 feet	0.007 (0.001)	0.010 (0.002)	0.002 (0.002)
100 to 200 feet	0.012 (0.002)	0.014 (0.002)	0.002 (0.002)
200 to 300 feet	0.007 (0.001)	0.008 (0.001)	0.001 (0.002)
300 to 400 feet	0.024 (0.003)	0.026 (0.003)	0.002 (0.004)
400 to 500 feet	0.019 (0.002)	0.021 (0.002)	0.002 (0.003)

Standard errors are in parentheses. Averages are based on 209 days before installation and 264 days after installation for each of the 16 camera location clusters.

- a. Statistically significant at the one percent level of confidence.
- b. Statistically significant at the five percent level of confidence.
- c. Statistically significant at the ten percent level of confidence.

Table 5. Difference-in-Difference Calculations of the Change in Violent Crime Within 100 Feet of Camera Relative to the Change in Crime in More Distant Areas

Panel A: All Violent Crime				
	$\Delta_1-\Delta_2$	$\Delta_1-\Delta_3$	$\Delta_1-\Delta_4$	$\Delta_1-\Delta_5$
No Controls	-0.004 (0.008)	0.003 (0.007)	0.003 (0.010)	-0.000 (0.009)
Calendar month and year effects	-0.004 (0.008)	0.003 (0.007)	0.003 (0.010)	-0.000 (0.009)
Panel B: Violent Crime in Public Places or Where Crime Location is Unknown				
	$\Delta_1-\Delta_2$	$\Delta_1-\Delta_3$	$\Delta_1-\Delta_4$	$\Delta_1-\Delta_5$
No Controls	-0.004 (0.007)	0.001 (0.007)	0.003 (0.009)	-0.000 (0.008)
Calendar month and year effects	-0.004 (0.007)	0.001 (0.007)	0.003 (0.008)	-0.000 (0.008)
Panel C: Violent Crime in Private Locations or Locations Unlikely to be Covered by a Surveillance Camera				
	$\Delta_1-\Delta_2$	$\Delta_1-\Delta_3$	$\Delta_1-\Delta_4$	$\Delta_1-\Delta_5$
No Controls	0.000 (0.004)	0.001 (0.003)	0.000 (0.005)	0.000 (0.004)
Calendar month and year effects	0.000 (0.004)	0.001 (0.003)	0.000 (0.005)	0.000 (0.004)

Standard errors are in parentheses. The first set of estimates provides simple difference-in-difference calculations. The second set of estimates come from a regression of daily criminal incidents on a dummy for being within 100 feet of the camera, a post installation dummy, an interaction term between the within-100-feet dummy and the post-installation dummy, a complete set of fixed effects for calendar month, and a complete set of year fixed effects. The reported statistics and corresponding standard errors are for the coefficient on the interaction term.

- a. Statistically significant at the one percent level of confidence.
- b. Statistically significant at the five percent level of confidence.
- c. Statistically significant at the ten percent level of confidence.

VI. Conclusion

The empirical results from this analysis are several. First, we find fairly consistent evidence that the installation of crime cameras at 19 locations throughout the city has had a statistically significant and substantial impact on property crimes within the areas in the camera's view. We observe pre-post declines in property crime in excess of 20 percent and for crimes occurring in public, as high as 30 percent. There are no comparable declines in crimes occurring further from the cameras and no increase in crime in more distant areas either absolutely, or relative to a set of comparison regions. Second, we find very little evidence of an impact of the cameras on violent crime.

Whether these results generalize to what would happen in other cities is an interesting question. The San Francisco crime camera program is in many ways unique. The system is only passively monitored and there are strict provisions in the ordinance authorizing the program against aiming the camera towards private areas and against active monitoring of the cameras. The photo resolution is not particularly high and the number of frames caught per minute is relatively small. This contrasts with systems in other cities, such as London and Chicago, where the cameras are actively monitored, resolution is higher, and camera monitors actively can pan and zoom their equipment in response to a call.

Thus, whether the disappointing results with regards to violent crime are due to an inability of video surveillance to deter such activity or to the particular manner in which the program was implemented in San Francisco is an open question. Interestingly, there is extant empirical evidence suggesting that violent crime is generally insensitive to changes in incentives, while property crime is fairly sensitive to the likelihood of being detected and to positive incentives to engage in other activity (Raphael and Winter Ebner 2001, Gould et. al. 2002). Such evidence suggests that deterring violent crime is a fairly difficult task, given the nature and motivation behind this class of offending. Nonetheless, we cannot rule out that the particulars of the program under study are behind the weak impacts on violent crime.

An additional question raised by the results presented here concerns whether the benefits in terms of reduced property crime outweigh the explicit budgetary outlays of the program, as well as the harder to measure costs of the program in terms of eroded civil liberties. The crimes affected by the cameras are indeed the lower-cost crimes in terms of the pain, suffering, and property loss experienced by victims, suggesting that while the crime reduction is substantial, the monetary valuation of the crime reduction would be much larger had violent crime been reduced. Whether these benefits exceed explicit and implicit cost of cameras depend on the citizenry's willingness to pay for these marginal security improvements. While we have not performed such a cost-benefit assessment, future research on the effects of such programs is certainly warranted given the increasing use of cameras in American cities.

Endnotes

¹ See US Bureau of Justice Statistics, Facts at a Glance, <http://www.ojp.usdoj.gov/bjs/glance/exptyp.htm>, accessed on November 1, 2008.

² Part I offenses consist of violent crimes (criminal homicide, forcible rape, robbery, assault) and property crimes (burglary, larceny-theft, motor vehicle theft, arson).

³ Assessing incapacitation effects is considerably more difficult as we wouldn't expect incapacitation to play itself out spatially within a block (proximity to cameras being a key aspect of our evaluation strategy).

⁴ The San Francisco cameras are positioned in a fixed form, are not actively monitored, and can essentially see across the street or intersection where they are located and a partial portion of the block. Our site visits to the camera and sample images shared with us lead us to the conclusion that the camera views do not extend beyond 100 feet (with 100 feet being a generous estimate).

⁵ Note difference in lighting or patrolling or any other such factor across areas within the 500 foot circle that do not change over time will not impact this estimate, since our estimation strategy is based on the change in criminal activity rather than level of activity at a given point in time.

⁶ Roughly ninety-two percent of the incidents that we define as occurring in locations outside of the camera's view have locations described as (in proportional order of importance for this sub-sample) apartment (41.59%), miscellaneous building-store (15.3%), hotel, motel (8.05%), house (6.98%), public housing (4.74%), bar (4.47%), restaurant (4.2%), liquor store (1.43%), residential garage (1.43%), house-multiple dwelling (1.25%), commercial office (0.98%), drug store (0.98%), and religious premises (0.98%). The remaining seven percent of incidents are all in categories that individually account for less than one percent of incidents. These additional categories are department store (0.89%), school, other (0.81%), flat (0.63%), grocery store (0.63%), laundromat (0.45%), public garage (0.45%), theatre (0.45%), service station (0.36%), supermarket (0.36%), bank (0.27%), hotel lobby (0.27%), residential treatment facility (0.27%), hallway (0.18%), jewelry store (0.18%), motel room (0.18%), playground (0.18%), public restroom (0.18%), taxi (0.18%), government agency (0.09%), group home (0.09%), medical office (0.09%), MUNI electric bus (0.09%), pawn shop (0.09%), school, elementary (0.09%), warehouse (0.09%), waterfront area (0.09%).

⁷ 500 feet corresponds to roughly two city blocks along the numbered streets in San Francisco (e.g., 16th and 19th streets, and slightly more than one city block along such streets as Mission and Market streets).

⁸ To illustrate this point, consider the following example. Suppose that locations A and B are 500 feet apart, and that the camera installation date for location A occurs 270 days prior to the installation of cameras at location B. Consider a criminal incident occurring 100 days after the installation of cameras at location A (thus occurring both in A's post period and B's pre period) that occurs within 500 feet of both locations. To accurately measure crime levels in area A post camera installation we must include this incident. Moreover, the post-period for A will not be influenced by the installation of cameras at B, since new cameras at B arrive six days beyond the close of the post period for A. Similarly, to accurately measure crime levels in area B prior to the installation of cameras, we must include the incident in question. Moreover, changes in surveillance at location A will not influence our pre-installation crime estimate for region B, since the installation date for region A occurs 61 days prior to the opening of the pre-period for region B.

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THE UNION SECTOR IN CALIFORNIA: A 2008 UPDATE

Daniel J.B. Mitchell, Professor-Emeritus
UCLA Anderson Graduate School of Management
School of Public Affairs, UCLA

Labor unions have long played a role in California politics and public policy.* As noted in last year's edition of *California Policy Options*, their role in the state's direct democracy (initiatives) – surprisingly for organizations capable of “grass roots” campaigning – has tended to be defensive rather than pro-active.¹ However, unions have been capable of defeating initiatives that they deem harmful to their objectives and of supporting friendly candidates.

Although private sector unionization (with the exception of agriculture) is largely (but not entirely) the province of federal regulation, California does play the major role in regulating unionization in the public sector, state and local. The public sector regulatory framework was also described in an earlier edition of *California Policy Options*, with a special emphasis on dealing with public transit labor disputes.² This chapter updates a report which originally appeared annually in another university publication on the labor relations outlook in the state.³ It includes new data on the state's union sector provided by the Bureau of National Affairs, Inc., as the result of a grant by the UCLA Institute for Research on Labor and Employment, and in addition uses other publicly-available data. Also provided is a rundown of selected developments and connections to public policy by sector.

California Trends in Union Representation

As Chart 1 shows, there has been a long-term downward trend in the proportion of wage and salary workers represented by unions, both in the U.S. as a whole and in California. However, the unionization rate in California has been consistently above the national rate. There is a bifurcation in this record, however. As Charts 2 and 3 illustrate, the positive gap between California and the U.S. has been primarily a matter of the difference in public-sector unionization as opposed to private, although the California/U.S. private gap has widened somewhat in recent years.

Since the drop in the unionization rate, both nationally and in California, has been mainly a phenomenon of private employment, the leveling out of the rate in recent years – and even an uptick in 2007 – has sparked a good deal of attention. Analysts have debated whether there is the beginning of a turnaround in private unionization brewing in California and whether the uptick seen in 2007 marked the start an ongoing trend.⁴ Complicating the analysis of that possible trend reversal is the economic difficulties faced by California and the nation post-2007 and the impact that the troubled economy might have on unionization.

Although California has had a higher private-sector unionization rate than the U.S. over a long period, there is sectoral variation. As Chart 4 shows, construction has been characterized by a higher-than-U.S. California unionization rate. But the California/U.S. gap in construction

* This chapter covers developments as of late October 2008. Subsequent events and information are not reflected.

seems to have narrowed since the 1980s. In manufacturing (Chart 5), the California unionization rate has been consistently *below* the U.S. Non-manufacturing other than construction (service such as health care, certain parts of retailing) has featured a higher California unionization rate than the rest of the U.S., as can be seen on Chart 6.

Major Contracts and the Private Sector in California

The U.S. Bureau of Labor Statistics has long maintained a file of “major” union contracts – private and public contracts covering 1,000 or more workers – now with online accessibility. Charts 7 and 8 provide union and sectoral detail. The three largest sectors of major union coverage are construction, retail-wholesale food distribution, and health care. Craft unions associated with construction such as the Laborers (LIUNA), Carpenters (UBC), Plumbers (PPF) and Painters (PAT) are prominent among private-sector unions in California. (Union acronyms are shown in Appendix A to this chapter.) The Food and Commercial Workers (UFCW) is the major union in food distribution and shows up as a significant California labor organization. Similarly, the Service Employees – prominent in health care – is also a large union presence in the private sector.

As noted earlier, regulation of private-sector unionization is largely at the federal level. The National Labor Relations Board (NLRB) is the major regulatory agency (except for railroads and airlines which are covered by a separate federal regulatory process). Among the tasks of the NLRB is the conduct of union representation elections. Chart 9 indicates that the frequency of such elections in California has declined in recent years. Unions have tended to regard the NLRB under President George W. Bush as unfriendly and have experimented with organizing tactics which avoid formal elections. However, it is difficult to know whether the decline illustrated on Chart 9 reflects alternative organizing strategies or just fewer union organizing campaigns. To the extent formal NLRB elections have been held, transportation (mainly trucking) and health care have been prominent sectors, as illustrated by Chart 10.

Major Contracts and the Public Sector in California

As Chart 11 shows, major public sector contracts in California are heavily concentrated in education (K-12, community colleges, CSU, and UC) and a miscellaneous category (“other” on the chart) of general civil service activities. The largest single union in the public sector as measured by major contract coverage is the Service Employees (SEIU). However, unions can be influential in ways other than size. The prison guards’ union (CCPOA) – although much smaller than SEIU – is often cited for its significant lobbying activities. Similarly, the California Teachers Association (CTA) has been an important factor in state politics and was the major force in the late 1980s in the passage of Proposition 98. Prop 98 earmarks roughly 40% of the state’s general fund for K-14 spending.

In the state and local public sector in California, the Public Employment Relations Board (PERB) – an agency generally modeled after the federal NLRB – is the major regulatory body. It enforces a host of statutes which vary by sector. Because of the already-high rate of union coverage in the public sector, much of PERB’s caseload consists of unfair labor practice complaints – which can be filed against unions as well as government employers. Chart

shows that almost a third of cases were filed against unions in the 2007-08 fiscal year. Education (K-12 and higher education) accounted for a little over a third of the caseload.

Unions and California Politics

As noted in last year's *California Policy Options*, unions have not generally followed an aggressive agenda of putting initiatives on the ballot. There was an exception in 2008; UNITE HERE – the union representing hotel workers – supported referenda on the presidential primary ballot to repeal compacts between the state and certain Indian gaming tribes. The objective was to push for more union-friendly organizing clauses in such compacts. Although the referenda failed to repeal the compacts, they did force the opposing side – essentially the Indian gaming interests – to expend considerable sums for TV and other political advertising. The demonstrated ability to force expensive campaigns when future compacts are negotiated could strengthen union's hand in terms of gaining union-friendly provisions.

The major statewide ballot proposition in the November 2008 campaign attracting union attention was a redistricting initiative (Prop 11) generally thought to favor Republicans over Democrats. The Democratic Party opposed it and some unions – notably AFSCME, CCPOA, and CFT – contributed to the No on 11 campaign. However, the No campaign was substantially underfunded compared to the Yes side – which gathered contributions from a variety of business interests and civic groups and was supported by fundraising efforts of Governor Schwarzenegger.

What was notable, however, was the fact that some major union players such as SEIU and CTA did *not* contribute to the No campaign. The argument that has often been made for taking redistricting out of legislative hands was that gerrymandered districts lead to uncompetitive seats and therefore to election of partisan extremists. For unions seeking to influence legislation, incumbents in safe seats may be less likely to respond to offers of, or denials of, support than those in marginal seats where external support is needed.

In a complex way, therefore, while not joining business and Republican interests in providing financial support in favor of Prop 11, these unions may not have seen their interests as furthered by retaining the current system of drawing district lines. The failure to support the No campaign did not seem to result from a lack of funds for political activity. CTA, in particular, gave over \$1 million to defeat Prop 8 – an initiative aimed at banning gay marriage in California – a cause not clearly related to core union economic interests.

Despite the CTA example, unions generally do focus on economic issues affecting their members. For example, construction unions have sought to have “project labor agreements” adopted by public agencies and are more likely to succeed in jurisdictions with union-friendly elected officials. Such agreements generally require union-level wages, benefits, and conditions of private contractors and typically guarantee labor peace for the duration of the project covered.

The City of Los Angeles is generally categorized politically as union-friendly; its municipal agency operating LAX extended a prior project labor agreement to cover the expansion of the Tom Bradley terminal and taxiway improvements in 2008. Hoping to achieve a

more union-friendly Board of Supervisors for L.A. County, unions heavily supported the candidacy of Mark Ridley Thomas for a seat on the Board in November 2008. His rival for the seat, Bernard Parks (former Police Chief of the City of Los Angeles and subsequently a city councilman) was supported by various business groups as a counterweight.

In 2005, the national federation of unions, the AFL-CIO, split into two factions with seven unions departing the federation and forming a separate Change to Win (CTW) group. Although the split might have caused inter-union friction on some issues, the union role in California politics seemed largely unaffected by the creation of Change to Win. Generally unions in the state have pursued their own agendas. Where they agree, they continue to cooperate even if such cooperation crosses the AFL-CIO/Change to Win line. Where they disagree, being in the same national federation would probably not have had much effect.

The economic slump that has accompanied the mortgage/foreclosure crisis and the more general financial crisis will undoubtedly challenge unions as political actors. State and local budgets will place strains on public-sector labor relations and bargaining. Social programs linked to the labor market which unions generally support may also be put under strain. For example, in mid-2008, California's unemployment insurance program – part of the national state-federal system – was in financial difficulty. Relatively high unemployment in California compared to the nation as a whole led to a higher rate of unemployment benefit exhaustions in the state.⁶ The ratio of the unemployment insurance trust fund to total wages in California was about half the U.S. average.⁷ Should the fund be depleted, the state would have to borrow from the federal government.

Work Stoppages in California

Strikes in the public sector in California are generally legal, in contrast with many other states and governmental jurisdictions. Table 1 shows that major work stoppages in California – those involving 1,000 or more workers – have been a mix of public and private. Health care has been prominent in the state's labor disputes although strikes in that sector have tended to be short in duration, sometimes only a day or two in length. Short strikes can be disruptive and costly to management without imposing substantial income loss on strikers.

Contract Provisions in California

Charts 14-18 summarize some common elements in union contracts in California based on two surveys, one in 2003 and one in 2008, by the Bureau of National Affairs, Inc., a private information and research group. In both cases, 100 California union contracts were characterized by various provisions they contained. On some dimensions, such as contract duration, there is little difference over the 5-year gap between the surveys. There is some indication of a cutback in more peripheral health and welfare-type benefits. For example, optical and dental insurance coverage seem to have declined. The fact that core health care costs rose significantly during this period may have been a factor. Unions may have decided that preserving core medical benefits and holding down the cost of such benefits to employees was more important than these other fringe forms of health-related insurance.

Similarly, there seems to have been a shift toward those benefits with a more predictable cost, notably holidays, as opposed to costs related to job security such as severance pay and other guarantees. Other provisions show a mix of outcomes. Two-tier provisions (lower pay and benefits for new hires) are unpopular with unions and show a decline. On the other hand, lump sum payments (one-time bonuses rather than increases in base pay) increased somewhat. The unknown element is what the reaction will be in as reflected in new contracts that will be negotiated during a period of economic distress. Most of the contracts included in the 2008 survey were negotiated in earlier years of economic expansion.

Selected Sectoral Issues: Private Contracts

Contracts negotiated in the union sector reflect industry and local conditions, as well as those of the general economy.⁸ Only one component of the private sector, agriculture, is primarily subject to state policy jurisdiction. The others are largely under federal jurisdiction, although state policy can play a role at the margin. A 2008 U.S. Supreme Court decision – invalidating a California statute forbidding private government contractors from using state funds to influence union representation elections – illustrates this limitation.⁹ In addition, the political and community climate can sometimes influence the outcomes of union organizing and negotiating campaigns.

Agriculture

Employment in agriculture in California accounts for about two and a half percent of the total. Because union-management relations in agriculture was omitted from federal regulation, that area is left to the states. In California, the Agricultural Labor Relation Board was created in the 1970s, in large part due to the organizing campaign of the United Farm Workers (UFW) under César Chávez. As Table 1 shows, the Board has a limited caseload, although filings of unfair labor practice complaints and elections for union representation show a recent uptick. (Many unfair labor practice charges are dismissed or settled, resulting in relatively few formal board orders.)

Despite the storied history of the United Farm Workers under Chávez, the union fell into Hard Times in the 1980s and there is relatively little unionization in agriculture today. According to the UFW's president, no more than 3-4% of farmworkers in California are unionized.¹⁰ An effort to make organizing easier through so-called "card check" recognition (AB 2386) was vetoed by Governor Schwarzenegger in 2008.¹¹ (A similar bill was vetoed in 2007.)

The union received unfavorable publicity when a series of *Los Angeles Times* articles appeared charging that it had become largely a fundraising entity for various charities. Attorney General Bill Lockyer eventually dismissed complaints related to these charges but noted that "the appearance of impropriety existed."¹² Since that time, the UFW appears to have re-emphasized tradition organizing and negotiating. It also took steps to involve itself in labor standards for Mexican immigrant farmworkers brought in under a special program administered by the U.S. Department of Labor.¹³ Public sentiment remains sympathetic to low-wage

farmworkers. Heat-related deaths on California farms during 2008 led to a state crackdown by Cal-OSHA and the state's Department of Industrial Relations.

Aerospace

Before the end of the Cold War, aerospace and related employment was a high-profile California industry. The decline of aerospace played a significant part in the recession of the early 1990s in the state. Today, less than half of one percent of California employment is directly in aerospace. The most prominent single aerospace manufacturing facility is in Long Beach, now a Boeing plant. Its future remains uncertain.

Although a 52-day strike at Boeing by the Machinists (IAM) in other parts of the country in fall 2008 disrupted production of other aircraft, the Long Beach plant was under a different contract with the United Auto Workers and was not directly affected. That plant – which employs about 5,500 workers – produces the C-17 military cargo “airlifter” and its continuation depends on continued orders for that aircraft. The Long Beach plant union contract was renegotiated in 2007. Contracts at smaller plants in California (Palmdale, Helendale, Sunnyvale, Palo Alto, Santa Cruz, Vandenberg Air Force Base) owned by Lockheed Martin were renegotiated in 2008 by the Machinists (IAM).

Despite the much reduced size of aerospace in California, concerns about jobs in the industry can still prompt political action by the state's congressional and senate representatives. When the Department of Defense awarded a tanker contract to a consortium led by the European Airbus firm over a bid by Boeing, there were strong congressional protests which led to a reexamination of the process. The ranking Republican on the House Armed Services Committee, Duncan Hunter (El Cajon), protested over potential job loss as did House Speaker Nancy Pelosi (D-San Francisco).¹⁴

Airlines and Related

The airline industry is inherently national/international or at least regional and its carriers are not confined to California. However, airline passenger and freight traffic is important to the state and important to California airports such as LAX and SFO which depend importantly on fees from airlines and rents and fees from private providers of airport services, e.g., restaurants and other retailers. The general economic slump, combined from the jump in jet fuel prices during summer 2008, adversely affected the economic health of airlines serving California.

Some airlines, such as Frontier (which is a small player in the California market), have negotiated concessionary contracts with wage cuts. In some cases, economic pressure has led to internal political pressure within airline unions. For example, U.S. Airways pilots voted out the Air Line Pilots Association (ALPA) and replaced it with an independent union. Mechanics at United Airlines voted out the Aircraft

Mechanics Fraternal Association (AMFA) and replaced it with the Teamsters (IBT). In 2007, American pilots voted out the incumbent leadership in their independent Allied Pilots Association (APA) and replaced it with candidates viewed as likely to be tougher on management.

Mergers, such as that of Delta and Northwest, have led to complicated union negotiations involving such issues as combining seniority rosters. In some cases, smaller airlines – such as Aloha (which connected Hawaii and California) – simply went out of business. Reductions in jobs, either by layoff or incentives to leave employment voluntarily, were common. Given the economic environment, strike action was not deemed attractive by unions seeking to protect worker interests. However, in some cases, e.g., United pilots, airlines charged that informal work actions such as sickouts were being used.

Service workers at major airports, particularly LAX and SFO, have been the target of SEIU organizing in efforts modeled partly on the Justice for Janitors campaign that began in the 1980s. Such workers are involved in various maintenance and security tasks and are also employed by the retail franchises operating within the airports. A brief strike at LAX in August 2008 resulted in the intervention of Mayor Antonio Villaraigosa and an eventual contract for some of the workers involved. SFO workers took a strike vote in September 2008 but at this writing had not called a stoppage.

Health Services

The health care sector accounts for over 7% of total employment in California. Much – not all – of this sector is difficult to outsource. There is a wide range of occupations in the sector ranging from skilled and highly paid professionals to low-paid aides of various types. Although union representation of physicians is comparatively rare, nurses have been aggressively organized by the California Nurses Association (CNA), the SEIU, and other groups.

Among these unions there is sometimes intense competition for members. And there have been dramatic internal political struggles, notably between the national leadership of SEIU and the leadership of United Healthcare Workers-West (UHW-W), a California affiliate of SEIU. The struggle seems in part based on a division between the national and local leadership over Governor Schwarzenegger's failed effort to develop a system of state universal healthcare in 2007. (The national supported the plan; the local opposed it.) But other issues seem to be involved as well and litigation surrounding the struggle for control was filed on both sides.

Despite the inter- and intraunion tensions, some notable health care agreements in 2008 involved contracts between various Sutter Health hospitals in the Bay Area and CNA, a UHW-W contract with various nursing homes owned by Sana Senior Care in Northern California, and a contract between the University of California and AFSCME. And there are certainly examples of union-management cooperation in

health care, notably a high-profile “partnership” agreement between Kaiser in Northern California and various unions.¹⁵ Nonetheless, it seems likely that health care will remain a contentious area of organizing and bargaining in California.

Hollywood

The film industry began moving from a factory model – in which studios employed staffs of writers, actors, directors, etc. – to a fluid model in which both professional (“above the line”) and technical and support (“below the line”) employees moved from project to project. Unionization in the industry is on a craft model and the crafts do not always see their interests as aligned. Two professional unions, the Writers Guild of America (WGA) and the Screen Actors Guild (SAG), have a history of complex internal battles and election contests. When strikes occur or are threatened, factional tendencies within these unions can be exacerbated.

Aggravating labor relations in Hollywood is uncertainty over the impact of new technology on the business. There is a history of corporate resistance to new technology, whether it was television in the 1950s or VCRs in the 1970s. The retail market (videos) opened up new opportunities for product distribution, but also opportunities for piracy. Internet distribution of movies now raises similar concerns. The creative unions want their share of the pie, but it is difficult to forecast what the pie will be. And the industry is famous for creative accounting and litigation over rights, contracts, and credits.

Changes in public tastes also can overtake traditional relations. For example, “reality” television shows – while more scripted than it might seem to viewers – are not written in the traditional way, leading to disputes over coverage by the WGA. Public policy can also create difficulties. Subsidies by domestic and foreign jurisdictions for movie production can lead to “runaway” (from Hollywood) production. But the impact is felt more by unions representing below the line workers than those in creative occupations. And from the perspective of producers, subsidies are a Good Thing and competition among localities can make them even better.

As Table 1 notes, a lengthy WGA strike began in early November 2007 and lasted into mid-February 2008. Revenues from, and union coverage of, new media were major factors in the dispute. With the WGA strike in progress, the management side – the Alliance of Motion Picture and Television Producers – reached a deal in January 2008 with the separate Directors Guild of America (DGA) which it hoped would set a pattern for the Writers. And ultimately a 3-year deal with the WGA was reached early enough to avoid upsetting the Oscar Awards and telecast.

The Actors’ situation remains unsettled at this writing, although both sides tentatively agreed to use federal mediation in October 2008. In the background is an on-again, off-again relationship between SAG and the American Federation of Television and Radio Artists (AFTRA). At one time the two unions were set to

merge but in this round they did not agree on a common position (although many actors belong to both) and AFTRA settled with the major TV networks in mid-March 2008.

Services to Buildings and Hotels

Although the SEIU's Justice for Janitors campaign did not begin in Los Angeles, Los Angeles is known as the place in which the campaign first succeeded. Despite a workforce which is largely immigrant and spread across an array of office buildings, the SEIU succeeded in pressuring the owners and managers of such buildings to use unionized cleaning contractors.¹⁶ The union's tactics – which mixed street theater and demonstrations with support from political and community allies – were subsequently applied successfully in other jurisdictions in California and in other states.

The most recent contract for the janitors in Los Angeles, signed in May 2008, provided a variety of wage and benefit improvements over a 4-year term. The new settlement was reached after a brief strike and intervention by Mayor Villaraigosa. Shortly after the L.A. contract was announced, a related agreement was signed in Orange County. More generally, the union has seen its janitorial bargaining as part of a national pattern even though particular contracts are settled locally. Often, despite differences across cities, the same owners, managers, and cleaning contractors are involved.

However, the most interesting recent developments in building services involved not janitors but building guards – “security officers” as the union prefers to call them.¹⁷ Such officers must be licensed by the state and thus citizenship or legal residence with entitlement to work is a job requirement. Because of the licensing element, officers are less likely to be immigrants and the guard workforce is much more heavily black than the Latino janitorial workforce.

Labor relations with regard to security officers is somewhat complicated by a provision in the federal Taft-Hartley Act of 1947 that instructs the NLRB only to certify units of guards that are totally independent of other unions dealing with the employer. However, the Act does not forbid employers from recognizing units voluntarily which contain guards who belong to the same union as other workers in the same establishment. In the case of building guards, the SEIU was able to obtain such voluntary recognition in Los Angeles in late 2006 and it now represents both guards and janitors there, although in separate locals.

A 5-year pact covering guards was reached in early 2008, raising wages and benefits. On the employer side, an important player in reaching the initial recognition deal in L.A. County with SEIU for guards was Robert F. Maguire III. Maguire Properties is a major owner of commercial real estate in L.A. and remains so (although Robert F. Maguire was replaced as CEO in 2008 as part of the general financial turmoil in real estate).¹⁸

The support workforce in hotels is similar in ethnic composition to janitors but UNITE HERE, the union representing hotel workers, was slower than SEIU in adopting tactics similar to Justice for Janitors. However, it did ultimately adopt similar strategies in its "Hotel Workers Rising" campaign. A notable element in this campaign involved lobbying to have the City Council of Los Angeles adopt a "living wage" statute covering hotels near LAX. (Traditional living wage campaigns have involved government contractors as opposed to private employers without a direct government linkage.) Once the statute was adopted, hotels – particularly the Hilton near LAX – challenged the statute in court. Initial efforts to obtain an immediate court injunction against city enforcement failed and the matter remains unsettled at this writing.

Maritime

California has a major maritime shipping industry. With the general decline of unionization in the private sector, strikes that could have major economic ripple effects have declined. However, two sectors, railroads and maritime (longshore), are strategically placed so that strikes or lockouts can have rapid and wide-ranging economic impacts. When strikes have occurred in the railroad industry, federal injunctions under the Railway Labor Act (which covers railroads and airlines) have sometimes been used to halt the stoppages. The federal Taft-Hartley has a similar national emergency dispute provision for other areas of the private sector which allow the President to obtain similar court injunctions. President George W. Bush imposed such an injunction on a West Coast lockout in longshoring in 2002.

In 2008, however, although a one-day West Coast walkout by the ILWU occurred on May Day – ostensibly a protest over the Iraq War – and although there were employer complaints of slowdowns subsequently – no presidential injunctions were invoked and a new 6-year contract was reached in July. Perhaps more public attention was devoted to land-based cargo delivery, largely by truck, at the Ports of Los Angeles and Long Beach. The two adjacent ports combined are the largest seaport in the U.S. Trucks that service them are typically owned by independent truck driver/owners who contract with shipping firms. Both ports adopted tight truck air pollution standards in 2008 that would require replacement of many existing older trucks for new cleaner models.

The Los Angeles version of the plan would have pushed the independents to become employees of the shipping firms that would then own the new trucks. Such an arrangement would make unionization of the truckers easier. Shipping firms have resisted both ports' new truck requirements and the matter remains in dispute at this writing. A container fee that was to assist in financing the acquisition of new trucks was vetoed by Governor Schwarzenegger in fall 2008.

Selected Sectoral Issues: Public Contracts

Public employment in California is concentrated at the local government level rather than direct employment by the state. However, the economic slump, financial turmoil, and related state budget crisis have an impact at both the state and local level. Despite the slump, not all labor relations issues have revolved around purely economic matters. The Legislative Analyst was especially critical of the state's relation with its prison guards, represented by CCPOA, which it characterized as "dysfunctional."¹⁹ At issue was managerial control of the prisons.

CCPOA made a half-hearted attempt at starting a recall of Governor Schwarzenegger in 2008, apparently aimed at pressuring the administration in collective bargaining negotiations.²⁰ The Schwarzenegger administration proposed imposing a 5 percent wage increase on the prison guards in 2007-08, less than the union was demanding but more than the Legislative Analyst recommended. At this writing, the negotiations between the state and CCPOA appear to be stalemated.

For other state employees, 18 union contracts out of 21 with the state expired on June 30, 2008 in the context of the enveloping budget crisis. At this writing, it seems unlikely that rapid progress toward new settlements will occur. Tensions between the unions and the state were heightened during the summer of 2008, when Governor Schwarzenegger – citing the absence of a state budget and a potential cash crisis – proposed cutting most state salaries to the federal minimum wage until a budget was enacted. (Thereafter, the balance due would be paid.) However, state controller John Chiang refused to make the cuts, in part arguing that cash was available and in part asserting that an antiquated state payroll computer system could not make the wage adjustments. The matter went to court but was never resolved. Once a budget was enacted in September 2008, the dispute became moot.

At the local level, the economic problems of the state showed up in such ways as a bankruptcy filing of the City of Vallejo (allowing it to renegotiate its union contracts) and voluntary and involuntary cuts in weekly hours by the City of San Francisco. More commonly, agreements that expired were not renegotiated, leaving workers without a new contract, a situation that may well persist for some time.

Another concern likely to affect both state and local workers was the unfunded liability represented in public pension plans and retiree health insurance systems. The degree of funding for pensions varied substantially from system to system. In particular, the City of San Diego became something of a poster child for underfunded pensions. However, financial market turmoil and declining stock markets in 2008 decreased the funding ratios of all pension systems. On the other hand, major stock market fluctuations and declines also provided illustration of the risk faced by employees attempting to fund their own retirements through defined contribution systems and tax-favored savings accounts, both public and private. Generally, employers with retiree health care have not pre-funded such systems at all, unlike pensions.

Proposals to check public pensions have not made it on to the state ballot, although Governor Schwarzenegger for a time endorsed such an effort as part of his ill-fated Year of Reform in 2005. At the local level, there may be more activity in this area. For example,

Measure J in Orange County on the November 2008 ballot required future votes by the electorate on public pension improvements. Unions might have been expected to oppose Measure J in an active campaign but did not do so, apparently projecting the proposition would pass regardless of any feasible active opposition campaign.

Summary and Conclusion

As in the U.S. as a whole, changes in industrial structure and de-unionization in private employment have changed the mix of union workers. The share of public employees in the union sector has grown in California. Despite the long-term drop in the unionization rate – which seemed to bottom out in 2007 – unions have continued to play a significant role in California politics. Their efforts with regard to ballot initiatives have tended over the years to be reactive. Instead, unions have focused on traditional candidate endorsement and support and on lobbying, both at the state and local levels. These efforts are sometimes in pursuit of the specific interests of their membership and sometimes in pursuit of larger social goals.

Because of federal pre-emption, major policies regarding private labor relations are made at the national level. However, since federal labor relations law largely omits agriculture, California has its own system for that component of the private sector. In addition, the public sector, also largely omitted from regulation at the federal level, is open to state policy and California has developed an elaborate system for regulating different components of state and local employment.

Depending on the outcome of the November 2008 national election, there could be significant changes in federal regulation of private-sector labor relations that would affect California over the longer term. In the short run, however, economic conditions and related state-and-local budget problems may well play a larger role in California's union-management relations than any shift in public policy, state or federal.

Table 1: Major Work Stoppages in California

2008-Through August

- *University of California and AFSCME: 7/14/08-7/18/08; 8,500 workers*
- Performance Transportation Services (CA and other states) and IBT: 6/9/08-6/13/08; 1,300 workers
- Silicon Valley (building services) and SEIU: 5/19/08-5/28/08; 1,000 workers
- Sutter Hospitals and CNA: 3/21/08-3/31/08, 24,000 workers
- Alliance of Motion Picture and Television Producers (CA and other states) and WGA: 11/5/07-2/12/08; 10,500 workers

2007

- Sutter Hospitals and CNA: 12/13/07-12/14/07; 5,000 workers
- Sutter Hospitals and CNA: 10/10/07-10/12/07; 5,000 workers
- San Francisco Bay Area Security Officers and SEIU: 9/24/07-9/28/07; 4,000 workers
- *Orange County Transportation Authority and IBT: 7/7/07-7/16/07; 1,100 workers*
- *Hayward School District and NEA: 4/5/07-4/25/07, 1,300 workers*

2006

- *Sacramento County and AFSCME & other unions: 9/5/06-9/18/06; 3,900 workers*
- *City of Los Angeles and EAA: 8/22/06-8/23/06; 7,500 workers*
- *Contra Costa County and SEIU & other unions: 6/27/06-6/28/06; 6,000 workers*
- *Santa Cruz County and SEIU: 3/14/06-3/15/06; 1,600 workers*

2005

- Los Angeles Hotel Employers Council and UNITE HERE: 6/9/05-6/11/05; 2,400 workers
- Coca-Cola (Southern CA and South Windsor, CT) and IBT: 5/23/05-6/3/05; 1,900 workers
- *University of California and UPTE: 4/14/05-4/15/05; 2,000 workers*
- *University of California and CUE: 4/14/05-4/15/05; 2,000 workers*
- *University of California and AFSCME: 4/14/05-4/15/05; 7,000 workers*

Note: Major stoppages are those involving 1,000 or more workers. Italicized entries are in the public sector.

Source: U.S. Bureau of Labor Statistics, www.bls.gov (Work Stoppages Program).

Table 2: Activities of the California Agricultural Labor Relations Board

Fiscal Year	Unfair Labor Practice Filings	Elections Held
2002-03	167	7
2003-04	171	8
2004-05	118	7
2005-06	167	5
2006-07	159	10
2007-08	274	12

Source: Reports of the California Agricultural Labor Relations Board, available http://www.alrb.ca.gov/content/formspublications/reports/reports_default.html

Chart 1

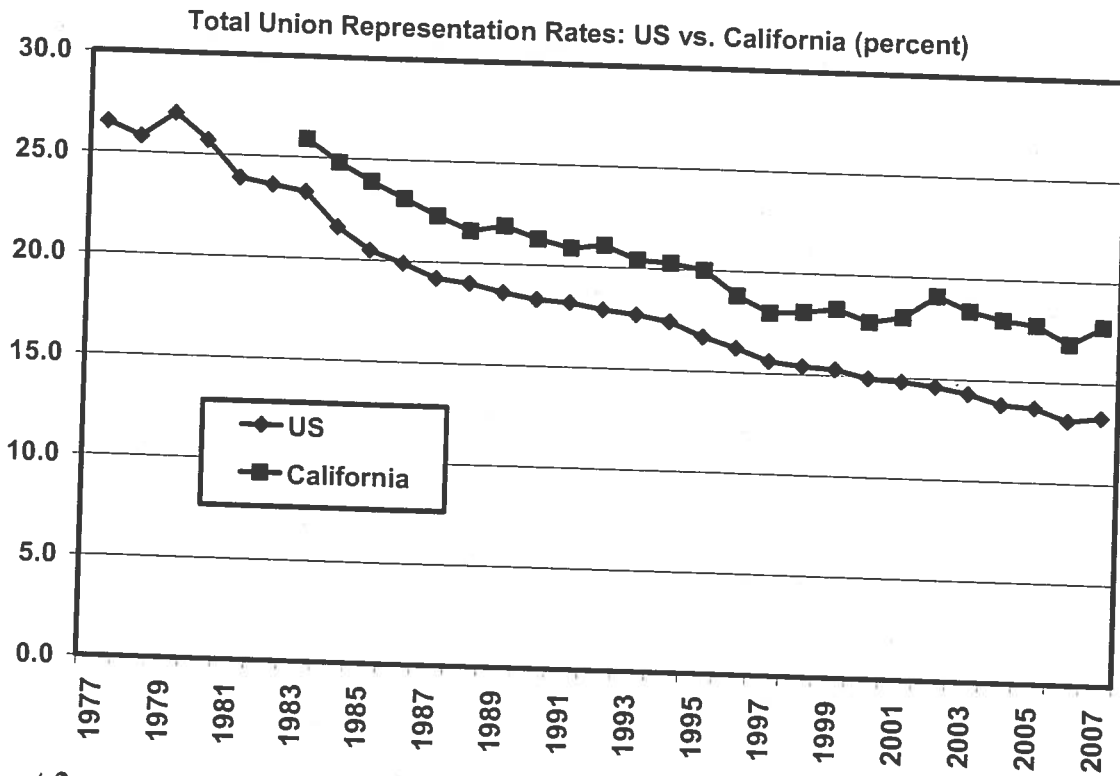
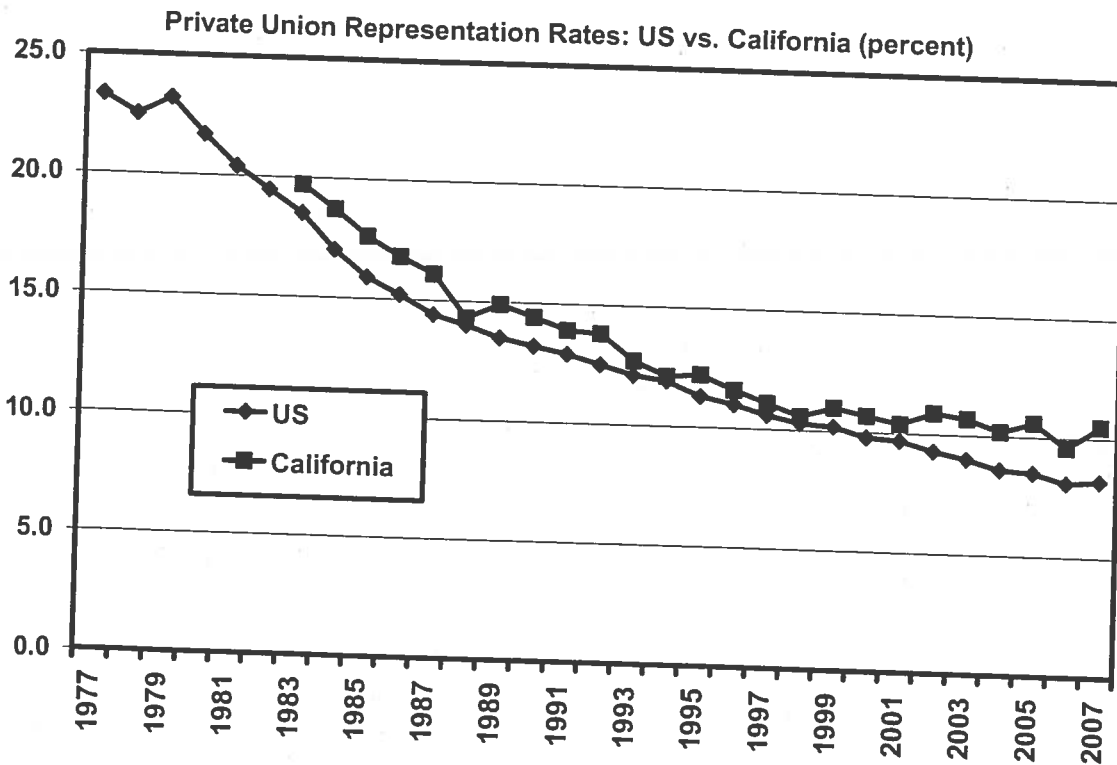


Chart 2



Source of Charts 1 and 2: Current Population Survey data as tabulated by www.unionstats.com

Chart 3

Public Union Representation Rates: US vs. California (percent)

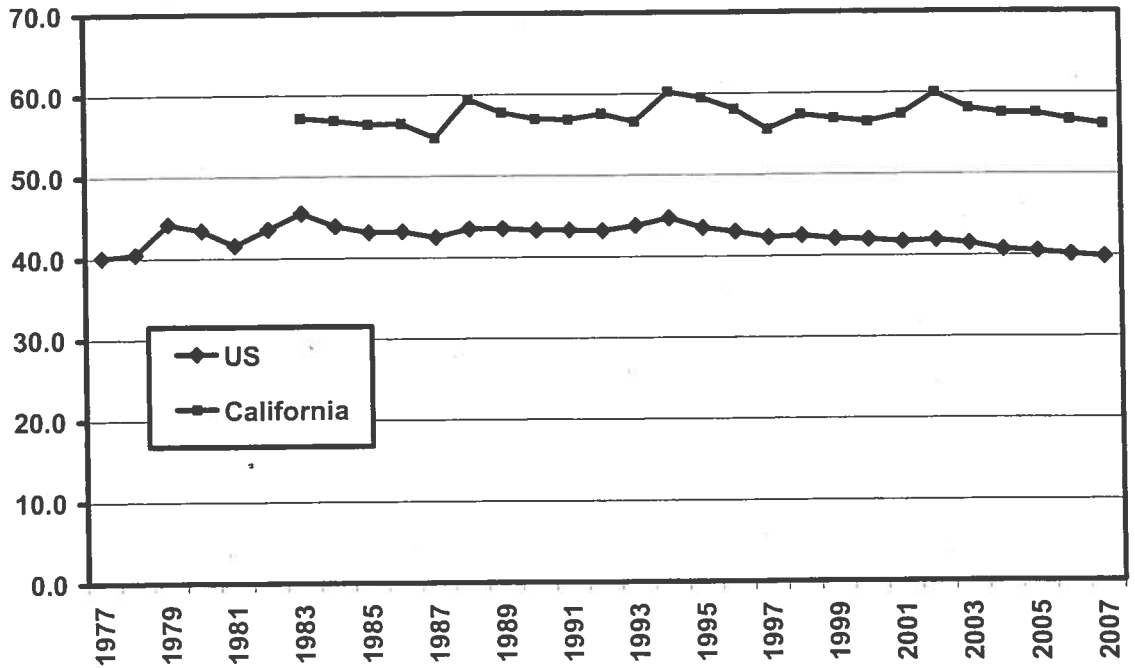
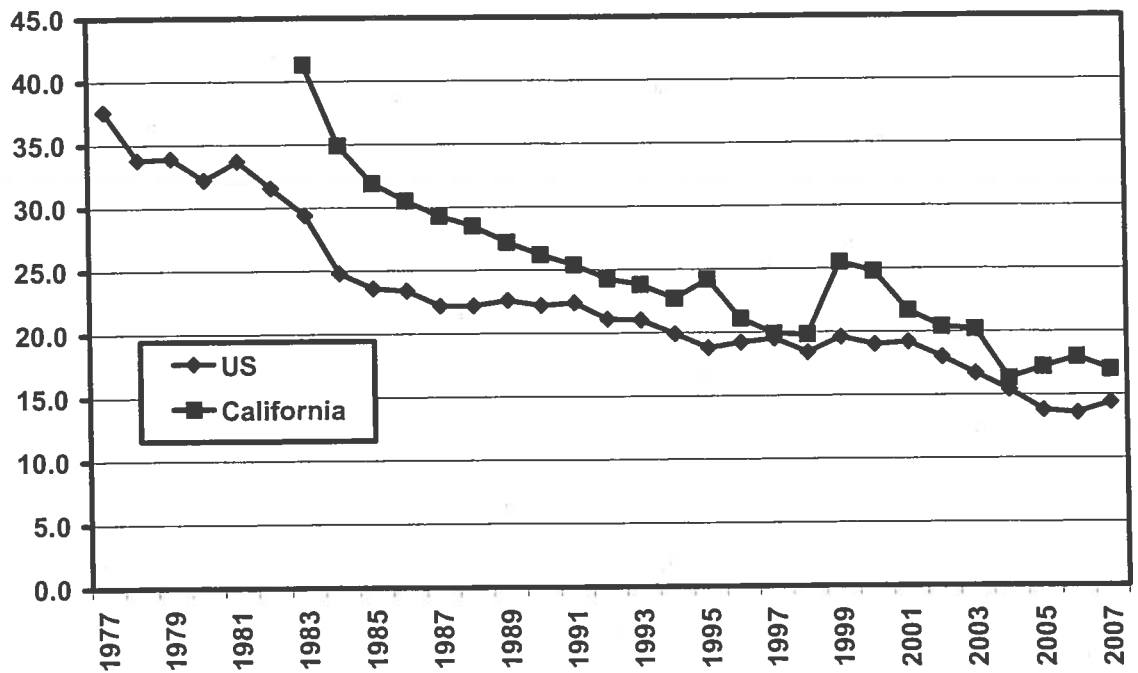


Chart 4

Construction Union Representation Rates: US vs. California (percent)



Source of Charts 3 and 4: Current Population Survey data as tabulated www.unionstats.com

Chart 5

Manufacturing Union Representation Rates: US vs. California
(percent)

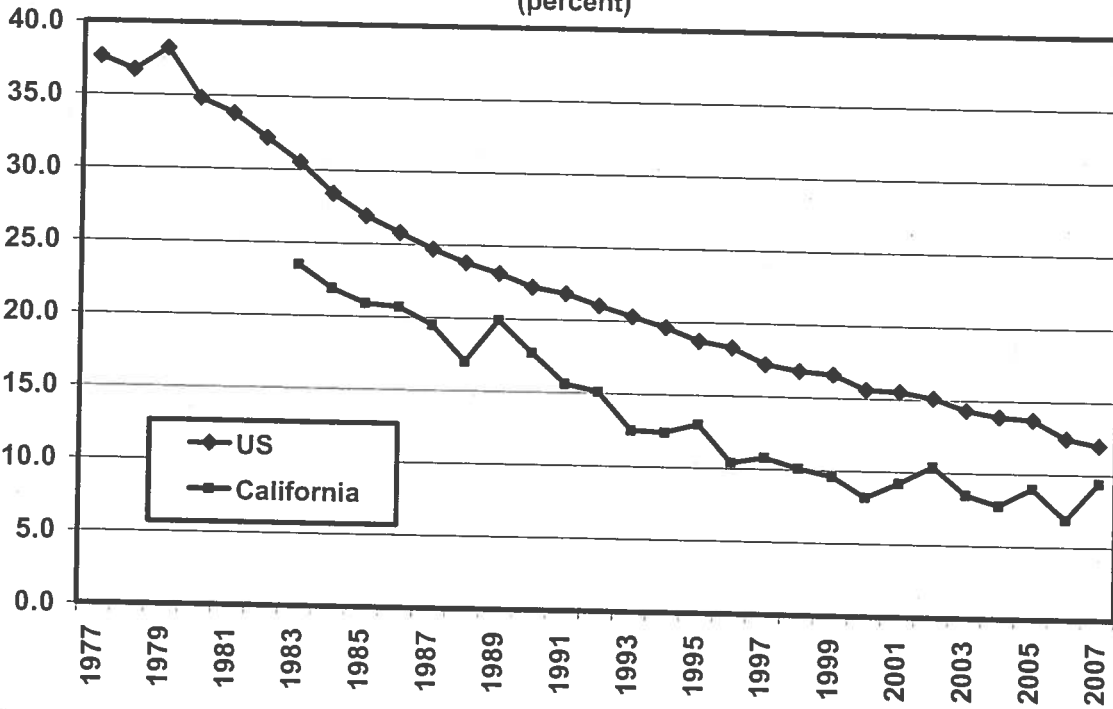
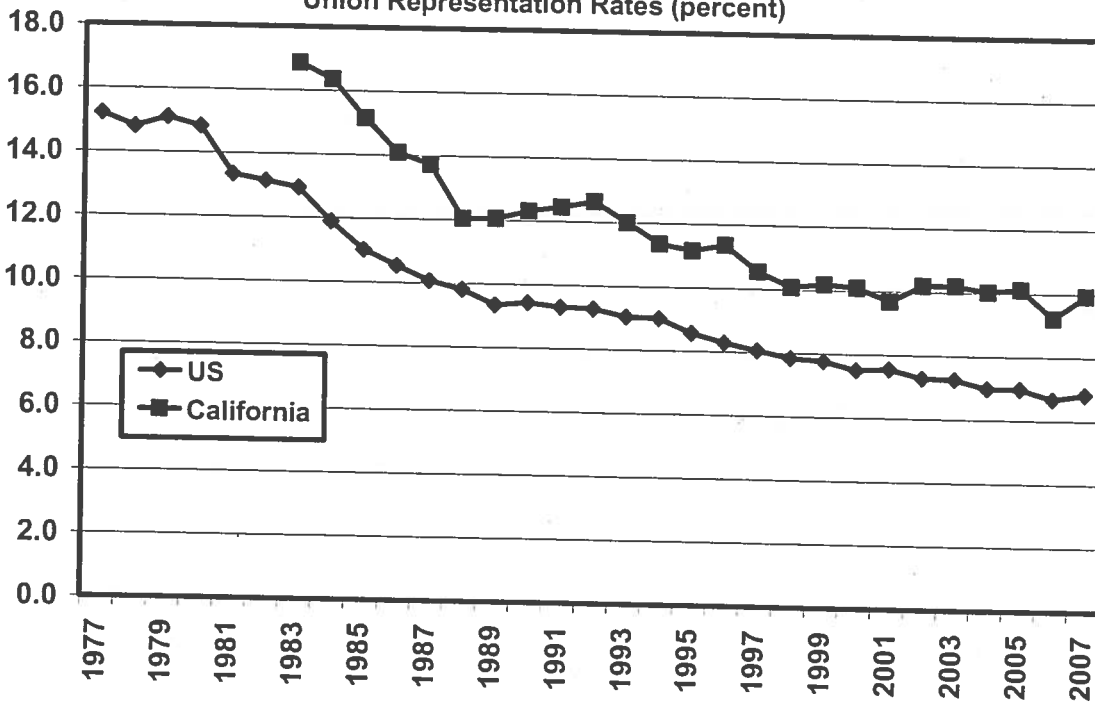


Chart 6

Non-Manufacturing Excluding Construction
Union Representation Rates (percent)



Source of Charts 5 and 6: Current Population Survey data as tabulated by www.unionstats.com

Chart 7

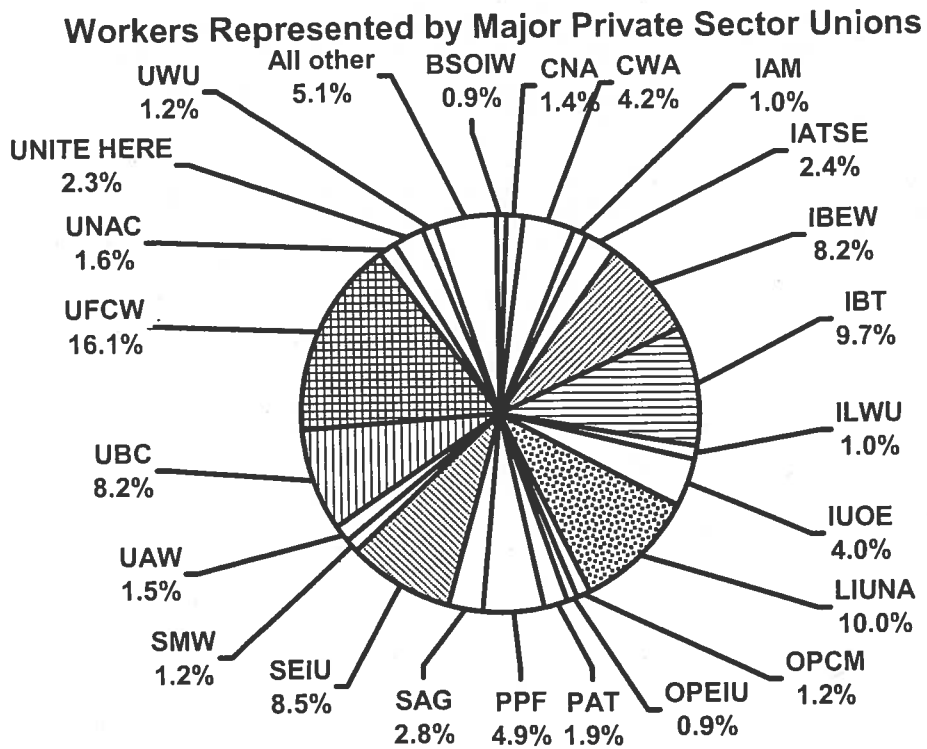
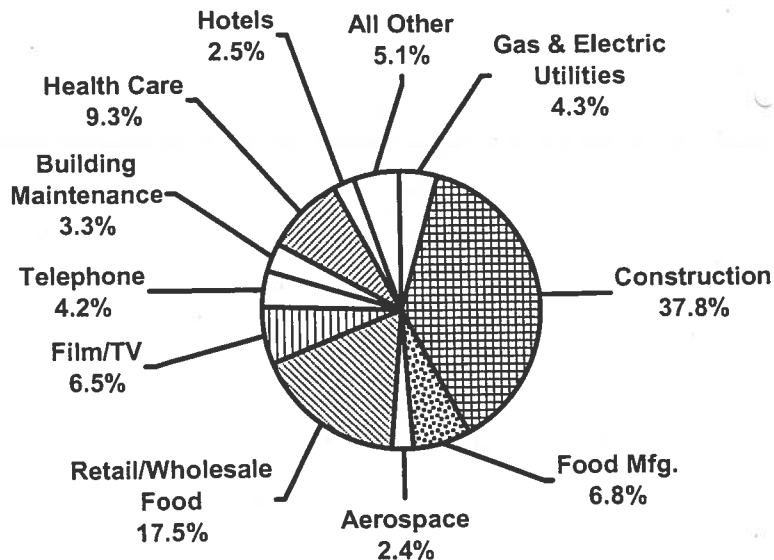


Chart 8

Industry Mix of Major Private Sector Union Represented Workers



Source of Charts 7 and 8: Author's tabulations based on major contracts in the files of the U.S. Department of Labor and listed on the web as of late August 2008. Available at <http://www.dol.gov/esa/olms/regs/compliance/rrlo/lmrda.htm>.

Chart 9

NLRB California Representation Cases Closed:
Year Ending June 30

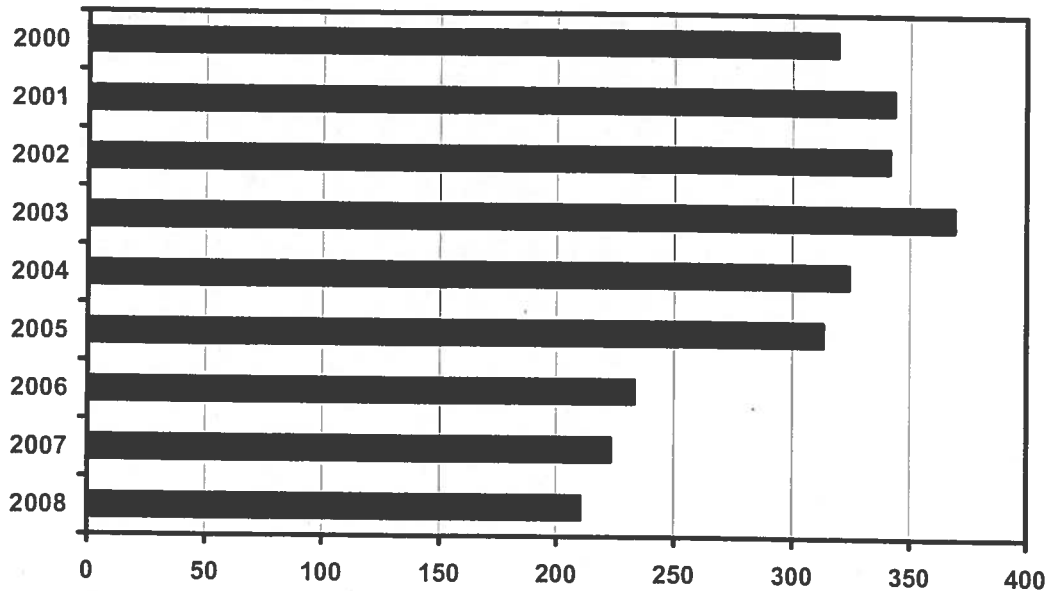
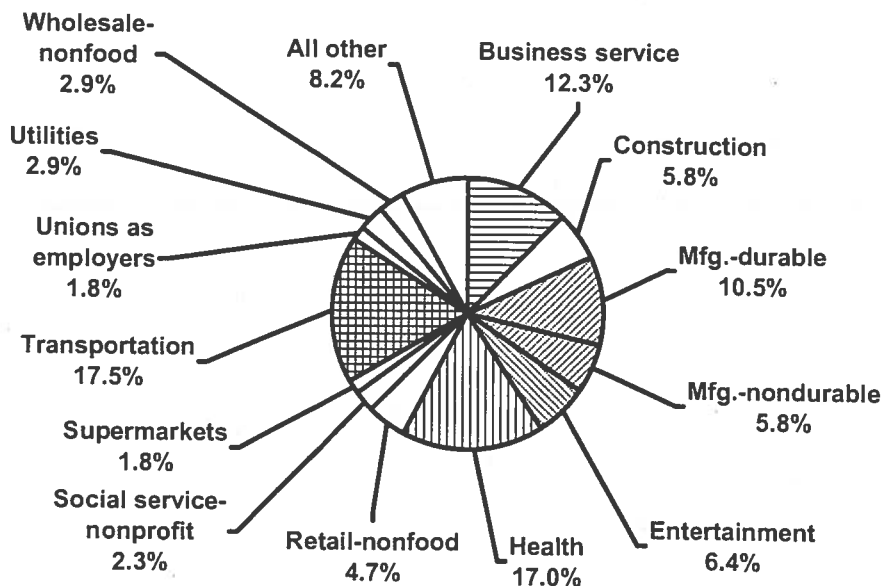


Chart 10

NLRB California Representation Election Cases
(RC and RM) Closed in Year Ended June 30, 2008



Source of Charts 9 and 10: National Labor Relations Board website, author's tabulation based on advanced search option for California closed cases at http://mynlrb.nlr.gov/portal/nlr.pt?open=512&objID=204&mode=2&in_hi_userid=201&cached=true.

Chart 11

Functional Mix of Major Public Sector Union Represented Workers

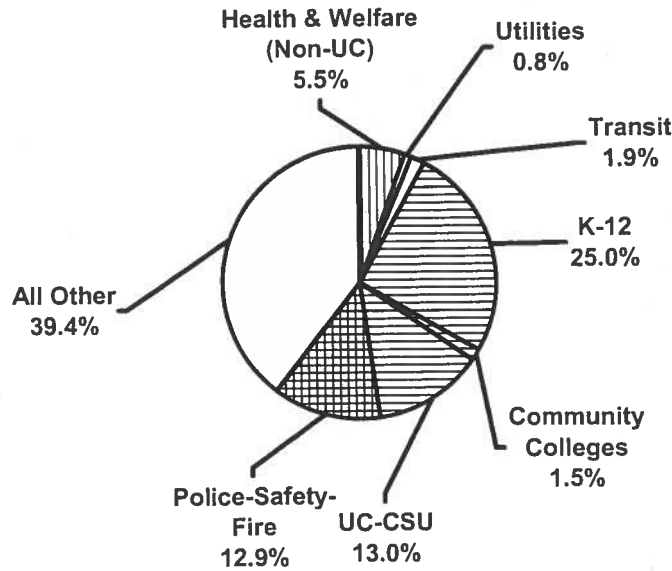
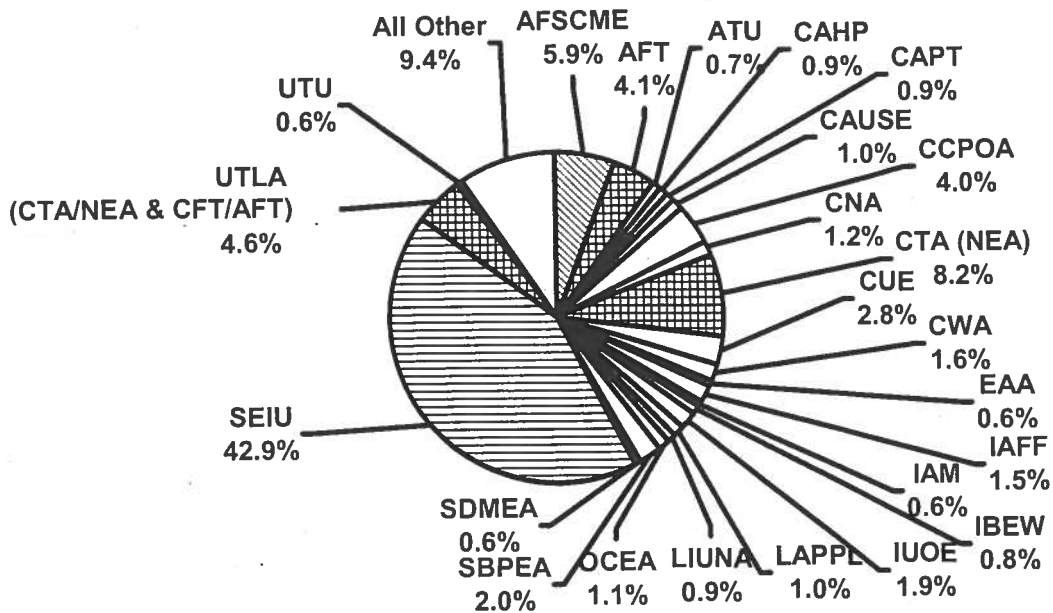


Chart 12

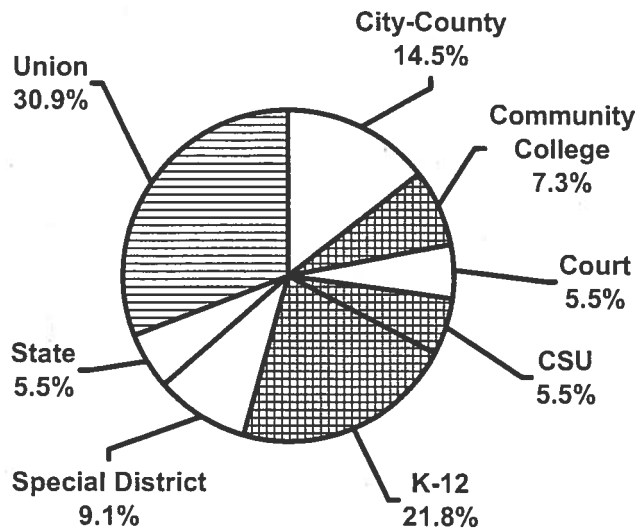
Workers Represented by Major Public Sector Unions



Source of Charts 11 and 12: Author's tabulations based on major contracts in the files of the U.S. Department of Labor and listed on the web as of late August 2008. Available at <http://www.dol.gov/esa/olms/regs/compliance/rrlo/lmrda.htm>.

Chart 13:

Full PERB Decisions in Year Ending June 30, 2008



Source of Chart 13: Website of California Public Employment Relation Board, author's tabulation of cases (excluding administrative appeals and other similar decisions) within year shown at <http://www.perb.ca.gov/decisionbank/SearchResults.aspx>.

Chart 14

**California Union Contract Duration
(Percent of Contracts by Years of Duration)**

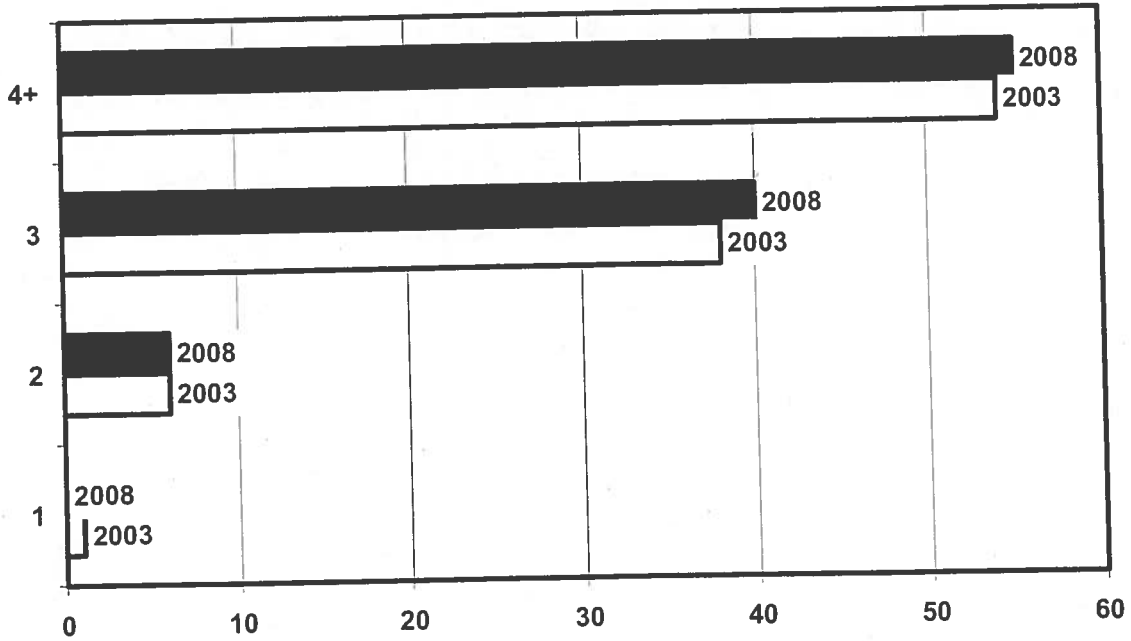
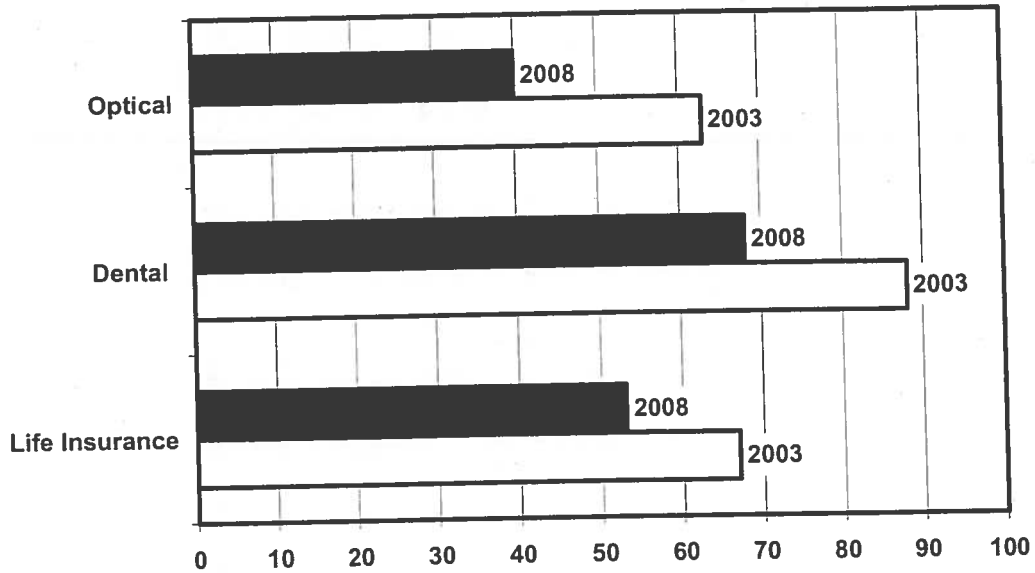


Chart 15

**California Union Contracts With Selected Benefits
(Percent of Contracts)**



Source of Charts 14 and 15: Bureau of National Affairs, Inc. (BNA PLUS) surveys of "Basic Patterns in Union Contracts" for the UCLA Institute for Research in Labor and Employment.

Chart 16

California Union Contract Provisions
(Percent of Contracts With Provision)

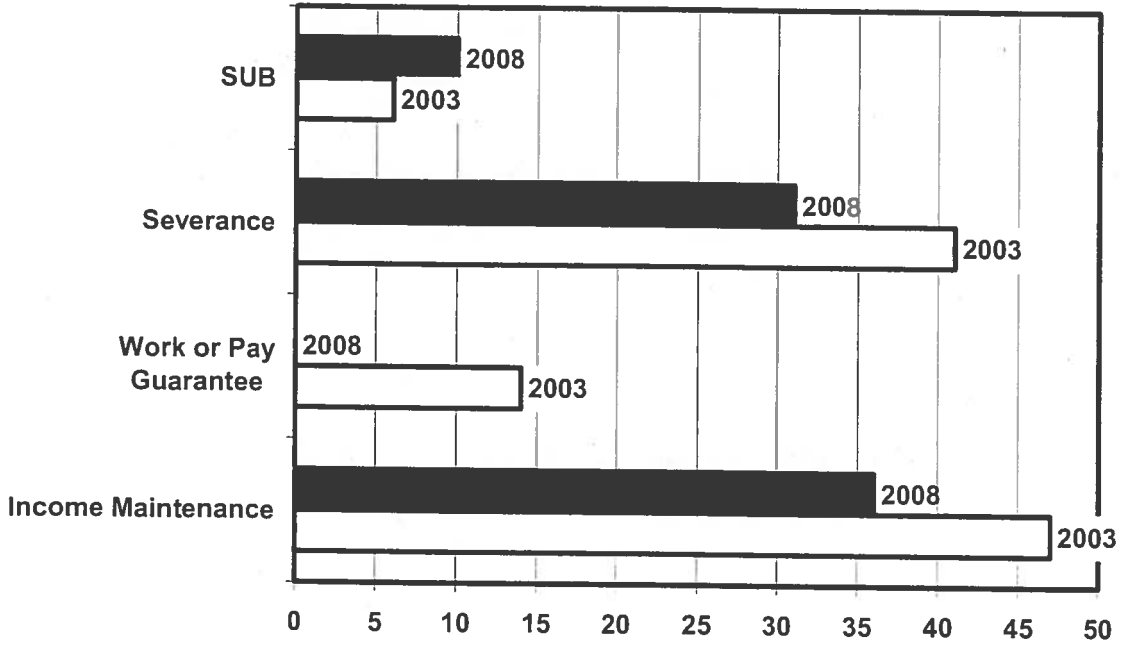
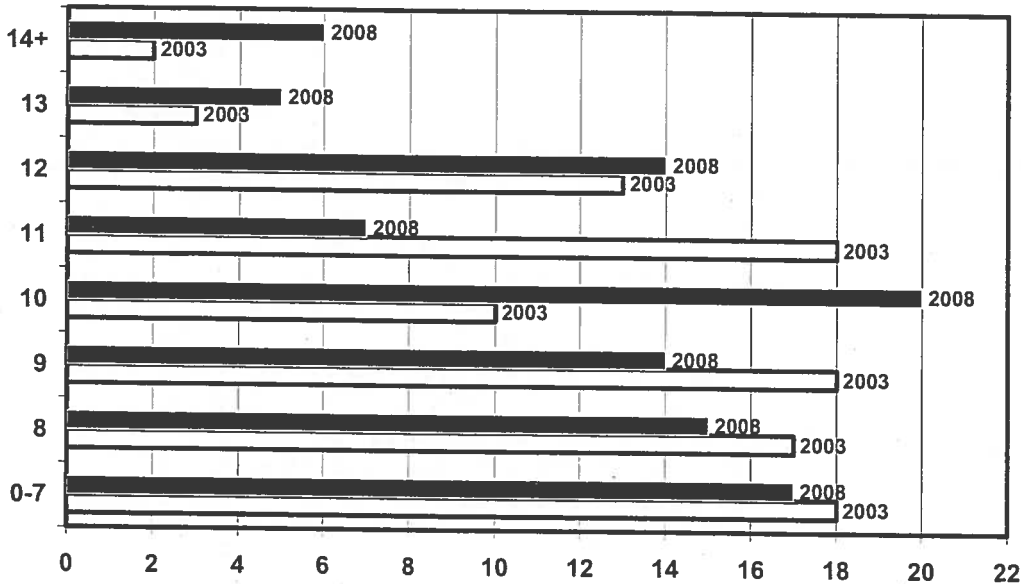


Chart 17

California Union Contract Holiday Provision
(Percent of Contracts by Number of Holidays)



Source of Charts 16 and 17: Bureau of National Affairs, Inc. (BNA PLUS) surveys of "Basic Patterns in Union Contracts" for the UCLA Institute for Research in Labor and Employment.

Chart 18

California Union Contracts by Layoff Provision (Percent of Contracts With Provision)

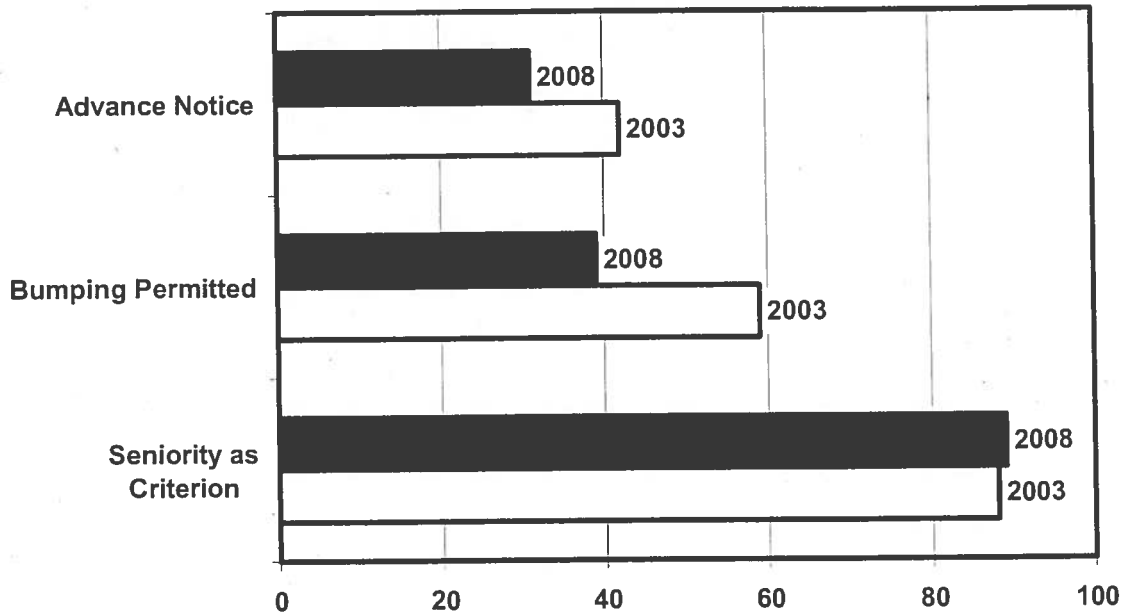
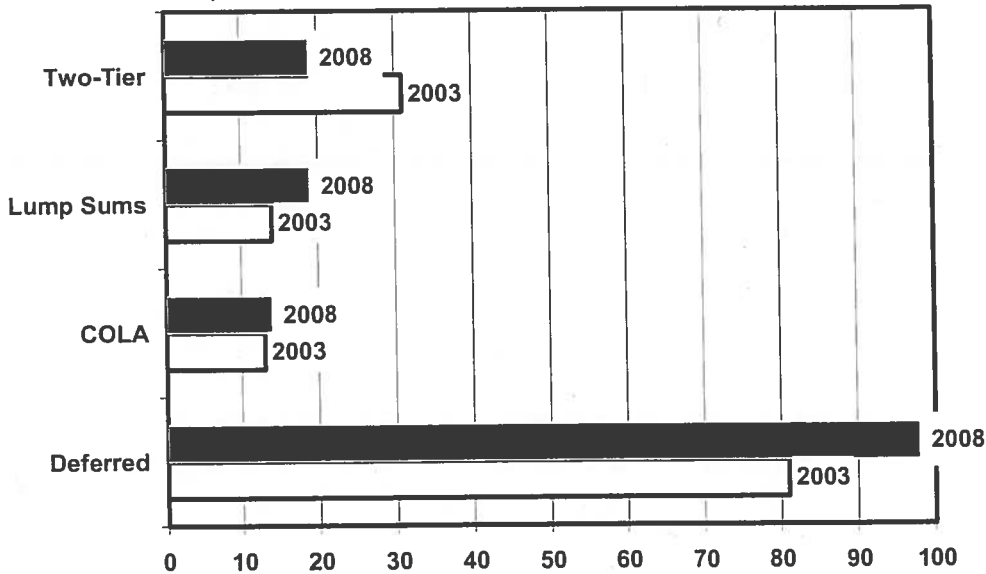


Chart 19

California Union Contracts by Wage Provision (Percent of Contracts With Provision)



Source of Charts 18 and 19: Bureau of National Affairs, Inc. (BNA PLUS) surveys of "Basic Patterns in Union Contracts" for the UCLA Institute for Research in Labor and Employment.

Appendix A: Union Abbreviations Used in this Chapter

AFL-CIO = American Federation of Labor – Congress of Industrial Organizations
AFSCME = American Federation of State, County and Municipal Employees *
AFT = American Federation of Teachers *
AFTRA = American Federation of Television and Radio Artists*
ALPA = Air Line Pilots Association*
AMFA = Aircraft Mechanics Fraternal Association
APA = Allied Pilots Association
ATU = Amalgamated Transit Union *
BSOIW = International Association of Bridge, Structural, & Ornamental Iron Workers *
CAHP = California Association of Highway Patrolmen
CAPT = California Association of Psychiatric Technicians
CAUSE = California Union of Safety Employees
CCPOA = California Correctional Peace Officers Association
CFT = California Federation of Teachers (affiliated with AFT)
CNA = California Nurses Association/National Nurses Organizing Committee *
CTA = California Teachers Association (affiliated with NEA)
CTW = Change to Win
CUE = Coalition of University Employees
CWA = Communications Workers of America *
DGA = Directors Guild of America*
EAA = Engineers and Architects Association (affiliated with IUPA) *
IAFF = International Association of Fire Fighters *
IAM = International Association of Machinists and Aerospace Workers (“Machinists”) *
IATSE = International Alliance of Theatrical Stage Employes, Moving Picture Technicians, Artists and Allied Crafts of the United States, Its Territories and Canada (pronounced “eye-at-tee”) *
IBEW = International Brotherhood of Electrical Workers (“Electrical Workers”) *
IBT = International Brotherhood of Teamsters (“Teamsters”) **
ILWU = International Longshore and Warehouse Union
IUOE = International Union of Operating Engineers (“Operating Engineers”) *
IUPA = International Union of Police Associations *
LAPPL = Los Angeles Police Protective League
LIUNA = Laborers’ International Union of North America (“Laborers”) **
NEA = National Education Association
OCEA = Orange County Employees Association
OPCM = Operative Plasterers’ and Cement Masons’ International Association of the United States and Canada (“Plasterers”) *
OPEIU = Office and Professional Employees International Union *
PAT = International Union of Painters and Allied Trades of the United States and Canada (“Painters”) *
PPF = United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industrial of the United States and Canada (“Plumbers”)
SAG = Screen Actors Guild (“Screen Actors”)
SBPEA = San Bernardino Public Employees Association

SDMEA = San Diego Municipal Employees Association
SEIU = Service Employees International Union ("Service Employees") **
SMW = Sheet Metal Workers International Association ("Sheet Metal Workers") *
UAW = United Automobile, Aerospace and Agricultural Implement Workers of America ("Auto Workers") *
UFCW = United Food and Commercial Workers International Union ("Food and Commercial Workers") **
UNAC = United Nurses Associations of California (affiliated with AFSCME) *
UHW-W = United Healthcare Workers-West (affiliated with SEIU)**
UNITE HERE = Union is a merger of Union of Needletrades, Industrial and Textile Employees and Hotel Employees and Restaurant Employees International Union and just uses the acronym as its name. **
UTLA = United Teachers Los Angeles (affiliated with CTA and CFT)
UTU = United Transportation Union *
UWU = Utility Workers Union of America *
WGA = Writers Guild of America*

*AFL-CIO affiliate

**Change to Win affiliate.

Note: Apart from UTLA, CTA agreed to an affiliation with the AFL-CIO for six locals in March 2008.

Endnotes

¹ Daniel J.B. Mitchell, "Unions and Direct Democracy in California: A New Pattern Emerging?" in Daniel J.B. Mitchell, ed., *California Policy Options 2008* (Los Angeles: UCLA School of Public Affairs, 2008), pp. 197-217.

² Edmund D. Edelman and Daniel J.B. Mitchell, "Dealing with Public Sector Labor Disputes: An Alternative Approach for California" in Daniel J.B. Mitchell, ed., *California Policy Options 2005* (Los Angeles: UCLA School of Public Affairs, 2005), pp. 151-180. See also Edmund D. Edelman and Daniel J.B. Mitchell, "Binding-Nonbinding Arbitration: A New Process to Resolve Interest Disputes," *California Public Employee Labor Relations Journal*, no. 164 (February 2004), pp. 6-14.

³ Daniel J.B. Mitchell, "Recent Developments in California Labor Relations" in Ruth Milkman, ed., *The State of California Labor 2004* (UC Institute for Labor and Employment and UC Press, 2004), pp. 133-182.

⁴ John H.M. Laslett, "Playing Catch-Up: The Labor Movement in Los Angeles and San Francisco, 1985-2005" in Daniel J.B. Mitchell, ed., *California Policy Options 2008* (Los Angeles: UCLA School of Public Affairs, 2008), pp.169-195; Ruth Milkman, *L.A. Story: Immigrant Workers and the Future of the U.S. Labor Movement* (New York, Russell Sage Foundation, 2006).

⁵ The seven split-off unions are the International Brotherhood of Teamsters (IBT), Laborers' International Union of North America (LIUNA), the Service Employees International Union (SEIU), the United Brotherhood of Carpenters and Joiners of America (UBC), the United Farm Workers of America (UFW), the United Food and Commercial Workers International Union (UFCW), and UNITE HERE.

⁶ Workers are typically eligible for 26 weeks of unemployment insurance benefits. Those who remain as beneficiaries for the entire 26 weeks – presumably an index of the difficulty of finding a new job - "exhaust" their benefits.

⁷ U.S. Department of Labor, *Employment and Training Administration, UI Data Summary, 2nd Quarter CY 2008*, September 2008.

⁸ Information on events cited in this section are drawn from newspaper accounts and the *Daily Labor Report* if not otherwise cited.

⁹ *Chamber of Commerce of the United States et al. v. Brown et al.*, 554 U.S. (2008), issued June 19, 2008.

¹⁰ Jim Sanders, "Farmworkers Union Chief Wants Change in Voting," *Los Angeles Times*, August 25, 2008.

¹¹ Under "card check," employers would have been compelled to recognize unions producing a majority of signatures asking for union recognition. It appears also that a system of "mandatory mediation" in agriculture inaugurated under Governor Gray Davis was allowed to expire under a "sunset" provision in 2008.

¹² Judy Lin, "UFW Charities Probe is Closed," *Los Angeles Times*, December 27, 2006.

¹³ Susan Ferriss, "UFW Signs Pact with Mexican State for Guest Workers on U.S. Farms," *Sacramento Bee*, April 18, 2008.

¹⁴ "AFL-CIO Calls on Congress to Review Procurements in Light of Airbus Award," *Daily Labor Report*, March 6, 2008.

¹⁵ A symposium on the Kaiser partnership agreement can be found in *Industrial Relations*, vol. 47 (January 2008).

¹⁶ Christopher Erickson et al, "Justice for Janitors in Los Angeles" in Daniel J.B. Mitchell, ed., *California Policy Options 2002* (Los Angeles: UCLA School of Public Policy and Social Research {now School of Public Affairs}, 2002), pp. 111-145.

¹⁷ Although the core commercial real estate sector has been organized in major cities such as Los Angeles, other areas are still the targets of SEIU organizing drives including LAX and SFO janitors and janitors employed by cleaning companies in Silicon Valley high-tech firms.

¹⁸ As in the janitors case, the SEIU remains in conflict with guard employers on the periphery, notably with the Wackenhut firm.

¹⁹ Legislative Analyst's Office, *Correctional Officer Pay, Benefits, and Labor Relations*, February 7, 2008. Available at www.lao.ca.gov/2008/stadm/ccpoa_pay_020708/ccpoa_pay_020708.pdf.

²⁰ In October 2008, the Secretary of State found the proposed recall petition to be in an incorrect format. Shortly thereafter, CCPOA decided against modifying the petition to meet the objections and instead dropped the effort.

Author Biographies, California Policy Options 2009

Melanie Bertrand is a second-year doctoral student in Urban Schooling at the University of California, Los Angeles. She studies the relationships among language, racism, and materially inequitable schooling and social structures. Prior to her studies at UCLA, Melanie served as an elementary English as a Second Language teacher in Denver and earned an M.A. in Cultural Studies in Education from the University of Texas at Austin.

Sophie Fanelli is Director of Research at UCLA's Institute for Democracy, Education and ACCESS (UCLA/IDEA). IDEA is a network of UCLA scholars and students, professionals in schools and public agencies, advocates, community activists, and urban youth whose mission is to make high quality public schooling and successful college participation routine occurrence in low-income neighborhoods of color. Prior to joining IDEA, Sophie was a Research Fellow at the American Civil Liberties Union of Southern California. Sophie has a law degree and a master's degree in International Law and Human Rights from the Universite D'Aix-en-Provence, and a joint Masters in History and Political Science from Université d'Aix and Universita La Sapienza, Rome, Italy.

Werner Z. Hirsch is Emeritus Professor of Economics at UCLA. He has a B.S. degree (with Highest Honors) and Ph.D. degree from UC Berkeley. His deep and lasting interest in the improvement of higher education has led to his co-editing of and contribution to the volume of *Challenges Facing Higher Education in the Millennium* published by the International Association of Universities.

Hiroyuki Iseki is an assistant professor of geography and planning at the University of Toledo and a research associate at the UCLA Institute of Transportation Studies. His research interests focus on contracting, costs, and efficiencies in public transportation. He received his Ph.D. in Urban Planning in 1994 from the UCLA School of Public Affairs.

Jennifer King is a research specialist in the Samuelson Law, Technology, and Public Policy Clinic at UC Berkeley's School of Law. She focuses on empirical research in privacy and security on the Internet and in sensor networks (including RFID and video surveillance technologies), ubiquitous computing, usable security, and technology policy issues. Prior to her research career, she worked in security and product management for several Internet companies, including Yahoo!, where she was an online community expert.

Mark Miller is a research specialist at the California Partners for Advanced Transit and Highways (PATH) Program, headquartered at the University of California at Berkeley (UCB). His research interests include evaluating the impacts of intelligent transportation systems technologies. Since 2003, he has also been affiliated with the Institute of Transportation Studies in the School of Public Affairs at the University of California, Los Angeles. Miller received his B.A. and M.A. degrees in mathematics from the University of California, Los Angeles, and his M.S. in Transportation from the Massachusetts Institute of Technology.

Daniel J.B. Mitchell is a professor-emeritus at UCLA. He formerly held faculty appointments at the School of Public Affairs and the Anderson Graduate School of Management where he held the Ho-su Wu endowed chair. Mitchell is a former president of the North American Economics

and Finance Association, now known as the International Banking, Economics, and Finance Association. His research and publication have been in the areas of labor markets, international economics, and California policy issues.

Deirdre K. Mulligan is the director of the Samuelson Law, Technology & Public Policy Clinic and a clinical professor of law at the UC Berkeley School of Law (Boalt Hall). Before coming to Boalt, she was staff counsel at the Center for Democracy & Technology in Washington.

William Parent is Associate Dean for Programs and Initiatives at the UCLA School of Public Affairs. Before coming to UCLA, he was at Harvard University's John F. Kennedy School of Government where he was Executive Director of the Innovations in American Government Program.

Steven Raphael is professor of public policy at UC Berkeley. His work focuses on immigration, poverty, racial segregation and inequality, and crime and imprisonment. He is currently editing a forthcoming book on the benefits and costs of the recent U.S. prison boom.

John Rogers is an assistant professor in UCLA's Graduate School of Education and Information Studies and the Co-Director of UCLA's Institute for Democracy, Education and Access (IDEA). He studies strategies for engaging urban youth, community members, and educators in equity-focused school reform. He is the co-author (with Jeannie Oakes) of *Learning Power: Organizing for Education and Justice*, published in 2006 by Teachers College Press.

Donald Shoup is a professor of urban planning at UCLA, where he has served as Chair of the Department of Urban Planning and as Director of the Institute of Transportation Studies. His research has focused on parking as a key link between transportation and land use, with important consequences for cities, the economy, and the environment.

Michael Smart is a doctoral student in the Urban Planning Department at the University of California, Los Angeles. His research interests are demographic change and travel, transportation equity, and transportation and economic development.

Brian Taylor is chair and professor in the UCLA Department of Urban Planning and director of the Institute of Transportation Studies. His research centers transportation policy and planning. In particular, his work explores how society pays for transportation systems and how these systems in turn serve the needs of people who – because of low income, disability, location, or age – have low levels of mobility.

Christopher Thornberg is principal and founder of Beacon Economics, a consulting firm that specializes in regional economic forecasting, market analyses and litigation services. Prior to starting his firm he was Senior Economist with the UCLA Anderson Forecast for over six years where he authored the Anderson Forecast. He has been involved in a number of special studies measuring the impact of important events on the economy, including the NAFTA treaty, the California power crisis, the 9-11 terrorist attacks, savings behavior in the U.S. and port security.

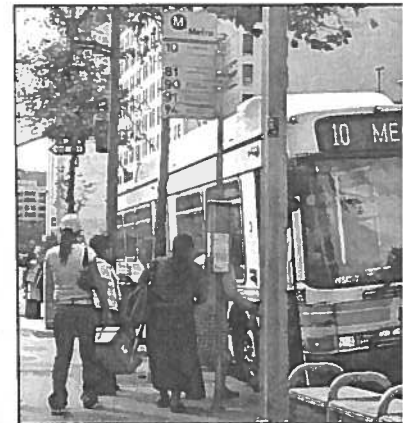
UCLA School of Public Affairs

3250 School of Public Affairs Building
Box 951656
Los Angeles, CA 90095-1656

tel: 310.206.7568

fax: 310.206.5773

<http://www.spa.ucla.edu>



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