

Chapter 8

The Handover Budget of 2018-19: The Fiscal Legacy of Jerry Brown

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This chapter reflects only information through mid-July 2018. Later developments are not included.

"Gavin Newsom will get stuff done. There is a time for an old guy, and there is time for a young guy."

Governor Jerry Brown¹

"...Jerry considers no one to be his peer."

Willie Brown, former San Francisco mayor and Assembly speaker²

When Jerry Brown steps down as governor in January 2019, he will have been the only governor to have served four terms. The only other governor even to have been elected three times was Earl Warren. And Warren, because of his appointment as Chief Justice of the U.S. Supreme Court in 1953, did not complete his third term.³

Moreover, Jerry Brown is one of the youngest governors and the oldest governors since his first two terms occurred in the 1970s and early 1980s, and his last two terms followed his election in 2010. Before Brown's first term, he was elected as California Secretary of State after serving on the board of the Los Angeles Community College District. Before Brown's third term, he was state Attorney General and mayor of Oakland. So, by his second gubernatorial iteration, he had a unique perspective on both state and local government in California. Moreover, he grew up in the household of his father, former Governor (and Attorney General) Pat Brown. He was steeped in California politics from an early age.

One suspects that, absent term limits, Jerry Brown could have run successfully for a fifth term. Thanks to a voters' initiative in 1990, however, term limits prevented consideration of any such ambitions. After Brown's first iteration, he was succeeded by a Republican, George Deukmejian. But given California's political development since then as a so-called blue state, the likelihood that Brown will be succeeded by the Republican candidate for governor, John Cox, is virtually nil. Thus, as Brown put together the final touches on his 2018-19 budget, he fully expected to be handing over that last budget to Lieutenant Governor Gavin Newsom, the former mayor of San Francisco and the Democrats' candidate for governor in the November 2018 election.

The two men – Newsom and Brown – were not close. Newsom had flip-flopped in his support for a pet project of Jerry Brown, a high-speed rail train that was planned to connect the Bay Area with Southern California. There was never a sign that Governor Brown had consulted with Newsom on the state budget or any other issue. Newsom, in fact, had briefly been a rival candidate for governor in the 2010 election, shifting to running for lieutenant governor when it seemed clear that Brown would be the Democratic nominee. In effect, Newsom had to wait in the wings for eight years – there isn't much else for the lieutenant governor to do except wait – for Brown's second iteration as governor to end.

¹Quoted in Patrick McGreevy, "Gov. Jerry Brown rallies Democrats to elect Gavin Newsom as his successor," *Los Angeles Times*, June 13, 2018. Available at <http://www.latimes.com/politics/essential/la-pol-ca-essential-politics-may-2018-gov-jerry-brown-rallies-democrats-to-1528923917-htmstory.html>. Note: Dates cited on news references are web dates and not necessarily the date an article appeared in print (in paper format).

²Willie Brown, "Anthony Rendon, new Assembly speaker, is no machine hack," *San Francisco Chronicle*, April 2, 2016. Available at <https://www.sfchronicle.com/bayarea/williesworld/article/New-Assembly-speaker-is-no-machine-hack-7223919.php>.

³Warren, however, is the only governor to have been elected to more than two *consecutive* terms. Warren's third term was completed by the Lieutenant Governor of that period, Goodwin ("Goody") Knight. At the time, there were no term limits applicable to the governor or to other state officials. Term limits were imposed by the voters in 1990. But Jerry Brown was able to serve four terms because the initiative that imposed term limits was not retroactive to his first iteration as governor.

Because gubernatorial terms closely coincide with the calendar year while budget years begin on July 1, Brown's final budget for fiscal 2018-19 covered the last six months of his fourth and last term and the first six months of his successor's. Brown's high-speed rail was already under construction – although without sufficient funds for completion. Funding for another Brown infrastructure project – a twin water tunnel (the "Delta Fix") – was not locked in. There was no guarantee that either project would be completed. So, to the extent that Brown was leaving a legacy in his budget, it was mainly the buildup of a reserve – the "rainy-day" fund – which he would be leaving to the future.

Brown's second iteration as governor began in a budget crisis linked to the Great Recession of 2008 that he had inherited from his predecessor, Arnold Schwarzenegger. The rainy-day fund was supposed to be protection against the next recession which Brown believed was likely to arrive during his successor's term in office. Indeed, whenever he held a budget-related news conference, Brown was apt to warn about the precarious nature of California state finance and the need to put reserves away for the inevitable future downturn. Yet his final budget was not a pure model of thrift. It was, nonetheless, Brown's fiscal legacy for Newsom to inherit.

In what follows, we will outline the development of that final budget and the political atmosphere that surrounded it. Keep in mind that the budget is arguably the most important piece of legislation that a state can enact. On the spending side, it expresses a set of priorities for use of public resources. On the tax side it provides a variety of incentives and disincentives for various activities. Almost every state public policy is in some way embedded in the budget. Yet, as we also will point out, budgetary language – such as the seemingly basic concepts of surplus and deficit – is remarkably fuzzy.

Understanding the Budget: Basics

"I think people in California can be proud that we're making progress."

Gov. Jerry Brown on signing the 2018-19 budget⁴

Most Californians tend to judge state fiscal policy by whether there seems to be a crisis or not. They may not be "proud" of the budget or the budget process, but they are sensitive to whether budgeting appears to be a problem. However, few people have knowledge of the budget or the budget process. Thus, the "progress" that the governor referred to in the quote above is not something most people can evaluate, beyond the fact that things in Sacramento seem much more serene than they were when Jerry Brown assumed the governorship in January 2011. So just what is the state budget? How can it be evaluated?

The General Fund

The California budget follows a pattern typically found in most state and local governments. (The federal government has different arrangements.) There is a "General Fund" which can be thought of as a checking account used for ongoing services. In the California case, education at all levels is the largest component of the General Fund. In addition, there are various social welfare functions, the state prisons, and numerous other functions. Exactly what activities are in the General Fund varies with the

⁴Quoted in John Myers, "With one final signature, Gov. Jerry Brown closes the chapter on his quest to reshape California's budget," *Los Angeles Times*, July 1, 2018. Available at <http://www.latimes.com/politics/la-pol-ca-jerry-brown-budget-legacy-20180701-story.html>

level of government and over time. But when you hear discussion about the state budget, it is likely to revolve around the General Fund.

Like your checking account, we can distinguish between flows and stocks. Flows occur over specified time periods. In California, the budget is enacted for fiscal years beginning each July 1. So, when we talk about state spending, usually what is being discussed is the annual appropriation (the annual outflow from the General Fund planned for a fiscal year). State revenue is mainly the inflow of taxes and “fees” (user charges for various state services). However, revenue can also flow into the General Fund from interest payments received by the state and other miscellaneous sources.

At any moment in time, your checking account will have a reserve or balance in it. Banks will usually require that there be enough money in your account at all times so that any expenditures (checks) can be covered. However, some accounts may come with overdraft privileges so that if your balance goes negative, the bank will lend you sufficient funds to cover any excess outflows from your account. The General Fund is similar in that the state must have money available to meet expenses as they occur. If the balance goes negative in the General Fund, the state must obtain added funds by borrowing. It can do so through external borrowing, i.e., by obtaining the funds from “Wall Street,” or through internal borrowing from other funds that the state operates outside the General Fund.

Short-Term Borrowing

When the state needs to borrow to cover cash deficiencies in the General Fund, and it borrows externally, it typically uses “Revenue Anticipation Notes” or RANs. These are short-term, interest-bearing securities issued by the state with a duration of less than a year. RANs have not been needed in recent years, but in periods of fiscal stress they become necessary. Basically, RANs deal with seasonality. Within a fiscal year, revenue from the various taxes comes in unevenly and does not necessarily match the ups and downs of expenditures. Thus, even when the General Fund in the course of a fiscal year will take in enough money to cover all planned expenses for that year, there could be points within the year in which outflows will exceed inflows to the point where borrowing is needed.

On rare occasions during budget crises, the fiscal year may end with a deficiency, i.e., planned revenues may turn out to be insufficient to cover outflows for the entire year. When such developments occur, the state can issue “Revenue Anticipation Warrants” (RAWs) which, like RANs, are short-term securities, but which, unlike RANs, cross from one fiscal year into another.⁵ In really severe budget crises, the state may find itself unable to borrow to cover a cash deficiency. On those rare occasions, it may issue IOUs – known as Registered Warrants – to those to whom it owes money. The last time such IOUs were issued was in the summer of 2009 in the aftermath of the Great Recession. In effect, such IOUs are involuntary loans from those to whom the state owes money. In 2009, the unlucky lenders were state income taxpayers to whom refunds were due and some suppliers of goods and services to the state.

Other Funds

Above we noted the possibility of borrowing internally from funds outside the General Fund. The state has many earmarked funds set up by the legislature for particular purposes. These funds may have specific tax or fee sources. They may have positive cash balances in them at any moment in time. The

⁵RANs, like longer-term state securities (bonds), are issued by the state treasurer. RAWs are issued by the state controller.

largest of these funds involved transportation. The gasoline tax and various other motor-vehicle related taxes and fees finance the transportation system – roads and transit – and go into special funds for that purpose. But there are many, many other funds, some quite small.

If there is a cash deficiency in the General Fund, the state controller can borrow from these other funds temporarily to cover the deficiency. But if this practice is used excessively, these special funds cannot fulfill the purposes to which they are dedicated. (You cannot fix a road with an internal IOU.) Thus, during budget crises, when there is a temptation to drain the other funds to cover deficiencies in the General Fund, external borrowing (RANs and sometimes RAWs) becomes more attractive. Effectively, the state controller has to balance these needs.

Usually, in common parlance, when ordinary people think of a budget “deficit,” they have in mind a situation in which the yearly outflows exceed the inflows. When they think of a “surplus,” they have in mind a situation in which more money is flowing in than flowing out. When you hear of the federal deficit, it is with these flow concepts in mind. Unfortunately, at the state level, there is much muddier language. There is a tendency to mix up stocks and flows, and sometime to be loose about what time period is being discussed.

Surpluses and Deficits

Let’s go back to the checking account analogy. Suppose at the beginning of the year, you had \$1,000 in your checking account. That balance (or reserve) is a stock, i.e., something that exists at a specified moment in time. During the course of the year, you will be receiving income, perhaps from wages and/or investments, and depositing these receipts into your account. And you will be spending money from the account (for food, rent, utilities, or whatever). If, at the end of the year, your balance is \$1,200, that must mean that net over the year, you put in \$200 more than you took out. We could thus say you had a surplus (a net *inflow*) for the year of +\$200. If, at the end of the year, you had a balance of, say, \$700, that must mean you spent \$300 more than you took in. That -\$300 net *outflow* is your deficit.

What would be the policy implication of running a surplus? You might feel that given the situation, in the future you would scrimp less and spend more money on consumption that you had been avoiding. Or you might think it was wise to keep running a surplus and save for retirement or a deposit on a house or some other future purpose. What would be the policy implication of running a deficit? You might think to yourself that if you kept up spending more than you were taking in, you would - after a few years - find yourself in financial difficulty. So maybe it would be a good idea now to rein in your spending (or maybe work more to increase your income).

What wouldn’t be a good idea if your balance was falling year after year would be to view your situation as having a balanced budget and thus not something about which to be concerned. However, in state budget language, a situation of an ongoing deficit – but not yet having run out of money – is sometimes misleadingly described as a budget in “balance,” or a “balanced budget.” Budget officials may even resist the idea that a situation of outflow > inflow is a deficit because there is still some money in the till – until one day there isn’t, and then there’s a crisis. In the past, California has been known to fall victim to such sloppy thinking.

Keep these thoughts in mind as we examine the budget. At this writing, and as the 2018-19 budget was being enacted, the economy was expanding. It had been expanding since the bottom of the Great

Recession in 2009. In the public view, the budget crisis that Jerry Brown had inherited from Arnold Schwarzenegger after the gubernatorial election of 2010 is a distant memory. No one cares much about sloppy budgetary language when the climate in Sacramento seems sunny. But it is always a good idea when fiscal affairs are considered to give some thought to how prepared we are for the next crisis. And sloppy thinking won't help.

From the Abstract to the Real Numbers

"One thing governors don't like is to be presiding over a hemorrhaging budget because people do blame them."

Governor Jerry Brown⁶

The state uses two accounting methods. The cash basis simply records actual cash receipts and disbursements as they occur and state accounts on that basis reported monthly by the state controller. The accrual method, described below, is the approach used for the official budget. Table 1 shows the history of budgeting in cash terms from 2012-13 through 2017-18, i.e., during Governor Jerry Brown's second iteration. Within that period, General Fund receipts rose year by year, but the rise was particularly dramatic during 2017-18, the fiscal year that ended on June 30, 2018. Disbursements from the General Fund also rose year by year, and in some years, they have exceeded incoming receipts on a cash basis.

However, some of those disbursements are in fact transfers to an account for reserves, shown on the table as the Special Fund for Economic Uncertainty – SFEU (a precautionary balance linked to the General Fund. Some of the disbursements are placements of monies into the "rainy-day fund," formally known as the Budget Stabilization Account (BSA). Since such placements are forms of governmental savings rather than what we normally think of as government spending, we need to adjust the gross surplus or deficit in the General Fund to reflect them. As can be seen on the table, there were net surpluses in four of the six years shown. And, again, the result in 2017-18 was particularly dramatic (and positive).

Despite the dramatic outcome, when that year's budget was being planned, although a surplus was projected, drama was not on the menu. The projected surplus was notably less than its actual outcome. That discrepancy is a reminder that a proposed and an enacted budget are inherently forecasts. Receipts will vary from what is planned, depending on the actual course of the economy. Spending will also vary depending on such factors as trends in eligibility for entitlements. There is also a "strategic" element in making budget projections. Governor Brown tended to tilt toward conservative revenue forecasts as a check on legislative appetites. Given that proclivity of the governor, perhaps it is not surprising that the budget for 2017-18 included a projection that underestimated receipts and overestimated disbursements.

Although the official reserve accounts are intended as a cushion in case of some future economic downturn, the state in fact has other options to deal with such an adverse event. Because there are significant funds outside the General Fund designated for various purposes, the accounts that are linked

⁶Quoted in Alejandro Lazo and Nour Malas, "Jerry Brown's Legacy: A \$6.1 Billion Budget Surplus in California," *Wall Street Journal*, January 10, 2018. Available at <https://www.wsj.com/articles/jerry-browns-legacy-a-6-1-billion-budget-surplus-in-california-1515624022>.

to those purposes will (or may) have cash in them at any point in time. Cash can be borrowed from those outside funds (internal borrowing) and used to cover needs of the General Fund. As Table 1 shows, such “unused borrowable resources” have grown steadily to almost \$40 billion at the close of fiscal year 2017-18. Those resources include funds outside the General Fund from which money could be borrowed.

Chart 1 tracks the end-of-year ratio of unused borrowable resources to receipts from the period shortly before the Great Recession through 2017-18. At the bottom of that recession, the ratio fell to about 8 percent. Shortly after that decline, California had to hand out IOUs (registered warrants) to some state creditors. While 8 percent may seem to be an adequate, though low, ratio, there is considerable seasonality in unused borrowable resources, i.e., fluctuations *within* a fiscal year.

For example, Chart 2 shows the month-by-month variation of the ratio during the relatively flush 2017-18 year. The level of unused borrowable resources varied from a low of almost \$22 billion to a high of almost \$40 billion. Moreover, as noted, while unused borrowable resources can provide a cushion beyond official reserves, if outside funds are filled up with IOUs from the General Fund rather than cash, they will not be able to finance the activities they are supposed to underpin.

Accountants will tell you that there are drawbacks to cash accounting for analytical purposes. As a simple example, a tax payment that is due by June 30 might not be received and recorded until July 1. But on a cash basis, that one-day delay moves it from one fiscal year to the next. A bill for a service rendered in June may not arrive until July, also causing a shift between years. Indeed, cash accounting can be manipulated if there is some reason to want to make one year look better or worse than some other adjacent year. As a result, accountants often prefer “accrual” methodology which links receipts and spending to the appropriate time periods, regardless of their actual timing.

Accrual accounting, however, is in practice also subject to manipulation. And, in the case of state budgeting, accrual methodology is whatever the governor and legislature say it is. In principle, however, whatever the methodology is, it should be possible to reconcile accounts based on cash with alternatives based on accrual. Unfortunately, no such reconciliation is available for California. Although the controller’s cash accounts and the Department of Finance’s accrual accounts are readily available on the web, neither source offers a table converting one to the other. That omission is an important defect of state accounting.

Table 2 shows the accrual accounts maintained by the Department of Finance. They show a generally improving total reserve stock, thanks to a flow of budget surpluses in most years. Notably, however, Governor Brown’s final budget (for 2018-19) shows a small deficit and – therefore – a drop in total reserves. (The rainy-day fund rises, but the reserve for the General Fund falls by more than the rainy-day fund rises.) That outcome, as we noted above, is a forecast of what will happen in the course of 2018-19.

It could be that Brown’s tendency to be conservative in budgeting produced a result on paper that will prove to be more positive than projected. That is, it could turn out that more revenue than forecast will be received and/or that spending will be less than officially anticipated. Table 3 indicates that on an accrual basis (as on the cash basis discussed earlier), total ending reserves for the year 2017-18 were higher than projected (by \$7 billion on an accrual basis). The better-than-projected results came from greater revenues than originally projected.

While we cannot know for certain what the future will hold, we can trace the steps that led to enactment of the 2018-19 budget. Of course, much of what is found in any budget is a continuation of programs. So, although the budget is officially focused on a specific twelve-month period, one budget tends to blend into the next, particularly during periods of economic expansion. Below, the developments that led up to enactment of the 2018-19 budget are explored.

Wrapping Up and Getting Ready: Beginning the 2017-18 Fiscal Year

"If we don't get (an extension of cap-and-trade), it'd be a tragedy for California and for the world."

Gov. Jerry Brown⁷

As noted, the budget of any government can be seen as the most important document it creates. As it happened, although there was no statewide election in 2017, with Jerry Brown in his final term, there already was jockeying during the summer of 2017 as to who would succeed him. The same was true for lower state offices, too, although those contests were less visible. But although there was political debate about some aspects of state spending and taxation, the overall budget and its sustainability was little discussed.

When we think of the legislature enacting a budget, we tend to imagine that there is one (huge) bill that is passed. Although there is a lengthy and detailed budget bill, the enactment process also includes a host of "trailer bills" that contain budgetary details. Trailer bills typically are quickly passed without separate hearings. They also create an opportunity for a variety of items to be enacted without much external scrutiny that are only nominally connected to the budget.⁸

BOE

One set of elective offices, which most Californians know little or nothing about, is at the state Board of Equalization (BOE). BOE is controlled by four regionally-elected members plus the state controller and has been the site of various recent scandals. It was originally established in the 19th century to ensure that property taxes were assessed comparably and fairly across local jurisdictions. However, since the passage of Prop 13 in 1978, which sets property taxes by a specified formula, that function is largely a relic. BOE has other tax collection functions, notably linked to sales taxes, and handles appeals by taxpayers. Since it is embedded in the state constitution, BOE cannot be easily abolished. But at the same time that it enacted the 2017-18 budget, the legislature through a trailer bill pulled major functions regarding appeals away from the Board. It created a new administrative entity under the governor to assume those functions.

Other Trailers

There were other trailer bills as well that had a limited connection to the 2017-18 budget. One tightened up a gun control provision in state law in response to a loosening at the federal level by the Trump administration. Another sought to slow down the recall process as an aid to Democratic State Senator Josh Newman. Newman (not to be confused with Newsom) had been targeted by Republicans for voting

⁷Quoted in Christopher Cadelago, "Jerry Brown says his climate plan is in danger. To lose would be a tragedy 'for the world,'" Capitol Alert of *Sacramento Bee*, July 11, 2017. Available at <https://www.sacbee.com/news/politics-government/capitol-alert/article160846884.html>.

⁸Trailer bills avoid the normal process of public hearings and scrutiny.

for a hike in the state gasoline tax and other motor-vehicle related taxes earmarked for transportation infrastructure. He was narrowly elected in a “swing” district in which a gas tax increase could be a major issue.

A tax-related recall would normally trigger a special election in which Republican turnout would likely be high. Democrats aimed at a delay of the recall to the June 2018 primary (a year later) in which Democratic turnout would be more likely to give Newman a better chance at survival. Litigation and legislative action continued throughout the fiscal year (and eventually – despite the delay – Newman lost his seat).

The anti-gas tax issue was seen by the two leading Republican gubernatorial candidates, businessman John Cox and Assemblyman Travis Allen, as a potential campaign platform.⁹ Competing initiatives that would undo the gas tax increase were filed for the November 2018 general election; one eventually made it to the ballot. Cox had earlier pushed for a plan that would divide the legislature into very small districts so that there would be something like 12,000 representatives rather than the current 40 in the senate and 80 in the Assembly. But he seemed to have dropped that proposal and focused on his opposition to the gas tax increase. Allen pointed to his loyal support for Donald Trump in the 2016 presidential election and emphasized that Cox instead had voted Libertarian in that election.

Unions

As noted, the budget can be viewed as a statement of priorities. But whose fiscal priorities are being expressed? Many groups have an interest in budget outcomes and state policy more generally. One group that has been influential among Democrats in the legislature is public sector unions. Although the so-called *Janus* decision was a year away, that case before the U.S. Supreme Court with regard to union dues and fees was likely to go against unions given the Court’s 5-4 conservative court majority.

Union members pay dues to support their organizations. Non-members by law receive the same pay and benefits as members and, in addition, the union by law must represent them in disciplinary procedures and grievances. In California, and in many other jurisdictions, non-members can thus be assessed a fee for collective bargaining representation lower than standard dues, which omits union political expenses. The likely *Janus* decision would abolish such non-member fees. Unions feared that the result would be a loss of revenue and possibly a decline in membership. The legislature enacted some new policies designed to make it easier for state unions to recruit members and limiting access of conservative groups that might seek to persuade workers not to join. (And a year later, the expected 5-4 *Janus* decision indeed was issued by the Court.)

Single-Payer

One union in particular, the California Nurses Association, had been actively supporting “single-payer” health insurance in California, and had helped push a bill for single-payer through the state Senate. There are various versions of single-payer, but in general it would replace private insurance companies

⁹Another Republican, former Assemblyman David Hadley, briefly entered the Republican gubernatorial race and then dropped out after a few weeks. Former Republican Congressman David Ose was also briefly in the race. San Diego Mayor Kevin Faulconer, a Republican, was rumored to be considering running – but he never did. And there were a variety of other minor candidates. One candidate, a fellow named Johnny Wattenburg with no party affiliation, provided a two-word candidate statement in the official ballot booklet sent to all voters: “*Why not!*”

with one comprehensive state-run program. The Senate bill was lean on details about how this shift to state provision would happen and, among other problems, had no funding mechanism.

In addition, it is not clear the legislature could legally enact single-payer without a ballot proposition. The large taxes that would replace private premiums would conflict with voter-enacted constitutional provisions that control state spending on K-14 (Prop 98 of 1988) and that put a limit on spending (Prop 4 of 1979 – The “Gann Limit”). Finally, such a plan would require federal agreement, which the state would be unlikely to obtain from the Trump administration.

Given these concerns, Assembly Speaker Anthony Rendon essentially killed the bill. But the single-payer issue continued to roil Democrats. There were “centrists” – who wanted to focus on universal health care based on the current system and on defending the current system from Trump administration attempts to end “Obamacare.” And there were “Berniecrats” who wanted single-payer.¹⁰ The split played out through the remaining fiscal year in the campaign for the gubernatorial nomination up until the June 2018 primary.

Thereafter, when the top-2 primary system ended with Gavin Newsom, the Democrat, and John Cox, the Republican, the issue faded. Newsom had tended to waffle on the single-payer issue; he would say that he was for it as a goal (Berniecrat), but that it would take a long time to get there (pragmatist). Cox was against not only single-payer but also the existing “Obamacare” system as it had played out in California.

Cap-and-Trade

The last big legislative battle in the wrap-up period following the signing of the 2017-18 budget involved a bill extending the cap-and-trade program from 2020 to 2030. Unlike the gas tax hike, there was (some) Republican support for cap-and-trade as a result of a favorable view by the business community. Under cap-and-trade, what amount to pollution permits are issued in declining volume to meet the state’s declining cap on greenhouse gas emissions. The state derives revenue from auctioning off permits and the revenue is supposed to be dedicated to programs that reduce emissions. One of the major recipients of such revenue is the governor’s high-speed rail project.

Businesses that would otherwise be subject to direct command-and-control regulation prefer cap-and-trade because it allows more flexibility and efficiency than regulation in meeting the targets.¹¹ Although, as noted, there was some Republican support, there was also opposition because the cap-and-trade revenue is regarded as a quasi-tax and because of distaste in particular for the high-speed rail. In order to attract needed Republican votes, various compromises were made. These deals included the dropping of a fire prevention fee in certain (Republican-leaning) rural areas and a ballot proposition that might lead to a cutoff of funding for the rail project in 2024. Ultimately, seven Republicans voted for the compromise deal in the Assembly, and one Republican voted for it in the Senate.

¹⁰Berniecrats were followers of Bernie Sanders who lost the 2016 Democratic presidential nomination to Hillary Clinton.

¹¹Ironically, when it came to construction of new state office buildings, Governor Brown signed a decree requiring they move towards zero net energy, although an evaluation by the Legislative Analyst’s Office (LAO) suggested that cap-and-trade would have been a less costly way to achieve the same result. See Legislative Analyst’s Office, *Evaluating California’s Pursuit of Zero Net Energy State Buildings*, November 14, 2017. Available at <http://www.lao.ca.gov/reports/2017/3711/zero-net-energy-111417.pdf>.

Although there were eight Republicans in favor, one in particular was targeted by opponents of the deal, the GOP minority leader in the Assembly, Chad Mayes. There were calls for him to step down from his leadership position and allegation about an affair that he had had in the past. By late August 2017, Mayes had been removed from his post after surviving one party vote and then losing another.

Real Estate Concerns

As the legislative session was wrapping up, the governor signed bills aimed at fostering affordable housing. There was a bond to be put on the 2018 ballot to support construction of such housing and a fee on certain real estate transactions. At the same time, real estate interests were developing an initiative that would make it easier for senior homeowners to take their below-market Prop 13 assessments with them if they moved to a new house. Such movement generates commissions for realtors. But, by potentially lowering property tax revenues, the initiative would indirectly raise K-14 costs for the state in the future, since some of the lost revenue to school and community college districts would have to be backfilled by the state under Prop 98.

Other Issues

Some of the legislative action aimed at non-budgetary issues. After negotiations with the governor, the legislature passed the so-called "sanctuary state" bill (a label the governor preferred not to apply). Brown to some extent had to be concerned with not pushing the California-vs.-Trump agenda to the point where federal funding was endangered. For example, the feds were continuing to assist in funding repairs to the Oroville Dam, despite some evidence that cracks were appearing in the state-administered repairs. There were moves to shift the 2020 presidential primary from June to March in order to give California more influence in nominee selection. And there was already jockeying over future budget items, even before the legislative session concluded at the end of the September. For example, community colleges pushed for more funding in the coming (2018-19) fiscal year.

Developing the Initial 2018-19 Budget

"A lot of voters may not be paying attention to the current governor, but they seem to want more of what he is doing."

Reporter and commentator John Myers¹²

The fall is generally the season in which the aftermath of the previous budget cycle ends and the beginning of preparation for the new cycle takes place. There is a tendency during periods of budgetary calm for people not to pay close attention to the details of state spending nor to how effective that spending is. Political leaders tend to focus on immediate concerns while programs that may have responded to past perceived needs tend to be continued by momentum.

For example, the state for many years had an Enterprise Zone program in which businesses that moved into designated distressed neighborhoods received tax credits. Evidence mounted that the Zones were not very effective as job-creation tools, and they were replaced in 2013 – a period when the economy was quite sluggish. The new program offered tax credits to selected businesses that seemed likely to

¹²John Myers, "Jerry Brown's legacy a major question for hopefuls looking to replace him," *Los Angeles Times*, November 12, 2017. Available at <http://www.latimes.com/politics/la-pol-ca-road-map-governor-race-jerry-brown-20171112-story.html>.

create jobs. In practice, however, there was a tendency to award the credits to firms with sexy products such as Tesla, the electric car maker. By late 2017, California was in a boom period with low unemployment and the jobs issue was less pressing. One report suggested that no one was really tracking the job results of the “California Competes” program.¹³ But the program, which might unkindly be seen as a taxpayer-financed slush fund, continued without much pressure for an evaluation.

Poll results suggested that while Californians generally rated the state’s higher education system as good or excellent, they were concerned about the tuition costs and about student access. Although politicians, policy wonks, and academics tend to discuss the system in terms of the 1960 Master Plan for Higher Education, only 37 percent of Californians claim to have heard of it.¹⁴ Despite the gaps in public historical knowledge, if someone had to guess in the fall of 2017 how the 2018-19 budget would turn out, a good guess would have been that, one way or another, tuition would be constrained. As support for that premonition, a forecaster might have taken note of Governor Brown’s signing a bill in October 2017 providing for free tuition at community colleges for first-time, full-year students.

Poll results also indicated that the controversial gasoline tax increases that the Democrats were able to pass earlier would continue to roil state politics. Not surprisingly, polls suggested that the gas tax hike was unpopular, even though it was aimed at improving transportation infrastructure. Ultimately, the gas tax issue in the form of the recall of Senator Newman could only be delayed as late as the June primary. And ultimately, in the November 2018 general election, the related repeal initiative might affect turnout in some potentially swing Congressional seats in California that could determine which party would control the U.S. House of Representatives.

Still, since he was in his final term with no further office in mind, Governor Brown was freer than he might otherwise have been to take positions that were not necessarily political winners. For example, he pushed in litigation for a modification of the so-called “California Rule” with regard to public pensions. Under that Rule, a benefit provision once promised to public employees cannot be cut back. So, any state (or local) pension problems could only be dealt with by either more expenditure on pensions or reductions in pension promises only to new hires. Some court decisions seemed to suggest that there could be cutbacks to current employees, not just new hires, a position unpopular with state and local unions since those decisions went against the California Rule. However, the unions – while taking the opposite position from the governor – had nowhere else to go. They could not support a Republican, so they tended to look the other way on the pension issue.

Although the Legislative Analyst’s Office (LAO) rarely makes specific budget proposals, it typically does produce what can be viewed as a “workload” budget in mid-November which indicates what the budget for the coming fiscal year would be if no major programmatic changes were made. As Table 4 shows, under that scenario, the combined reserves of the General Fund and the rainy-day fund were projected to rise by \$9.4 billion to close to \$20 billion, or to over fifteen percent of expenditures. The LAO

¹³Judy Lin, “What new jobs? California program to entice hiring falls short,” *CALmatters*, November 21, 2017. Available at <https://calmatters.org/articles/new-jobs-california-program-entice-hiring-falls-short/>.

¹⁴Public Policy Institute of California, *Californians & Higher Education*, November 2017. Available at http://www.ppic.org/wp-content/uploads/s_1117mbs.pdf. The original Master Plan went only through 1975. It is available at <https://www.ucop.edu/acadinit/mastplan/MasterPlan1960.pdf>.

suggested that a reserve of that level could survive a “moderate” recession for a year. After a year, however, some further steps cutting spending or raising revenue would be needed.¹⁵

The good news with regard to the workload budget was largely a reflection of the revenue growth that LAO projected that would come from general state economic growth. Governor Brown, who generally favored building up reserves and being cautious about spending and new commitments, could be expected to avoid starting new programs in his January 2018 budget proposal. And one way to curb legislative appetites would be to assume less revenue than what the LAO was forecasting. So, one might expect that his January plan would look like the LAO’s workload budget on the spending side, but that it would include a more restrained revenue projection. And that result is what occurred.

The First Budget Proposal: January 2018

“There are certain things you have to do that aren’t as pleasant as other things you have to do, but if it’s something you want to get accomplished, you will do it, and there will be different levels of joy, from zero to 100 percent.”

Governor Jerry Brown responding to a reporter who asked if he was enjoying a European environmental trip¹⁶

Table 4 summarizes the governor’s initial budget proposal of January 2018. It differs from the LAO’s workload budget most dramatically in its revenue assumption, notably lower than LAO in the governor’s estimate. Indeed, as Table 3 shows, the governor’s assumed revenue for 2018-19 was what revenue for 2017-18 turned out to be. As a result, reserves at the end of 2018-19 are lower than shown by LAO, even though the governor proposed to put an extra \$3.5 billion (beyond the level required) into his rainy-day fund. However, an opinion poll showed strong voter support for the governor’s budget proposal, although it is doubtful that most respondents could have described what that budget contained.¹⁷ The voters presumably were simply offering general support to a governor who was perceived to have ended an era of budget crises, and who brought about fiscal calm in Sacramento.

Governor Brown did not generally propose major new programs. But he did include a new totally-online community college degree at a cost of \$120 million. The idea of disseminating courses electronically has

¹⁵Legislative Analyst’s Office, *The 2018-19 Budget: California’s Fiscal Outlook*, November 15, 2017. Available at <http://www.lao.ca.gov/reports/2017/3718/fiscal-outlook-111517.pdf>.

¹⁶Quoted in Christopher Cadelago, “‘I hate everything.’ Is Jerry Brown enjoying himself in Europe?” *Sacramento Bee*, November 13, 2017. Available at <https://www.sacbee.com/news/politics-government/capitol-alert/article184317923.html>.

¹⁷Sixty-six percent of “likely voters” and 67 percent of all adults in a California poll indicated support for the budget. Public Policy Institute of California, *Californians and Their Government*, January 2018. Available at <http://www.ppic.org/wp-content/uploads/s-118mbs.pdf>. Because respondents are in fact not familiar with the budget, the survey taker told them about it as part of its question, thus “framing” the information in ways that can influence the answer. In this case, the question was worded as follows:

Governor Brown recently proposed a budget plan for the next fiscal year that includes \$132 billion in general fund spending. The proposed budget will increase spending on K-14 and higher education, health and human services, and prisons and corrections. The proposed budget plan puts \$5 billion into the state’s reserves, which includes \$3.5 billion in additional funds to bring the rainy-day fund to 100 percent of its constitutional target and includes no new taxes. In general, do you favor or oppose the governor’s budget plan?

a long history. There were “Sunrise Semester” courses in the 1950s on television, and there were radio courses that go back to the 1920s.¹⁸ Brown’s online idea was opposed by community college faculty members, in part over fears of displacement, although in fact LAO estimated that 13 percent of community college courses were already online by the 2016-17 year.¹⁹ Ultimately, however, the governor got his way, and the plan became part of the enacted budget – at which point the internal opposition was dropped.²⁰

Once the governor submits his January proposal for the budget, the action turns to the legislature. Until mid-May, when the governor submits a modified proposal known as the May Revise, the legislature holds hearings on the disaggregated components of the proposal, mainly focused on the spending side. As part of the background information for such hearings, the LAO churns out publications about issues raised by the budget, or about other budgetary topics that are requested by the legislature. Some of these reports are relatively obscure, such as an analysis of a proposed addition to a local veterans’ home while others deal with major matters such as K-14 funding under Proposition 98.²¹

In addition, there were developments that could have budgetary impacts at some point, but which were not formally part of the budget. For example, there was a ballot initiative submitted for a “split roll” in property taxes that would tax commercial property at current valuations rather than market value at time of sale. Such a change could have a marked effect on both state and local budgets, but the effort eventually fizzled for 2018. (Proponents expect it to appear in 2020.)

The legislature killed an oft-submitted proposal to exempt tampons from being subject to the sales tax. That proposal, had it passed, likely would have been vetoed by the governor who disliked special exemptions. In any case, any prospects for revival were dimmed by the fact that the bill’s sponsor, Assemblywoman Cristina Garcia, was later caught up in “MeToo” allegations against her of sexual harassment.²²

An initiative to repeal the gas tax increase was successfully qualified for the November 2018 ballot. The repeal was opposed by all the Democratic candidates for governor and supported by the GOP candidates. Apart from its direct economic effect, the gas tax repeal – as noted earlier – was seen as an incentive to bring out Republican voters, possibly protecting/aiding Republican congressional candidates in “swing districts.”

¹⁸See <https://www.youtube.com/watch?v=FfsmxK0viLQ> for an example from the 1950s.

¹⁹Legislative Analyst’s Office, *Online Community College Proposal*, March 20, 2018. Available at [https://lao.ca.gov/handouts/education/2018/Online Community College Proposal 031918.pdf](https://lao.ca.gov/handouts/education/2018/Online%20Community%20College%20Proposal%20031918.pdf).

²⁰Brown also pushed for community college funding to be geared to student outcomes rather than just enrollment in his “Student Focused Funding Formula.”

²¹Legislative Analyst’s Office, *Proposed Changes to Veterans Home in Yountville*, March 6, 2018. Available at <https://lao.ca.gov/Publications/Report/3771>; Legislative Analyst’s Office, *Overview of Proposition 98 Budget Proposals*, February 21, 2018. Available at [https://lao.ca.gov/handouts/education/2018/Overview Proposition 98 Budget Proposals 022118.pdf](https://lao.ca.gov/handouts/education/2018/Overview%20Proposition%2098%20Budget%20Proposals%20022118.pdf).

²²Garcia was opposed in the June 2018 primary by building trades unions angry over her support of environmental rules that threatened refinery jobs. The opposition raised the “MeToo” complaints against her as an issue. However, she came in first in the primary.

The GOP candidates for governor ultimately were winnowed to just businessman John Cox and Assemblyman Travis Allen. Although only the latter had supported Trump in 2016, Trump endorsed Cox as more likely to win the second spot in the California top-2 primary system. Cox was thus seen as more likely to ensure that there would be a Republican in the gubernatorial race, again in the hope of protecting congressional seats.²³ In this effort, Trump was joined by Democratic front-runner Gavin Newsom, whose poll numbers guaranteed that he would be the number one voter getter in the June top-2 primary. Newsom ran ads aimed at boosting Cox, since having a Republican as his sole opponent in November would allow him (Newsom) to coast to victory.

Apart from Newsom, the Democratic candidates in the June 2018 primary solidified as former LA mayor Antonio Villaraigosa, John Chiang, the state treasurer (and former state controller), and Delaine Eastin, the state secretary of education.²⁴ Among the Democrats, all but Villaraigosa indicated support for single-payer health insurance (although Newsom, as noted, tended to paint it as a long-term objective). Eastin, in addition, indicated that Jerry Brown's high-speed rail was not a major priority for her.

The candidate who most obviously might have emphasized budget expertise, John Chiang, seemed to lose that focus as the campaign progressed. Chiang had built an image of fiscal prudence over the years. Had he come in as number two in the top-2 primary against Newsom, that image might have attracted Republican and independent votes in November. But with two Republicans running in the top-2 primary, Chiang had little hope of attracting Republican votes in June. As a result, he instead made proposals for such things as a forty percent tuition cut for higher education.

Issues of state governance that might have made their way into the campaign never did so. There were, for example, ongoing administrative and governance issues in the state. Such issues included defects in Oroville Dam repairs, a data breach at the Department of Fish and Wildlife, and ongoing problems and cost overruns in a computer system the state has worked on for an extended period known as FISCAL. And there was the twin tunnel water project favored by Governor Brown, which for a time at least was downsized to a cut down one-tunnel system and then came back to two. All of these matters were reported in the news media. But, they were not highlighted by the candidates.

From May Revise to the Final Budget

"I think it's getting close to the end. I think I'm going to be O.K. with that."

Governor Jerry Brown²⁵

²³ Allen at one point in the campaign called for the arrest of Jerry Brown because of his support for the state's "sanctuary" policies. While such antics might appeal to some Republican voters, more centrists and Republican-leaning independents were more likely to be attracted to Cox. There were also some "MeToo"-type sexual harassment allegations against Allen in 2013 that could have become an issue in the November general election if he had succeeded in becoming number two in the top-2 primary.

²⁴ Amanda Renteria, a former U.S. Senate staff member, also entered the race. There was speculation she was a stalking horse for one of the other Democratic candidates aimed at splitting the Latino vote and thus harming Villaraigosa (which she denied). Her candidacy had little funding and never showed traction.

²⁵ Adam Nagourney, "For Jerry Brown, the Face of California's Old Order, the Ranch Is Calling," *New York Times*, January 24, 2018. Available at <https://www.nytimes.com/2018/01/24/us/jerry-brown-california-governor-retirement.html>.

Unlike the January budget proposal, which is mandated by the state constitution, the governor's May Revise budget is a traditional practice. The May Revise takes account of whatever new information on revenues and spending has developed and of the political response to the January budget proposal. Table 4 shows that Governor Brown's May Revise reflected higher estimates (compared with January) of starting reserves for the fiscal year 2018-19 and higher estimates of state revenues. Proposed spending was also raised with the result that the budget surplus (based on changes in total reserves) which was projected in January was reduced in May to near zero.

Legislative Action

Once the May Revise was released, the budgetary pace picked up in the legislature. The two houses put together their own separate budgets by early June which included more spending than the governor had proposed. Both legislative proposals included higher estimates of revenue for 2018-19, thus retaining small net surpluses. The task was then for the two houses to produce a single budget which could be enacted by the mid-June constitutional deadline.²⁶

At one time, when the legislature was more evenly split between Democrats and Republicans, whoever was governor would meet with both parties' leaders in the two houses, a total of five individuals including the governor, and negotiate a final budget deal. Even as Republican representation shrank, there remained a two-thirds vote requirement to pass a budget, giving the minority party a significant voice in the process. However, in 2010, voters enacted Proposition 25 allowing budgets to be passed by simple majorities.²⁷ Thus, in contemporary political arrangements, what was once described as the "Big-5" budget negotiations have effectively been reduced to the "Big-3" (the governor and the two majority leaders of both houses).

The Big-3 deal in this case had less spending than the two houses had proposed separately, but somewhat more than the governor's May Revise. Instead of a small projected surplus as in the May Revise, it had a small deficit on total reserve basis. In a bit of creative accounting, a third "Safety Net Reserve" was established to avoid certain constraints of the formula governing the rainy-day fund. Of course, whether the actual budget outcome will be in deficit or surplus will not be known until the end of 2018-19.

Brown Signs Off

Governor Brown could have exercised his line-item veto on the budget to trim spending further. But since he was part of the deal with the Democratic legislative leaders, he signed the budget into law "as is" with no vetoes. Of course, there could be either positive or negative developments as the budget goes into effect that will affect revenues and spending. For example, the U.S. Supreme Court issued a decision after the legislature enacted the budget, but before Brown signed it, that made it easier for states (including California) to collect online sales tax.²⁸ Before the decision, the uncollected sales tax

²⁶Under Proposition 25 of 2010 (which allowed passage of a budget with a simple majority vote), legislators are not paid for every day beyond the constitutional deadline that they fail to pass a budget. However, under court interpretation, it is up to the legislature to determine what a "budget" is.

²⁷See the previous footnote.

²⁸David G. Savage, "Supreme Court rules that internet businesses must collect all state and local sales taxes," *Los Angeles Times*, June 21, 2018. Available at <http://www.latimes.com/politics/la-na-pol-court-online-taxes-20180621-story.html>.

owed to California from out-of-state sellers was estimated to be in the range of hundreds of millions of dollars.²⁹

Political Accompaniment

In the background of the budget enactment was the primary election on June 5, 2018. As noted earlier, the top-2 primary at the gubernatorial level produced two candidates for the November general election, Democrat Gavin Newsom vs. Republican John Cox. It also demonstrated continuing strains in the California Republican Party, the counterpart of Berniecrats vs. Pragmatists in the Democrats. Within the Republicans, it was Trumpies vs. Never-Trumpers.

Former (Republican) Governor Arnold Schwarzenegger indicated he could not support either Cox or (Republican) Travis Allen.³⁰ Jerry Brown's opponent in the 2010 gubernatorial election, Republican Meg Whitman, said she would be supporting Democrat Antonio Villaraigosa in the primary.³¹ Former Republican Congressman Tom Campbell, at one time a high official in the Schwarzenegger administration, called for creation of a new "pragmatic" party.³² On the other hand, Republicans did succeed in recalling Democratic State Senator Josh Newman with 58.1 percent of the vote for his support of the gas tax increase; he was replaced by Republican Ling Ling Chang.

June Propositions

Five propositions were on the state ballot in June. Table 5 provides a summary. A proposition that tightened the earmarking of the gas tax for transportation passed overwhelmingly (Prop 69). The tighter earmark was seen as helpful in avoiding repeal of the gas tax in November. A bond issue for environmental purposes was also enacted (Prop 68) along with an exclusion of rainwater recycling improvements from property taxes (Prop 72) and some technical changes in the timing of enacted initiatives (Prop 71).

What didn't pass was a proposition requiring a two-thirds legislative vote in 2024 for use of cap-and-trade funds (Prop 70). The proposition was aimed at potentially killing Governor Brown's high-speed rail and was put on the ballot in a deal in the legislature to pull in a few needed Republican votes. In the official ballot pamphlet, Brown was listed as a supporter of the proposition since his nominal support was part of the deal in the legislature. But obviously he preferred that it not pass.

Propositions That Weren't

Apart from putting things on the ballot, such as the propositions above, the legislature sometimes plays a role in keeping things *off* the ballot. Some cities were contemplating enacting taxes on sugary soda

²⁹Adam Ashton and Caitlin Chen, "Online sales tax ruling could bring 'hundreds of millions of dollars' to California," The State Worker blog of *Sacramento Bee*, July 2, 2018. Available at <https://www.sacbee.com/news/politics-government/the-state-worker/article214098319.html>.

³⁰John Myers, "Schwarzenegger won't vote for leading GOP candidates for governor," *Los Angeles Times*, June 1, 2018. Available at <http://www.latimes.com/politics/essential/la-pol-ca-essential-politics-may-2018-schwarzenegger-won-t-vote-for-leading-1527889146-htmistory.html>.

³¹Casey Tolan, "Republican Meg Whitman backs Democrat Antonio Villaraigosa for governor," *Mercury-News*, May 24, 2018. Available at <https://www.mercurynews.com/2018/05/24/republican-meg-whitman-backs-democrat-antonio-villaraigosa-for-governor/>.

³²Tom Campbell, "California is in need of a new pragmatic political party," *Orange County Register*, June 4, 2018. Available at <https://www.ocregister.com/2018/06/04/california-in-need-of-a-new-pragmatic-political-party/>.

drinks, in part over concerns about obesity. Berkeley had already succeeded. Rather than fight the issue city by city, major soda companies had qualified an initiative for the November 2018 ballot requiring a two-thirds vote on general local taxes (not just those on soda). Local governments and public employee unions were fearful that such an initiative would pass and, therefore, agreed to a legislative deal to ban new soda taxes in exchange for proponents agreeing to ditch the initiative.

Two other initiatives were also pulled off the ballot after legislative deals. One was an initiative protecting online privacy. Tech companies agreed to a somewhat watered-down bill and the initiative died. Paint firms had qualified an initiative that would have saved them from liability for removing lead paint in schools and homes. The legislative leaders promised them that a compromise alternative could be reached. That promise was enough to kill the paint initiative.

Public Perception

As the new fiscal year 2018-19 began, there remained a host of issues – as there always is. Among them was the forthcoming battle over the gas tax repeal in November 2018. But unlike eight years earlier, when Jerry Brown had won the nomination to run for a third term as governor, there was no immediate budget crisis to worry and annoy the electorate. It's not that voters were uninterested in paint, privacy, or soda. It's just that a major budget crisis, such as existed in 2010, attracts much more attention. And what voters liked was that they didn't have to focus on Sacramento turmoil.

Memories and the Future

"...Jerry will probably be a chapter in the overall story of the Brown clan's impact on California. The main character in that story, however, will be his father, the legendary Gov. Pat Brown, who was credited with building the best highway, water and state university systems in the nation."

Willie Brown, former San Francisco mayor and Assembly speaker³³

"What we need is leadership, not stewardship."

Gubernatorial candidate Gavin Newsom, seemingly contrasting himself with Jerry Brown³⁴

As the budget for 2018-19 came together, there were beginning to be reviews in the news media of Jerry Brown and his legacy (despite Brown's periodic protests that he wasn't interested in legacies).³⁵ Although his high-speed rail project might be such a legacy, whether his successor as governor will be as

³³Willie Brown, "Why dump Chief Suhr? He's the best thing going for the SFPD," *San Francisco Chronicle*, May 13, 2018. Available at <https://www.sfchronicle.com/bayarea/williesworld/article/Why-dump-Chief-Suhr-He-s-the-best-thing-going-7468374.php>.

³⁴Quoted in Seema Mehta, "Gavin Newsom says California's next governor must do more than build upon Gov. Jerry Brown's legacy," *Los Angeles Times*, August 30, 2017. Available at <http://www.latimes.com/politics/essential/la-pol-ca-essential-politics-updates-gavin-newsom-says-next-california-1504119503-htmstory.html>.

³⁵Andy Kroll, "The Last Days of Jerry Brown," *California Sunday Magazine*, March 18, 2018. Available at <https://story.californiasunday.com/jerry-brown-last-days>.

enthusiastic a supporter of the project remains to be seen. Gavin Newsom has flip-flopped on the issue. So, the rail project's completion is in doubt. The twin tunnel (Delta Fix) water project supported by Brown remains in the planning stage. Its completion (or non-completion) will be entirely in the hands of others.

Brown has left a legacy of California as an anti-Trump "resistance" state. That posture doesn't help the state in obtaining federal funding, although so far it hasn't hurt. The University of California, for example, was able in June 2018 to renew its contract with the federal Department of Energy to manage the Los Alamos National Lab, an arrangement that dates back to the Manhattan Project of the 1940s.³⁶ Despite the resistance, Brown's role in that regard has been to moderate state opposition to Trump, in part due to the funding issue.³⁷ Whether the next governor will be as successful in carrying out that balancing act is uncertain. In addition, a younger California governor – Newsom was born in 1967 in contrast to Brown in 1938 - would be a potential Democratic rival for Trump in the 2020 election.

Apart from infrastructure, the state's component of "Obamacare" – including funding for the expansion of Medi-Cal - is threatened by the president's antipathy to that program. And changes in federal tax law enacted in late 2017 worked against high-tax states such as California, especially a \$10,000 limit imposed on deductions for state and local taxes. It was estimated that something under one million Californian taxpayers could be affected by the limit and would owe an extra \$12 billion per year to the feds.³⁸

At this writing, Brown is pushing for the state Supreme Court to resolve the applicability of the "California Rule" with regard to public pensions, both state and local. Whether the Court will do so before he leaves office is unclear. And it could decide to leave the Rule in place as is. So, at this writing, Brown's goal of a change in pension policy may not be achieved, at least not while he is office.

The result is that Brown's most tangible legacy is in fact an intangible, his rainy-day fund, a fund created by his predecessor, but filled up by Brown. However, as Jerry Brown learned at the end of his first iteration as governor, even a very large reserve can be blown away by a big enough downturn. Apart from the rainy-day fund, there is the online community college degree program, another intangible by the very nature of online services.

Brown will surely be remembered as California's longest serving governor. With term limits now in place, no future governor can serve four terms. But in the end, father Pat Brown's tangible legacy of the state water project, freeways, and new university campuses is hard to outdo. Brown Jr. surely remembers that Brown Sr. was defeated in the 1966 gubernatorial election by Ronald Reagan, in part due to a state budget crisis. However, few others remember that fiscal crisis of long ago or now hold it against the memory of elder Brown. They remember the tangibles.

³⁶The University of California formed a partnership including Texas A&M, Energy Secretary Rick Perry's alma mater, in formulating its bid.

³⁷Connie Bruck, "Inside California's War on Trump," *New Yorker*, March 26, 2018. Available at <https://www.newyorker.com/magazine/2018/03/26/inside-californias-war-on-trump>.

³⁸Franchise Tax Board, *Preliminary Report on Specific Provisions of the Federal Tax Cuts and Jobs Act*, March 20, 2018, p. 13. The estimates were based on 2015 California state tax data. Available at <https://www.ftb.ca.gov/law/legis/Federal-Tax-Changes/CAPreliminaryReport3Provisions-Revise.pdf>.

Table 1: General Fund Budget, Cash Basis, FY2012013 – FY2017-18

\$billions	Brown Actual 2017-18	Brown Planned 2017-18	Brown Actual 2016-17	Brown Actual 2015-16	Brown Actual 2014-15	Brown Actual 2013-14	Brown Actual 2012-13
Receipts	136.7	129.4	122.6	120.4	116.4	104.0	103.4
Disbursements	-126.4	-128.4	-126.8	-123.6	-115.8	-99.6	-96.3
Gross surplus/deficit	10.4	1.0	-4.2	-3.2	0.6	4.4	7.2
Transfers to reserves							
SFEU	0.0	0.0	0.6	0.8	0.0	0.1	*
BSA	2.3	2.3	2.8	1.9	1.6	0.0	0.0
Total reserve transfers	2.3	2.3	3.4	2.7	1.6	0.1	0.0
Net surplus/deficit	12.7	3.3	-0.8	-0.5	2.2	4.5	7.2
Unused borrowable resources	39.9	33.4	37.0	35.2	28.3	23.8	18.8

SFEU = Special Fund for Economic Uncertainty

BSA = Budget Stabilization Account ("Rainy-Day" Fund)

Table 2: Official Budget Reserve Data

Accrual \$millions	Ending General Fund	Rainy Day Fund	Safety Net Reserve	Total Reserves	Net Surplus/ Deficit
2011-12	-\$1,615	-	-	-\$1,615	\$1,464
2012-13	2,528	-	-	2,528	4,143
2013-14	5,590	-	-	5,590	3,062
2014-15	3,445	\$1,606	-	5,051	-538
2015-16	4,504	3,529	-	8,034	2,982
2016-17	5,702	6,713	-	12,415	4,382
2017-18	8,483	9,410	-	17,893	5,478
2018-19	3,127	13,768	\$200	17,095	-798

Note: This table corrects and updates the equivalent table in last year's budget chapter of *California Policy Options*.

Source: California Department of Finance, Historical Tables. Available at http://dof.ca.gov/budget/summary_schedules_charts/documents/CHART-H.pdf and Table 3 of this chapter.

Table 3: California Budget Summary

\$ Millions	2017-18 Enacted	2017-18 June 2018	2018-19 June 2018
GF Starting Reserve	\$1,622	\$5,702	\$8,483
Revenue & Transfers	\$125,880	\$129,825	\$133,332
Expenditures	\$125,096	\$127,044	\$138,688
GF Surplus/Deficit	+\$784	+\$2,781	-\$5,356
GF Ending Reserve	\$2,406	\$8,483	\$3,127
BSA-Start of Year	\$6,713	\$6,713	\$9,410
BSA-End of year	\$8,486	\$9,410	\$13,768*
BSA Surplus/Deficit	+\$1,773	+\$2,697	+\$4,358
Safety Net Reserve**			
Start of Year	na	na	\$0
End of Year	na	na	\$200
Safety Net Reserve**			
Surplus/Deficit	na	na	+\$200
Total Reserves			
Surplus/Deficit	+\$2,557	+\$5,478	-\$798
Total Ending Reserves	\$10,892	\$17,893	\$17,095
As % of Expenditures	8.7%	14.1%	13.0%

GF = General Fund

BSA = Budget Stabilization Account ("rainy day fund")

*Some of the funds designated for the BSA are contingent. A separate "Budget Deficit Savings Account" will hold a \$2.6 billion optional deposit to BSA. In May 2018, if less General Fun revenue than projected is received, the deposit to the BSA will be reduced.

**The "Safety Net Reserve" is a fund created for the 2018-19 budget that avoids certain limits in the formula governing the BSA.

Sources of Tables 1 and 2: May Revise and Senate and Assembly versions:

<http://www.lao.ca.gov/Publications/Report/3832>; January 2018 budget proposal:

<http://www.ebudget.ca.gov/2018-19/pdf/BudgetSummary/SummaryCharts.pdf>; LAO November 2017 outlook:

<http://www.lao.ca.gov/Publications/Report/3718>; BSA at start of 2017-18 and June 2017 enacted budget:

<http://www.ebudget.ca.gov/2017-18/pdf/Enacted/BudgetSummary/SummaryCharts.pdf>; Final budget:

<http://www.ebudget.ca.gov/FullBudgetSummary.pdf>.

Table 4: Evolution of 2018-19 Budget

Accrual \$ Billions	LAO	Governor		Legislature		
	Nov. 2017	Jan. 2018	May Revise	June Senate	June Assembly	June Final
GF Reserve Start of Year	\$4.7	\$5.4	\$8.5	\$7.8	\$8.4	\$8.5
Revenue & Transfers	\$135.5	\$129.8	\$133.5	\$135.8	\$136.4	\$133.3
Expenditures	\$131.7	\$131.7	\$137.6	\$139.7	\$140.4	\$138.7
GF Surplus/Deficit	+\$3.7	-\$1.9	-\$4.0	-\$3.9	-\$4.0	-\$5.4
GF Reserve End of Year	\$8.4	\$3.5	\$4.4	\$2.7	\$4.4	\$3.1
BSA-Start of Year	\$8.0	\$8.4	\$9.4	\$9.4	\$9.4	\$9.4
BSA-End of year	\$11.8	\$13.5	\$13.8	\$13.9	\$13.8	\$13.8
BSA Surplus/Deficit	+\$5.6	+\$5.1	+\$4.4	+\$4.5	+\$4.5	+\$4.4
Safety Net Reserve* Start of Year	na	na	na	\$0	na	\$0
End of Year	na	na	na	\$1.0	na	\$0.2
Safety Net Reserve* Surplus/Deficit	na	na	na	+\$1.0	na	+\$0.2
Total Reserves Surplus/Deficit	+\$9.4	+\$3.2	+\$0.3	+\$1.6	+\$0.5	-\$0.8
Total Ending Reserves	\$19.9	\$16.9	\$18.2	\$17.6	\$18.2	\$17.1
As % of Expenditures	15.1%	12.8%	13.2%	12.6%	13.0%	13.0%

Details need not add to total due to rounding.

*The "Safety Net Reserve" is a fund created for the 2018-19 budget that avoids certain limits in the formula governing the BSA.

Source: See Table 3.

Table 5: Ballot Propositions on the June 2018 Primary Ballot

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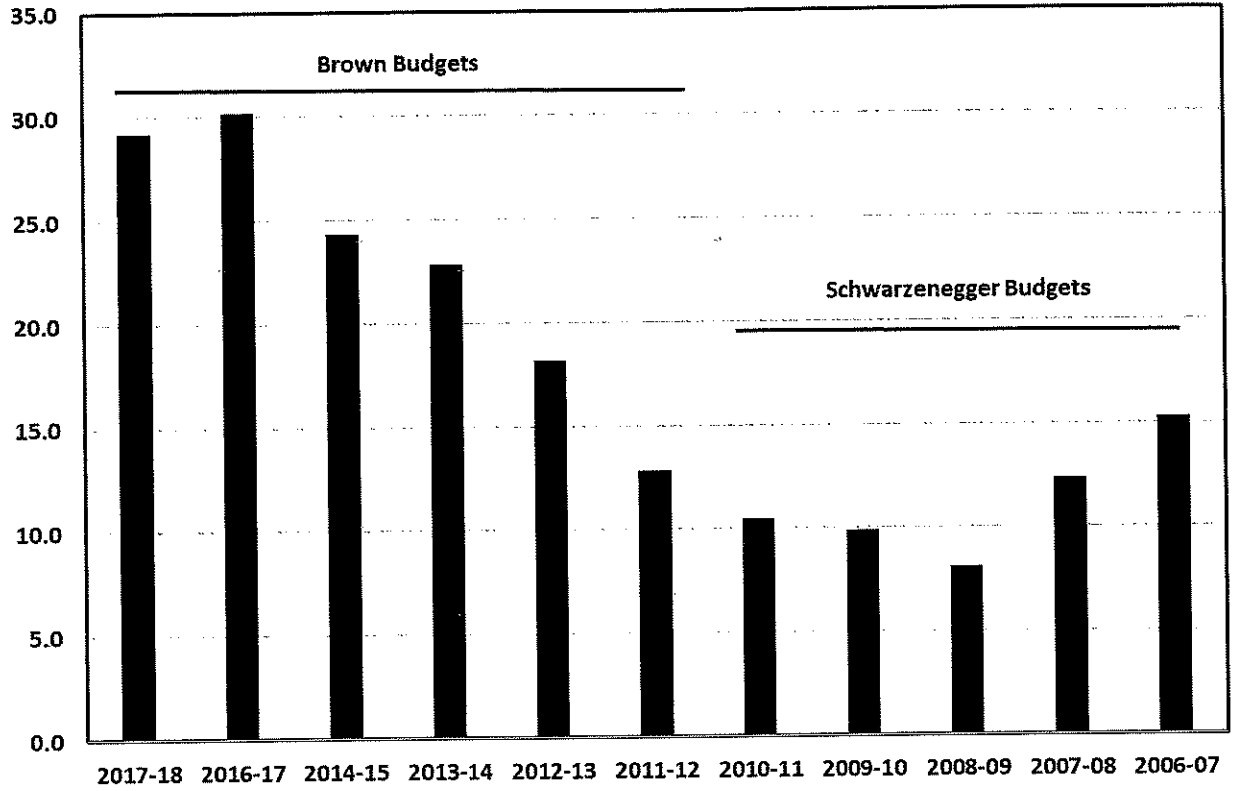
Prop 68: \$4.1 Billion Bonds for Drought, Water, Parks, and Other Environmental Purposes. Passed 57.4%
Prop 69: Tighter Earmarking of Gas Tax for Transportation. Passed 81.0%
Prop 70: Required 2/3 Vote to Allocate Cap-and-Trade Funds in 2024. Failed 38.3%
Prop 71: Technical Change Setting Initiatives Starting Date After Official Vote Certification. Passed 79.6%
Prop 72: Excludes Improvements in Rainwater Recycling from Being Assessed for Property Tax. Passed 84.6%

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Source: California Secretary of State, Statewide Direct Primary Election - Statement of the Vote, June 5, 2018. Available at <http://elections.cdn.sos.ca.gov/sov/2018-primary/sov/132-ballot-measures.pdf>.

Chart 1:

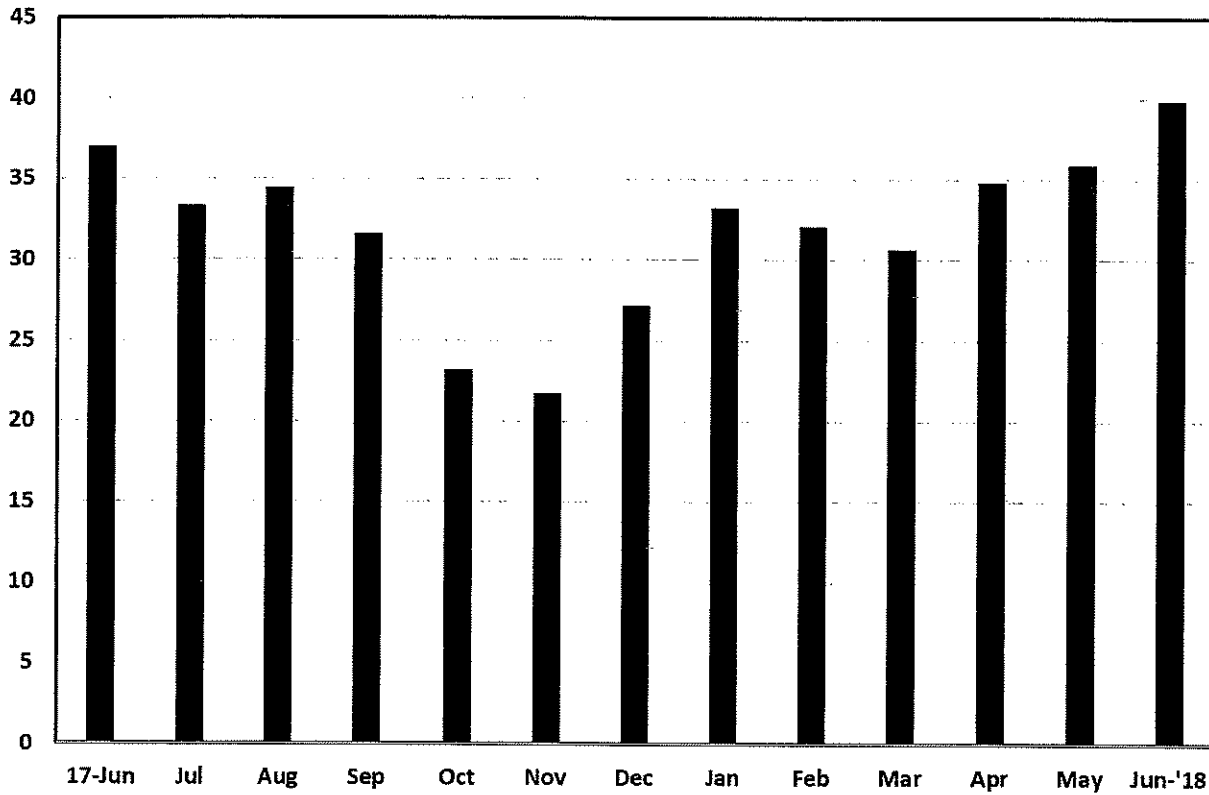
**Unused Borrowable Resources as Percent of Receipts:
End of Fiscal Year, Cash Basis**



Source: California State Controller, June editions. Available at https://www.sco.ca.gov/ard_state_cash.html.

Chart 2:

**Unused Borrowable Internal Resources: June 2017 - June 2018:
Cash Basis, \$Billions**



Source: California State Controller, monthly cash statements for months shown. Available at https://www.sco.ca.gov/ard_state_cash_fy1718.html and <https://www.sco.ca.gov/Files-ARD/CASH/June%202017%20Statement%20of%20General%20Fund%20Cash%20Receipts%20and%20Disbursements.pdf>.

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