

CHAPTER 1

Not if He Can Help It: Enacting the 2016-2017 California State Budget

*California Policy
Options: 2017*

Daniel J.B. Mitchell

Professor-Emeritus, UCLA Anderson School of Management
and UCLA Luskin School of Public Affairs

*"Is it bye-bye, Jerry? Not if I can help it."**

Governor Jerry Brown on avoiding the budget crisis-related fates of his predecessors¹

The most important document any legislative body enacts is the budget. Budgets express priorities. They express values. They influence economic behavior. On the other hand, they are embedded in the larger political process that continues from one period to the next. So anything a legislature does in a particular fiscal year can be undone by some future legislature. It's hard to ensure a legacy, fiscal or otherwise.

Jerry Brown is unique in California history in having been elected to the governorship four times.² When he was first elected in 1976, there were no term limits. Nonetheless, he ran only twice for governor in his first iteration and, in his second term, he finished in the midst of a major budget crisis that he left to his successor to resolve. At the end of his first eight years, while not seeking a third term as governor, he did run for the U.S. Senate. And he lost (to San Diego Mayor Pete Wilson) in 1982.

So what would Brown's legacy have been had his career ended at that point? Not so good. He was remembered at that point for his budget crisis as he was leaving office. Longer term, he was remembered for his New Age sayings leading to the phrase "Governor Moonbeam," and for being the opposite of his dad, former Governor Pat Brown. Pat Brown is nowadays seen as a great builder of infrastructure and enhancer of higher education. It's largely forgotten that he, like his son, left a budget crisis to his successor (Ronald Reagan).

Much of what Jerry Brown has done in his second iteration as governor since his election in 2010 to a third term and in 2014 to a fourth term, has been to try to revise and reverse his previous reputation. Now he wants to be seen as the repairer of an inherited budget crisis left to him by Arnold Schwarzenegger. He wants to leave a budget process in place that will avoid a new crisis. He wants to be seen as a builder of a high-speed rail system and of a great water project involving twin tunnels in the Bay Delta area. He wants to be seen as an environmentalist, particularly with regard to reducing greenhouse gas emissions. But in doing all that, Jerry Brown wants his second iteration to be viewed as somehow consistent with his earlier

* This chapter takes the budget story up through July 2016. Later information is not included. Apart from official documents, much of this chapter is drawn from news media accounts. Such accounts are mainly referenced in the cases of direct quotes. Dates of references are those contained in the web versions, not necessarily the date they appeared in print versions.

¹ Governor Jerry Brown commenting at his May Revise news conference, May 13, 2016, on wanting to avoid the fates of former Governors Davis and Schwarzenegger when they had budget crises: <https://www.youtube.com/watch?v=QJ7v-hyht6Q>.

² Governor Earl Warren, first elected in 1942, holds the record for *consecutive* elections. He was elected three times although his third term was interrupted when he was appointed as chief justice of the U.S. Supreme Court.

iteration. In that context, this chapter provides a narrative for the development and enactment of the 2016-17 budget. For Jerry Brown, budgeting is not a routine function; it is a matter of legacy.

Understanding the State Budget

"I love the legislature, but I don't want to entrust you with too much power..."

Governor Jerry Brown³

In order to examine the making of the budget for fiscal year 2016-17, it's important to understand budgetary processes, budgetary language and its pitfalls, and budgetary accounting methodology. The budget is produced through an interaction between the governor and legislature, mainly through a process by which the governor proposes and the legislature modifies. The process unfolds, sometimes with tensions over who has the major role – governor or legislature. But tensions tend to recede in good times.

Budgetary Institutions

As do other state and local entities around the country, California has a General Fund – essentially the operating budget of the state. The General Fund is the source of money for education, for various social welfare programs, for prisons, and for a host of administrative and miscellaneous functions. Roughly seven out of 10 state dollars are disbursed from the General Fund. Usually, references to "the budget" refer to the General Fund.

But there are literally hundreds of special funds outside the General Fund. Typically, these special funds were set up to carry out some specific function. For example, the gasoline tax and other motor vehicle fees are earmarked for funding road repairs, road construction, and other transportation-related activities. Most people have some sense that they pay a gasoline tax at the pump that is supposed to be going toward transportation infrastructure. But few would be aware of the Fingerprint Fees Account, the Leaking Underground Storage Tank Cost Recovery Fund, the Barbering and Cosmetology Contingent Fund, the Northern California Veterans Cemetery Perpetual Maintenance Fund, or the California Collegiate License Plate Fund. Those are but a few of the many special funds outside the field of transportation.

You can think of the General Fund as the state's household checking account. At any moment in time, money is flowing into the General Fund, mainly from taxes. And money is flowing out to cover state expenses. Some of those expenses represent activities directly provided by state agencies. Some expenses

³David Siders, "Brown signs renewable energy bill," Capitol Alert blog of *Sacramento Bee*, October 7, 2015. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article38089830.html>.

fund activities carried out at a lower level. They are transfers sent to local governments, especially school districts. The state's plan for the General Fund is an annual affair with a fiscal year beginning each July 1. In contrast, the special funds tend to be ongoing activities.

By state constitutional mandate, the governor makes a proposal for the next year's budget each January. By practice, the governor revises that proposal – the May Revise – in mid-May to take account of recent data on tax revenues and expenditures, forecasts of the economy, and political considerations that have arisen. The legislature must enact a budget by June 15 under the state constitution. Once the budget is received by the governor, he – there has yet to be a she in California – can veto it whole (very rare), or modify it via line-item vetoes, or just sign it “as is” (also rare). Line-item vetoes can cut particular expenditures. But the governor can't add expenditures beyond what the legislature has provided. And the entire process is supposed to be completed by the July 1 start of the new fiscal year.

Borrowing and Cash Management

As with a checking account, at any moment in time, there can be a balance of dollars sitting in the “bank.” But here is where the analogy with a standard household checking account breaks down. For most households, the balance in their checking accounts – unless they have overdraft privileges – must be positive and must cover any outstanding checks that arrive. If not, the checks will bounce. In contrast, there can be times where the General Fund's balance is zero and money has to be borrowed to cover expenses.

In effect, overdrafts are not uncommon, particularly on a seasonal basis. The inflow of taxes is not evenly spread out across any twelve month period. Personal income taxes are due for most taxpayers in April, although some personal income tax revenue comes in every month through withholding. Sales taxes reflect the ups and downs of consumption patterns; Christmas sales create added revenue in November-December. But expenses of the state do not necessarily match seasonal revenue inflows. If overdrafts occur, some form of borrowing is needed.

Particularly during recessions or depressed periods of economic activity, tax revenues will be reduced. State expenses will not fall in such periods; in fact, some social welfare spending may increase. As noted, for whatever reason, when there is insufficient money in the General Fund, there needs to be borrowing to cover the costs. Problems arise because under the state constitution, external borrowing – *other than short term* – is not supposed to cover operating costs. External longer-term borrowing is supposed to be for long-lived infrastructure.

Because there are special funds outside the General Fund, balances in those funds can be tapped for internal borrowing as allowed by law. Of course, if the special funds become loaded up with IOUs from the General Fund rather than cash, their ability to carry out their earmarked functions can be impeded. To avoid or minimize such effects, the state can also borrow from the external financial markets. But – again – there are constraints.

As noted, the state constitution forbids external borrowing for operating purposes; borrowing is supposed to be for one-time infrastructure-type projects. Nevertheless, court decisions have allowed seasonal external borrowing within fiscal years. The state accomplishes such external borrowing by issuing short-term securities known as Revenue Anticipation Notes (RANs) during the fiscal year which are paid off before the year ends.

California's elected state treasurer is in charge of floating RANs as well as those longer-term securities allowed by the constitution. On rare occasions during budget crises, the state also can issue Revenue Anticipation Warrants (RAWs) which are short-term securities that cross from one fiscal year into the next. The elected state controller issues RAWs on those occasions and also handles the internal borrowing from special funds. On very rare occasions, California has found itself unable to cover expenses, even with internal and external borrowing, and has handed out Registered Warrants (essentially IOUs), to state creditors. The last time that Registered Warrants were issued was in 2009 in the aftermath of the Great Recession.

Budgetary Language

Unfortunately, California-budget speak differs from federal, and in ways that are not helpful to those seeking to understand state fiscal affairs. Even with your checking account, you want to distinguish between "stocks" (how things are at a moment in time) and "flows" (changes over specified time periods). At the federal level, when the terms "surplus" or "deficit" are used, the understood meaning is simple. These are flow terms. A surplus is a situation in which more revenue is flowing into the Treasury than is flowing out in a period, usually a fiscal year. (Yes, there have been federal surpluses, most recently under President Bill Clinton.) A deficit is the opposite of a surplus, more is flowing out than coming in during a period. A balanced budget is the knife-edge situation in between surplus and deficit: the amount flowing in = the amount flowing out.

In California, and really in state and local governments more generally, what is meant by surplus, deficit, and balance is fuzzy and inconsistent. Sometimes those terms are used as they are at the federal level. But

sometimes, stocks and flows are mixed together. If the general fund has *any* money in it at the end of the fiscal year, it might be said to be in balance or even in surplus. And yet such a balanced budget or surplus budget could be headed for difficulty if the trend is outflow > inflow.

If outflow > inflow, the reserve in the General Fund will eventually be depleted. So you really want to distinguish between the reserve at a point in time (usually the end of the fiscal year), and the trend or direction in which things are moving: surplus or deficit (flows). Chronic deficits, in particular, will eventually need correction: either more revenue or reduced expenditure will be required, or both.

Accounting Methodology

One way of doing the bookkeeping for the General Fund is simply to look at actual cash arriving or flowing out during the fiscal year and how much cash is in the General Fund at the start and end of the fiscal year or any period. The state controller, in fact, issues monthly cash reports for the General Fund which are readily available online. However, cash accounting is subject to accidents of timing.

For example, suppose the state is due a payment in June but, in fact, the check arrives on July 1. There really is no difference in fiscal condition whether the check had arrived on June 30 or July 1. But on a cash basis, the fiscal year ending on June 30 will be less flush because of the one-day delay. To avoid such accidents of timing, “accrual” accounting is used – both in the public and private sectors. (Corporate accounting is typically done on an accrual basis.)

Accrual accounting involves attributing receipts and expenditures to the periods they are associated with rather than when the payments actually occur. In theory, it gives a more accurate picture of the fiscal condition because accidents of timing are removed. But that’s the theory, not necessarily what happens in practice.

Cash accounting can certainly be manipulated. For example, under cash accounting – if you want to make the current fiscal year look better than it is – instead of issuing monthly paychecks for June on June 30, you could delay them until July 1. For the current year, your payroll expenses will be only 11/12ths of normal, so you will have appeared to have reduced spending even though nothing real has happened. On the other hand, accrual accounting – deciding what periods with which to link receipts and disbursements – also is open to manipulation. And it is more difficult to verify. For cash accounts, you either have the cash or you don’t. Accrued cash, on the other hand, is not necessarily actually there. Rather it is due to be there on some criterion. And the period when something is supposed to be due can be manipulated.

Accrual methodology is in fact the basis of gubernatorial budget proposals and legislative enactments. The controller does keep track of actual cash. But no reconciliation between the two approaches is provided. So mere mortals must simply accept the notion that accrual is being done “correctly.” And, changes in accrual methodology that are made from time to time mean that budget documents from one period are not necessarily consistent with budget documents from some other period.

A Look at the Numbers

“It is extremely complex. Very few people understand it. So I’m not going to try to explain it to you because I couldn’t explain it to you if I wanted to.”

Governor Jerry Brown⁴

To look at the actual California budget, we start – despite the deficiencies discussed above – with an accrual presentation of the state budget’s development for the year 2016-17. We use accrual only because that is the way the governor presents his budget proposal and that is the way the legislature ultimately enacts the budget. Apart from the governor and legislature, there is another player in the process. In the early 1940s, the legislature – concerned that it did not have an independent nonpartisan source to evaluate budgets and other policies – created the Legislative Analyst’s Office (LAO). Since it is a creation of the legislature, LAO – while nonpartisan – is not exactly neutral when it comes to legislative discretion vs. gubernatorial discretion. It tends to favor proposals which provide for legislative oversight and authority and it is not keen on what it sees as too much delegation to the governor or to state agencies.

Since the governor, by constitutional mandate, must submit a budget in early January, the LAO inserts itself into the budget deliberations ahead of the governor by issuing its view of the budget outlook the previous November. However, LAO generally does not want to be in the position of adding new initiatives to state fiscal policy or removing existing ones. So its November outlook is basically a projection of what it believes would happen if existing policies on taxing and spending were continued. The budget can be expected to change as the economy develops and also based on such trends as demographics without any policy alterations. For example, if there are more children of school age, school enrollments will likely rise as will resultant spending on schools.

⁴Quote number 11 in Vanessa Maravilla, “Memorable quotes from Brown’s budget proposal speech,” *KCRA*, January 8, 2016. Available at <http://www.kcra.com/news/local-news/news-sacramento/memorable-quotes-from-browns-budget-proposal-speech/37320494>. Brown was referring to a tax that in a complicated way draws federal dollars for Medi-Cal (Medicaid). We discuss that tax later in this chapter.

LAO November Outlook

Table 1 shows the LAO projection made in November 2015 in the first column on the left. The LAO expected that at the beginning of the upcoming fiscal year (July 1, 2016), there would be about \$3.2 billion in the General Fund as a reserve (a stock). There was expected to be a surplus (inflow > outflow) during the year of about \$2.1 billion which would raise the reserve in the General Fund to \$5.3 billion. In addition, the “rainy day” fund that voters voted to create in 2014 at the governor’s urging would accumulate an additional \$1.6 billion.⁵ Total reserves, General Fund reserve + rainy day reserve would, by the end of the new fiscal year, rise to 10.3% of spending.

Governor’s January Proposal

However, when Governor Brown made his proposal in January 2016, he provided different estimates of the starting reserve in both the General Fund and the rainy day fund. Exactly why there should have been a difference is unclear. (Second column from the left on Table 1.) Was the difference due to different forecasts of the economy, some change in accrual methodology, or other reasons? The answer isn’t evident from the basic online material. Apart from the starting reserve issue, it does appear that the governor – through the Department of Finance that produces his budget proposals – had a more conservative forecast for revenues in the then-forthcoming 2016-17 year.

On the other hand, the governor proposed more spending than the LAO’s view of what would have been spent with no change in policy. So his budget contained a General Fund deficit of about -\$2 billion rather than a surplus of that amount projected earlier by LAO. But the governor’s rainy day fund contained an offsetting surplus of about \$2 billion. So it appears that, when you look for an overview of the governor’s fiscal strategy, he was diverting monies from the regular General Fund reserve into the rainy day fund reserve. Possibly, he was making the shift because it is more difficult to tap the rainy day fund relative to the regular reserve. Possibly, it was for politically cosmetic reasons. In any event, his budget proposal net (General Fund reserve + rainy day fund) ends in June 2017 with a lower ratio of reserves to spending: 9.1% (compared to 10.3% projected by the LAO).

⁵As a technical matter, the rainy day fund (Budget Stabilization Account) existed before voters – with Jerry Brown’s urging – created a mechanism to fund it in 2014 under Proposition 2. Proposition 2 provides a formula approach for diverting revenue into the rainy day fund. In addition, the legislature can directly add to it. The account had been created as a bookkeeping device as part of Governor Arnold Schwarzenegger’s plan for dealing with the budget crisis left to him after the 2003 recall election, by previous Governor Gray Davis.

May Revise

By the time the May Revise rolled around, the legislature had gone through several months of hearings on budgetary matters. So the May Revise proposal of the governor was informed by both updated economic information and political information. The revenue forecast provided by the governor was a shade more conservative than in January, as was his estimate of the starting reserve in the General Fund. However, the General Fund deficit was still about -\$2 billion. It was offset by a surplus in the rainy day fund of \$3.3 billion (down from \$3.6 billion in January). The ratio of the net reserve balance to spending by the end of fiscal year 2016-17 was down to 7.7%.

Enacted Budget

In terms of the macro picture, the actually-enacted budget in June 2016 differed little from the May Revise. The governor made slight changes in response to legislative pressures. But in the end there was an unusually amicable agreement. Although the governor could have exercised his line-item veto, he made no changes. Virtually all governors (including Brown in the past) have made at least minor cuts. So the budget passed by the legislature, and the budget signed soon after by the governor were identical.

Cash vs. Accrual

Tables 2 and 3 provide a history of budget making during Governor Brown's second iteration. Brown's second iteration and third term began in January 2011 after his victory over Republican candidate Meg Whitman, the former CEO of eBay. Because the political year and the fiscal year are not identical, Brown's first six months in office occurred under the terms of the final budget signed by his predecessor, Arnold Schwarzenegger. Brown's first budget proposal was thus for 2011-12. He had hoped to reach agreement with legislative Republicans to place a proposition on the November 2011 ballot that would add some tax revenue, but his negotiations with them went nowhere. At the last minute – to produce a budget that was at least cosmetically “balanced” – the budget was enacted by assuming a phantom \$4 billion in extra revenue that would appear somehow.⁶ (It wasn't specified *which* tax or taxes would produce this extra revenue.)

⁶We remind the reader of the fuzzy language issue associated with state budgets. The back story is complicated. Brown had a choice between using an initiative to put the tax measure on the ballot (a petition with requisite signatures of registered voters) and doing it via the legislature – which required a two-thirds vote. He wanted to use the legislative option, which meant he would need a few Republican votes, because he thought it would look more bipartisan to voters. Voters had earlier approved a ballot proposition cutting the requirement for passing a budget from two thirds to a simple majority (but retaining two-thirds for increased taxes). To pass the budget, therefore, only a simple majority

When the following year's budget was enacted (2012-13), it included an estimate for the Phantom-4 year which, not surprisingly, was in deficit (revenue < spending); put another way, the phantom did not arrive.⁷ But when you look up budget history documents *now* – as reflected on Table 2 – the Phantom-4 year shows a surplus. This type of retroactive revision of history illustrates the problem inherent in accrual accounting. What accounted for the switch from deficit to surplus? Who knows?

Table 3 – which is on a cash basis – shows an unsurprising deficit after the fact for the Phantom-4 year when imaginary revenue was assumed. So on an accrual basis in a year when an imaginary \$4 billion was assumed to pass a budget, the deficit eventually disappeared from the historical record. But cash is cash and the expected consequence – a deficit – remains. Perhaps there is a lesson about accrual versus cash accounting here. If you want to understand what is going on, the former is better in theory; the latter is better in practice.

The problem of the discrepancy between cash and accrual continues thereafter. Readers will note on (accrual) Table 2 there is a gap in 2013-14 between figures reported as an historical time series and figures on another document, both on the official website at this writing. Unfortunately, 2013-14 is the first year in which the full impact of a tax-raising initiative – Prop 30 endorsed by Governor Brown – can be seen. And the discrepancies between Tables 2 and 3 continue. Total reserves seem to be lower using cash accounting than accrual. But without a clear reconciliation table explaining the differences, it's hard to know what the true situation is.

California, circa 2000, deserved praise for having put its basic budget documents available on the web. At the time, that level of transparency was an achievement, perhaps a reflection of the state's high-tech industry. But years later, just putting what used to be paper format documents on the web is routine for state and local governments around the country. The next step should be to make interpretation of official budget documents easy. Unfortunately, in that area, California hasn't advanced since 2000.

Avoiding a Future Crisis

Can we at least say that California's fiscal situation is notably better now than it was back in 2010 when Governor Brown was elected to the beginning of his second iteration? Even if the precise condition of the reserves available to the General Fund is somewhat obscure, there are more resources available to deal with

was needed and it had to look "balanced" on paper. The result was the assumption of a phantom \$4 billion in revenue above what had been forecast for the various taxes the state collects. As a result, the phantom \$4 billion was not allocated to any particular tax or taxes but was assumed to come as a surprise within some tax somehow.

⁷<http://www.ebudget.ca.gov/2012-13-EN/pdf/Enacted/BudgetSummary/SummaryCharts.pdf>.

a downturn than there were back then. Resources available go beyond what is officially in reserve accounts. As noted previously, apart from the General Fund, the state has other special funds earmarked for particular functions. And as also noted earlier, in the case of a pinch, the state controller can move cash – in the form of an internal loan – from those funds to the General Fund.

The monthly reports of the state controller show the total in those special funds minus what borrowings have already been made by the General Fund, a sum known as Unused Borrowable Reserves. Figure 1 compares crisis year 2009-10 with now completed 2015-16 and with projections for 2016-17. In the crisis year, such resources fell to below 5% of annual spending in some months. Indeed, as the figure shows, July 2009 – the point in time when IOUs began to be distributed in lieu of actual payments – was such a month. In contrast, the *peak* month of the 2009-10 fiscal year in terms of Unused Borrowable Reserves relative to annual spending was below the *troughs* of 2015-16 and the projected troughs of 2016-17. So the state clearly has more of a cash cushion now than it did back then.

In short, the fiscal condition of the state is clearly better, due to the economic recovery since the crisis year, the added tax revenue from Prop 30 of 2012, and constraints on spending. Still, reserves are a cushion, not a total insulation, from the business cycle. If there were to be a downturn, the state would have a couple of years to complete taking steps – perhaps painful steps – to reduce spending to available revenue. And as noted previously, if you drain out the special funds by taking their cash and giving them IOUs instead, you hinder the ability of those funds to carry out their designated functions. In effect, you are protecting activities of the General Fund at the expense of activities of the special funds.

At present, we finish each fiscal year with a ratio of Unused Available Reserves to spending in the 25-30% range. In crisis year 2009-10, the ending ratio was around 10%. In the peak of the late 1990s (dot-com boom), the ratio was around 15% as it was at the peak of the housing bubble/boom (2006-07). So we definitely have more resources on hand now than then. Nonetheless, California has a special vulnerability from the heavy reliance of state finance on the personal income tax, a reliance that has risen over time.

The personal income tax is progressive and thus is heavily dependent on tax liabilities of high-income Californians whose taxable incomes reflect capital gains and losses in financial markets. The top one percent of taxpayers paid 48% of income tax revenues in 2014; the top fifth paid 90 percent.⁸ About two thirds of the revenue projected to go into the General Fund in 2016-17 comes from the personal income tax. If we combine General Fund revenues with those going into the special funds, the proportion is smaller. But it's

⁸Jim Miller, "Almost half of California 2014 income taxes paid by top 1 percent," Capitol Alert of *Sacramento Bee*, April 27, 2016. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article74271532.html>.

still about half. Under Jerry Brown, resources to deal with downturns have increased but so has state vulnerability to downturns.⁹

How We Got There

“Jerry has always been a reflective, thoughtful guy. I always thought when we were in school together that he would be a philosopher.”

Father John Coleman commenting on
Brown’s signing a right-to-die bill¹⁰

We have traced the numerical development of the 2016-17 budget. But what was the political background? How did we get to the eventual numbers? Although we think of each year’s budget as a thing in itself, the budget is in fact an evolving story. Issues left over from one fiscal year are carried into the next. Even enacted budgets are not “final.” Without any legislative change, economic trends and their relation to revenues generated may evolve differently from budgetary assumptions and lead to different outcomes. Similarly, expenditures in many programs depend on factors that may develop differently from what was assumed.

Apart from external influences such as the economy, the legislature itself may make budgetary modifications in the course of a year. In some cases, voters may have an influence on the budget through ballot propositions. While the most dramatic mid-course changes in the budget tend to occur during fiscal crises, no budget is absolutely fixed, even in good times. Good times, however, make for a calmer fiscal atmosphere than do hard times with their resulting conflicts over a diminished pie to divide. Fiscal 2015-16 began with a clear indication that a crisis any time soon was very unlikely, so there was the expected sense of calm compared to the atmosphere of earlier years. Indeed, State Controller Betty Yee announced that there was sufficient internal cash on hand to meet all seasonal ups and downs in revenue and spending during the year. No short-term external borrowing via RANs was expected.

Follow on to the 2015-16 Budget

A variety of issues remained on the agenda after the previous 2015-16 budget was put in place. There were the two legacy infrastructure projects of Governor Brown: the high-speed rail train and the water tunnels. Opposition to, or skepticism about, the two projects was not confined to GOP legislators. Some Democrats

⁹Reliance on the personal income tax was increased by the governor’s Prop 30. It will be further increased if voters approve the extension of the temporary income tax component of Prop 30 in the November 2016 election.

¹⁰Kevin Fagan, “Jerry Brown’s thoughts turn to end-of-life issues,” *San Francisco Chronicle*, October 5, 2015. Available at <http://www.sfchronicle.com/news/article/Jerry-Brown-s-thoughts-turn-to-end-of-life-6552385.php>.

were also not sympathetic. Looking ahead, there was growing interest during the fiscal year about what propositions might wind up on the November 2016 ballot. Presidential politics increasingly received public attention as the fiscal year progressed, particularly as the June 2016 primary approached.¹¹ From time to time, there was speculation that Governor Brown in his last term – and given his interest in the presidency earlier in his long career – might enter the Democratic race. Brown had made his disdain for eventual Republican candidate Donald Trump known early on, although he said little about it until after the primary.¹² But Brown never indicated any personal interest in running himself.

However, with Governor Brown termed out in California, state-level gubernatorial politics for 2018 were already in evidence. One candidate, Lieutenant Governor Gavin Newsom, was already in the contest. State Treasurer John Chiang would be added as a candidate as the fiscal year progressed. And there were other possible names as well, such as former Los Angeles mayor Antonio Villaraigosa.¹³ Newsom in the past, it might be noted, had expressed opposition to Brown's high-speed rail. He began taking positions on other matters as well, favoring strong gun control and the legalization of marijuana.

¹¹As the year progressed and both the Democratic and Republican races took unexpected turns, it appeared for a time that the California primary – even though it came late in the political contests – might be crucial in determining the nominee of one or both parties. Vermont Senator Bernie Sanders mounted a surprisingly strong challenge to Hillary Clinton on the Democratic side. And Donald Trump emerged to be the leading Republican candidate out of a herd of GOP contenders. But in neither case did the California primary turn out to be decisive. Both Clinton and Trump had essentially locked up their nominations by June 2016. Brown stayed out of presidential politics until shortly before the June 2016 California primary at which point he endorsed Hillary Clinton over rival Sanders. As might be expected, Brown did not have anything positive to say about GOP candidate Trump, although he said little about him through the primary. At the Democratic convention in July, he attacked Trump on the global warming issue: *"Trump says global warming is a hoax. I say Trump is a fraud. Trump says there's no drought in California, I say Trump lies. So it's not surprising that Trump chose as his running mate a man who denies that there's such a thing as evolution."* See Ted Johnson, "Jerry Brown Calls Donald Trump a 'Fraud,'" *Variety*, July 27, 2016. Available at <http://variety.com/2016/biz/news/jerry-brown-donald-trump-fraud-democratic-national-convention-1201825025/>.

¹²There was another California element in the presidential race. When Trump became a candidate, he was replaced on the "Celebrity Apprentice" TV show he had been hosting by Arnold Schwarzenegger who had resumed his acting career after his two terms as California governor.

¹³In early polling, the California Field Poll included Newsom, Villaraigosa, Chiang, current LA mayor Eric Garcetti, wealthy environmentalist Tom Steyer, former state controller Steve Westly – all Democrats – as well as two Republicans: Fresno mayor Ashley Swearengin and San Diego mayor Kevin Falconer (who later explicitly said he would not run). Available at <http://www.field.com/fieldpollonline/subscribers/RIs2520.pdf>. Even a rumor of possible candidacy immediately brings public scrutiny. Westly, who was a past candidate for the Democratic nomination for governor, was suddenly the subject of a *Wall Street Journal* article about his business association with a man charged with domestic abuse. Jeff Elder, "How Politician Steve Westly Helped RadiumOne CEO Amid Scandal," *Wall Street Journal*, September 9, 2015. Available at <http://blogs.wsj.com/digits/2015/09/09/how-politician-steve-westly-helped-radiumone-ceo-amid-scandal/>.

Rainy-Day Fund Issues: One legacy item that Governor Brown already had in place was his rainy-day fund under Prop 2 of 2014.¹⁴ Part of the deal through which that proposition got to the ballot was inclusion of a limit on local school district reserves, ostensibly on the rationale that if the state had a big enough reserve, local districts wouldn't need large cautionary balances of their own. Teachers' unions pushed for the local limit on reserves to prevent districts from tucking away money that might otherwise be used for salaries. There was an attempt in the legislature by the districts during summer 2015 to ease the local limit, but the effort ultimately failed. Nonetheless, the issue continues to simmer.

Public Pensions: Another political failure was a proposed initiative to restrict public pension systems. A group led by a former city councilmember from San Diego and a former mayor of San Jose has periodically promoted such an initiative, but it never has raised the money that would be needed for a campaign. After a flurry of interest, the effort ended, at least with regard to the November 2016 ballot. Since public pensions continue to be underfunded, the issue remains. But unless some wealthy individuals want to fund a campaign (the issue is popular in conservative circles), it would be difficult to mount a successful effort.

Governor Brown – who earlier had his own plan for pensions enacted – continued to pressure the state's plans (CalPERS, CalSTRS, and the University of California {UC} pension system) to deal with underfunding.¹⁵ He has also pushed various state labor unions to raise employee contributions to retiree health care.¹⁶ However, although the focus in the political sphere has been on public employees' retirement costs, there is

¹⁴Brown had only modest Republican opposition from Neel Kashkari, an obscure former U.S. Treasury official, in the 2014 gubernatorial election. Instead of running TV ads directly in support of his campaign, Brown ran ads for Prop 1 (a water bond) and Prop 2, the rainy-day fund. In the ads, Brown appeared and urged voters to support the two propositions. He never directly said to vote for him, too. Kashkari, after losing the election, was appointed president of the Federal Reserve Bank of Minneapolis.

¹⁵CalPERS covers most state employees (except the University of California) and many local employees. It has been engaged in litigation against the bankrupt City of San Bernardino which skipped some required payments into the system. CalSTRS covers school teachers. The University of California was originally exempted from the governor's legislation but was included *de facto* later in a deal with the Regents that was implemented in the spring of 2016. The UC deal was controversial and at one point a legislative committee threatened to override it. All three state systems may need to reduce assumed rates of return on their portfolios which would increase their calculated rates of underfunding. In recent years, the systems have assumed long-term annual rates of return of 7.25% – 7.50%. The governor thinks 6.5% would be more realistic. Statements of the administrators of the UC plan suggest agreement with the governor about the estimate. One concern has been a tendency – for political reasons – to pressure public pensions to divest from disfavored industries. The latest example was a bill requiring divestment from coal – due to environmental effects – passed in September 2015. Note that the state has no coal industry – but *does* have a significant oil industry. Both coal and oil are fossil fuels and both have adverse environmental effects when burned. It is not always the case that politically disfavored industries are bad investments or that the legislature can make such distinctions.

¹⁶A contract with an engineers' union reached in August 2015 provided for such a contribution. The Brown administration thus signaled it would push for similar terms with other unions. However, members of a union of state scientists rejected such a contract in early October.

a much larger long-term issue of the aging population in the state (and in the U.S.) as the baby boomers retire. State programs of social service will be affected by the demographics of aging, but there has been little advance planning. Yet the aging population creates a kind of implicit unfunded liability for the state, even though such demographic liabilities don't necessarily show up in official bookkeeping the way public pension liabilities do.¹⁷

There continued to be study, but no final enacted version, of a plan to create a pension benefit for *private-sector* workers whose employers didn't provide one. The basic idea is to create a kind of state-sponsored, tax-favored IRA-type plan ("Secure Choice") that employees themselves would finance at no risk and no cost to the state. Several states have such plans under consideration. A key element is that eligible employees would be automatically enrolled in the plan for payroll deductions/savings contributions. They could opt out, so the plan would be voluntary. But behavioral research suggests that if making contributions is the default status, most people won't opt out.¹⁸ At least some of the motivation behind the plan, which remained in development and consideration throughout the budget cycle, is to lessen public concern about public pensions and to focus instead on the idea that all workers should have a retirement benefit program.

Education: Although education is the biggest single item in the state budget, school districts also rely on federal funding. There has been a history of the state being out of compliance with federal testing mandates for students, but ultimately obtaining waivers for its deviations. In the latest version of this process, the legislature scrapped its high school exit exam requirement in August 2015, allowing those students who failed the test to obtain their diplomas anyway. It remained unclear what type of exam would be the future replacement for the abandoned test.¹⁹ Given the past history of federal acquiescence, the legislature may well have assumed that in the end there would be no cut in federal funding.²⁰ But the reality is that

¹⁷Public Policy Institute of California, "Planning for California's Growing Senior Population," August 2015. Available at http://www.ppic.org/main/publication_quick.asp?i=1156.

¹⁸See <http://www.treasurer.ca.gov/scib/>. The initial impetus for the plan came as a result of legislation in 2012. See also Anek Belbase, Alicia H. Munnell, Nari Rhee, and Geoffrey T. Sanzenbacher, "State Savings Initiatives: Lessons from California and Connecticut," Boston College: Center for Retirement Research, March 2016. Available at http://crr.bc.edu/wp-content/uploads/2016/03/IB_16-5.pdf.

¹⁹The state Department of Education for a time removed from its website historical data on test scores. After an outcry, it restored the information.

²⁰The resignation announcement of U.S. Secretary of Education Arne Duncan – an advocate of testing – came later in the year (in early October 2015). That resignation may turn out to ease some of the conflict between the state and the federal government on educational performance measures.

California students tend to score below the national average in standardized tests, even after demographic adjustment.²¹

At the higher education level, there remained tension between the legislature and UC over out-of-state admissions which produce added revenue for the university through tuition surcharges. The legislature offered UC an extra \$25 million to enroll 5,000 more in-state students but the added enrollment didn't happen in the 2015-16 academic year. By UC's calculation, the offer – effectively \$5,000 per extra student – doesn't cover the marginal cost. Nonetheless, the legislature left the offer on the table for the following year; eventually the university agreed to expand admissions.

Initiatives: Although under Prop 13 of 1978, a two-thirds vote of the legislature is required to raise state taxes, fees (user charges) can be raised by a simple majority.²² The fee for filing initiatives had been \$200 for decades and, as a result, many proposed propositions were filed by citizens without a prayer of collecting the needed signatures. Some of these filings were done with the hope of generating publicity for various causes. Some were filed in the false hope that other citizens would somehow spontaneously provide the signatures. However, after the filing of an initiative that would have made it legal to murder homosexuals, there was public outrage about the process. As a consequence, the legislature enacted a fee increase to \$2,000. The purpose was not to raise more revenue but rather to discourage frivolous or hateful filings.²³

Taxes: One initiative that was filed in August 2015 – but that never got to the ballot – would have imposed a property tax surcharge on properties valued above \$3 million with the funds used for various anti-poverty programs. Of course, the vast majority of homes – even with the high values that characterize much of urban California – would not be affected.²⁴ Nonetheless, anything that touches on property taxes incurs the wrath of Prop 13 advocates. In the end, the effort was dropped.

²¹Comparative state scores on the tests of the National Assessment of Educational Progress can be found at <http://nces.ed.gov/nationsreportcard/states/>. See also Urban Institute, "How do states really stack up on the 2015 NAEP?," October 28, 2015. Available at <http://www.urban.org/urban-wire/how-do-states-really-stack-2015-naep>.

²²The distinction between fees and taxes can be fuzzy in some cases. Nonetheless, in 1996, voters enacted Prop 218 which tightened the definition of fees to prevent *de facto* tax increases.

²³When an initiative is filed, the Legislative Analyst's Office must analyze the proposal and produce a statement of budgetary impact. The attorney general must come up with a description and title. The estimated cost of these requirements was put at \$8,000 per filing, but the legislature was reluctant to raise the fee that high.

²⁴Note that many properties are not residences but are commercial. The proposal would also have covered rental properties with exemptions for lower-value properties. The Legislative Analyst's Office (LAO) estimated the proposed surcharge would have raised \$6-\$7 billion annually. See <http://www.lao.ca.gov/BallotAnalysis/Initiative/2015-043>.

But other ideas for raising tax revenue persisted. A poll indicated general public support for an increase in tobacco taxes.²⁵ (Most voters are not smokers.) And the prospect that Governor Brown's Prop 30 temporary income and sales taxes (enacted in 2012) would be expiring, led to proposals to extend their life – or at least the life of the income tax component.²⁶ Brown, who promised the voters that the Prop 30 taxes were to be temporary, was not a supporter of an extension. However, he was not an overt opponent, either, and just took a neutral position on what ultimately was slated to go on the November 2016 ballot, a proposal to extend just the income tax component to 2030.²⁷ (The sales tax component was not to be extended.)

Cap-and-Trade: Cap-and-trade is a state-run program under which the state auctions off a limited number of permits to emit that emitters must purchase. In principle, the overall level of state emissions will drop as the number of permits declines. Governor Brown was not neutral about cap-and-trade revenues since these were an important element in the financing of his high-speed rail project on which construction has begun, even in the absence of a full funding plan.²⁸ Later in the fiscal year, cap-and-trade posed two important issues for the governor in terms of revenue actually collected and the long-term legal authorization for the program. (The revenue from permit auctions fell below expectations although substantial unspent funds remained from earlier auctions.) There was persistent unhappiness among some in the legislature (not just the Republicans) about the program's support for high-speed rail. The Legislative Analyst's Office tended to approach the issue gingerly. However, it issued a report in September 2015 that grumbled about the lack of a mechanism for establishing clear and objective priorities for cap-and-trade spending.²⁹

Transportation: The thing about cap-and-trade is that although it has tax-like properties, it isn't technically a tax. At least, that is the view of the governor and the Democratic majority in the legislature. (That issue is the subject of litigation.) Brown advocated a combination of motor vehicle fees, gas tax hikes, and cap-and-trade revenue for repair of transportation infrastructure. But to put such a plan on the ballot through the legislature, or to enact it directly legislatively, he needed a two-thirds vote of the legislature. Reaching that margin would have required some Republican votes. Although he made some concessions to GOP

²⁵Public Policy Institute of California, "Californians & their government," September 2016. Available at http://www.ppic.org/content/pubs/survey/S_915MBS.pdf.

²⁶The sales tax component under Prop 30 expires at the end of calendar 2016. The income tax component expires at the end of calendar 2018.

²⁷The extension was estimated to produce an added \$5-\$11 billion per year in state revenue in the ballot statement produced by the Legislative Analyst's Office.

²⁸Chinese firms have expressed some interest in the construction and financing of the project. (China has built high-speed rail projects domestically.) But whether they will be involved is uncertain. Other international firms – such as Siemens - have also expressed tentative interest.

²⁹Legislative Analyst's Office, "Framework for Cap-and-Trade Investment Plan Needs Further Development," September 2015. Available at <http://www.lao.ca.gov/publications/report/3298>.

legislators, the needed votes were not to be had. Without those votes, the governor's plan died. (It could be revived at some future date.)

Health Care: Also at risk of dying for lack of sufficient support was a complex plan that adds federal revenue to state health plans. Basically, the federal government matches revenue raised by a state tax on health providers. If done artfully, the state tax can reimburse providers for the cost of the tax and still leave federal matching money over for the state. Put another way, if the state can channel sufficient revenue back to providers, they will be held harmless. But the state will get a net subsidy from the feds.

However, "artfully" is the key word here. The state had a version of the tax/reimbursement plan in place, but the federal authorities found it wanting for technical reasons. To replace the old plan, there had to be a new tax design that met federal standards. And even though the plan was a plus for the state, a two-thirds vote (and thus Republican support) was needed since the plan involved a tax. It appeared by mid-September 2015 that a deal couldn't be reached. (None was reached for the next half year until an accord was negotiated with health providers; at that point the tax was passed by the legislature.)

Bond-Related Projects: September also saw another complication for Governor Brown's legacy, his water tunnels definitely and high-speed rail possibly. An initiative was filed – and later obtained sufficient signatures for the November 2016 ballot – that would require voter approval for specific bond-financed projects if they were to be operated by a state agency. Projects that have commercial elements, i.e., projects that generate revenues from users, create resources that can be used to pay off the bonds that the agencies issue. But project sponsors would be unable to issue such bonds without project-by-project approval. What voters will do with this initiative or, if they pass it, what they will do with specific projects on which they are asked to opine is unknown at this writing.³⁰

Brown's water tunnel project, if it had to come to a direct vote, might benefit from California's ongoing drought, which has led to local water cutbacks, water rate (price) increases, and restrictions on water uses. But exactly how the tunnels relate to drought issues has never been clear in the public mind. And even if the tunnel project were to be sold to voters as a drought remedy, the ballot proposition would add a hurdle to actual construction that wasn't present before. Because the rail project's future funding mechanisms are

³⁰If the initiative were passed by voters, there would undoubtedly be issues about state agency efficiency in running infrastructure projects. The replacement span of the Bay Bridge would likely be raised as a model of state deficiencies in project administration. The new bridge has been plagued by falsified reports, defective components, and improper construction causing increased costs and potentially shortening its life.

uncertain at this point, additional bond financing might be an option. But if the proposition passed, the rail project – like the tunnels – would face an additional hurdle.³¹

Redevelopment: The legislature ultimately did enact what might be viewed as a partial cleanup of a problem created at the local government level in the aftermath of the Great Recession's budget crisis. For many years, local governments had the authority to create redevelopment agencies which were supposed to revitalize blighted areas. (How well the agencies did so is a matter of controversy.) The redevelopment agencies worked in part through incremental tax financing. If they succeeded in revitalizing an area, its property values would rise (and thus property taxes would rise). The tax increment so generated could be used to pay off bonds that provided the funding for whatever redevelopment project was involved. Over time, however, the growing share of property taxes taken by the agencies was seen by some folks at the state level as a "diversion" from other local finance, such as funds for schools.³²

Redevelopment, originally a purely local affair, became intertwined with state finance when Prop 98 was enacted in 1988. Prop 98 requires the state to fund K-14 school and community college districts according to a formula that takes into account both state revenue and local property tax. To the extent that property taxes were "diverted" from schools to redevelopment, the state would thus have to make up that amount out of its general fund. Governor Brown, as part of his effort to deal with the budget crisis he inherited from his predecessor, proposed to abolish redevelopment agencies – and thus indirectly save money for the general fund. The redevelopment agencies fought the proposal and eventually a tentative deal was reached which preserved the agencies but required them to contribute to the state budget. After the deal was enacted, the agencies challenged the arrangement in court. But the court threw out not just the forced contribution but the entire redevelopment system and the agencies were abruptly abolished. Through litigation, they had rolled the dice by challenging the forced contribution and in the end abolished themselves.

The abolition of redevelopment was a messy process, in part because there were projects that were underway and had to be completed. In addition, while the state gained due to increased property taxes going to K-14 that it didn't have to backfill, local governments were also due some revenue that would no longer be "diverted" for redevelopment. Exactly who owed what to whom involved expensive and uncertain litigation. In September 2015, legislation was enacted to simplify the cleanup process. It also created a new,

³¹There was an effort to put an initiative on the ballot in November 2016 that would have diverted high-speed rail money to "water storage" projects. However, proponents abandoned the effort.

³²Note that it could be argued that the extra revenue would not have existed absent the redevelopment and thus should not be seen as a diversion.

cut-back version of redevelopment that could be used for affordable housing and other purposes, but would not involve diversion of property taxes from K-14. Put another way, the new, limited version of redevelopment would not lead to indirect impacts on the state budget.

Moving Towards 2016-17

There is no absolute point in which the governor and legislature move from dealing with the aftermath of one budget year to beginning to plan for the next. But the end of September/early October tends to be a transition period. September produces a pile up of bills on the governor's desk which he can sign or veto. Some of the bills have budget implications, but many other issues are involved. For example, Brown vetoed some proposals to expand the state's Medi-Cal (Medicaid) program, citing fiscal concerns. (Nonetheless; Medi-Cal expanded in the course of 2015-16 to cover low-income undocumented children.) On the non-budget front, Brown had increasingly become an advocate of reducing greenhouse gas emissions – which he termed an “existential threat” to humanity – during his second iteration as governor.³³ He signed a compromise bill aimed at reducing such emissions from state electricity generation.³⁴

Environment: A mini-scandal erupted when it was revealed that a state agency – at the governor's request – had looked at the prospects for oil and gas drilling on property he owned. But the fact that there turned out to be little chance of oil or gas production on the land tamped down the affair.³⁵ Despite the scandal, the governor made himself highly visible on the environmental stage by participating in the Paris climate conference in early December 2015; he told the experts assembled there that “*you know all the numbers and I have all the answers.*”³⁶ Generally, Californians – at least when no overt cost to them is attached to the plans – are supportive of mandating cleaner energy, subsidizing electric cars, and similar steps.³⁷ Whether they would like to pay higher taxes or higher energy prices in support of such efforts is less clear.

³³Chris Jennewein, “Governor: Climate Change Challenge Equivalent to World War II,” *Times of San Diego*, October 27, 2015. Available at <http://timesofsandiego.com/education/2015/10/27/governor-climate-change-challenge-equivalent-to-world-war-ii/>.

³⁴The bill originally sought to reduce state petroleum use more generally and included targets for motor vehicles. But those elements were removed in the final version.

³⁵“Gov. Jerry Brown had state workers research oil on family ranch,” *Los Angeles Times*, November 5, 2015. Available at <http://www.latimes.com/local/political/la-me-pc-brown-state-research-oil-ranch-20151105-story.html>.

³⁶David Siders, “Jerry Brown: ‘This will be somewhat of an asymmetrical encounter,’” Capitol Alert of *Sacramento Bee*, December 9, 2015. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article48917670.html>.

³⁷Public Policy Institute of California, “Californians & the environment,” July 2015. Available at http://www.ppic.org/content/pubs/survey/S_715MBS.pdf.

Higher Ed: Environmental issues are not unique to the extent that there is abstract support for various policies but less support if some personal cost to implementing those policies is entailed. Californians want access to higher education institutions, but they are not keen on paying increased tuition or taxes to make it happen. The state reduced its support of higher ed institutions over a long period. A factor in this reduction is that the legislature is aware that, unlike other functions (such as prisons), if it reduces direct payments to higher ed institutions (UC, CSU, and the community colleges), they can make it up via charging more to users (students). So legislators can indirectly cause tuition to rise and yet complain about it when it happens.

One response of students and parents has been to use the lesser expensive community colleges for the first two years of post-secondary education. California has a much higher rate of undergraduate enrollment in community colleges among those attending a public institution than most other states.³⁸ Despite concerns raised by student groups about costs and capacity, the UC Regents voted in November 2015 to increase in-state enrollment by 5,000 in fall 2016 and another 5,000 the following year.

Crime: Issues such as environmental protections and accessibility of higher education are continuous. They compete with others that also pass from year to year. For example, crime rates, convictions, and penalties for crimes ultimately determine the prison population and thus prison costs. A rise in crime in the 1980s and into the 1990s led to public pressure and legislation such as the three strikes law which put more criminals in prison and for longer. Eventually, prison overcrowding led to federal court decisions requiring the state either to build substantially more capacity or release inmates. The state primarily chose the latter, moving prisoners it deemed least dangerous to local jails and, effectively, bumping some felons back into the streets, a process known as "realignment."

California voters had a long history of voting for increased penalties and of refusing to modify three strikes. But in 2014, due to a mix of lower crime rates and the high costs of prisons, voters enacted Prop 47 which reduced penalties for some crimes. Police officials tend to believe that at least low level crime has increased as a result of realignment and Prop 47. Data on recent crime rate trends are at best ambiguous; there is a leveling out of the prior declining trend. Whether that leveling effect is connected to the inmate releases

³⁸Campaign for College Opportunity, "Rising Selectivity at California's Public Universities," November 2015, p. 33. Available at <http://collegecampaign.org/portfolio/november-2015-access-denied-rising-selectivity-at-californias-public-universities/>. See also John Aubrey Douglass, "Funding Challenges at the University of California: Balancing Quantity with Quality and the Prospect of a Significantly Revised Social Contract," *California Journal of Politics & Policy*, 7(4)2015. Available at <http://escholarship.org/uc/item/5tb9302t.pdf>.

and Prop 47 is unclear.³⁹ Ultimately, however, what the public comes to believe is happening is what leads to political responses.

Guns: The crime issue is partially related to the issue of gun control. We don't think of gun control as a budgetary issue primarily, but any regulatory program has some fiscal impact since enforcement costs money. In the case of gun control, however, another issue of resources opened up in November 2015. Lieutenant Governor Gavin Newsom – as part of his campaign to succeed Governor Brown – pushed for an initiative on gun control which ultimately made it to the November 2016 ballot. But in doing so he came into competition with state senate leader Kevin de León who wanted to pursue a legislative approach to guns. The lieutenant governor is the titular head of the senate. So De León reduced Newsom's staff support, although his aides denied there was any connection to the competition. The issue of guns, however, in the course of the budget cycle became progressively linked to terrorism due to attacks in Paris, San Bernardino, Orlando, and elsewhere. As a result there was political space for both a legislative and ballot approach to the gun control issue.

Advance Knowledge: The various issues described above in this section were floating around as the governor's January 2016 State of the State address and his budget proposal were in preparation. But one thing didn't happen in this period which has occurred in the past. Usually, before the governor's State of the State address and budget proposal, bits and pieces of his new agenda are leaked out in advance. But such leaking did not occur in this cycle except for the unsurprising news that Brown would propose a revamped Medi-Cal tax to keep the federal match flowing.

About the only other thing that became known, and not by leaks but instead through monthly statements of the state controller, was state revenue for the first five months of the fiscal year. As it turned out, revenue was running ahead of the projections made as part of the enactment of the 2015-16 budget.⁴⁰ Such a result – more money flowing in than forecast – tends to lead to new spending proposals; something the governor dislikes to see encouraged.

³⁹Crime rate data through 2015 are available from the attorney general at <https://oag.ca.gov/sites/all/files/agweb/pdfs/cjsc/publications/candd/cd15/cd15.pdf>.

⁴⁰Revenues for the sixth month of the fiscal year (December) were not available when the January budget proposal was first unveiled. But when the controller published the figures through December on January 11, 2016, revenues were still ahead of the projections made at the time that the 2015-16 budget was passed.

Unveiling the January Proposal

"If you don't remember anything else, just remember everything that goes up comes down."

Governor Jerry Brown presenting his January budget proposal⁴¹

Brown's budget proposal presentation in January focused more on the risks to fiscal stability from potential downturns in the economy and financial markets than on discussion of immediate goals. The emphasis was on building up the rainy day fund and some infrastructure investments such as repairing and replacing state office buildings. After the budget was unveiled, the governor selectively avoided discussion of ballot measures that were heading towards, or had already gotten to, the November 2016 ballot. However, he did induce backers of a plan to extend Prop 30 temporary taxes – or at least the income tax portion thereof – to modify an element of their proposal he termed a "fatal flaw" that would have circumvented the formula for adding to the rainy day reserve.⁴² He also continued to push for his water tunnels, despite environmentalist opposition, raising the specter that at some point – absent the tunnels – the Silicon Valley would be "cut off" from water access.⁴³

Once the governor makes his proposals for the budget, responsibility shifts to the legislature which enters into a period of hearings and alternative proposals. The Legislative Analyst's Office assists in the process by providing background materials on particular policies for relevant legislative committees. However, the governor gets a second chance to reinforce his fiscal themes through his State of the State address. And again he hit a cautionary note: *"You are not going to hear me talk today about new programs. Rather I am going to focus on how we pay for the commitments we have already made."*⁴⁴

⁴¹Alex Matthews, "Words of gloom accompany Brown's budget," *Capitol Weekly*, January 7, 2016. Available at <http://capitolweekly.net/words-gloom-accompany-browns-budget/>.

⁴²David Siders, "Tax increase backers add reserve, per Jerry Brown demand," Capitol Alert of *Sacramento Bee*, January 12, 2016. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article54290850.html>.

⁴³Christine Mai-Duc, "Brown defends Delta tunnels as he rolls out tweaks to water plan," *Los Angeles Times*, January 14, 2016. Available at <http://www.latimes.com/politics/la-pol-sac-jerry-brown-water-plan-delta-tunnels-20160114-story.html>. Environmentalists managed to get the federal government involved in an investigation of whether the state had improperly used federal funds for tunnel planning. See Carolyn Lochhead, "Federal government to probe state spending on Delta tunnels," *San Francisco Chronicle*, April 11, 2016. Available at <http://www.sfgate.com/nation/article/Federal-government-to-probe-state-spending-on-7242043.php>. The Southern California Metropolitan Water District purchased some islands in the Delta region which were thought to be useful should the tunnels be constructed. There was litigation aimed at stopping the purchase, but it failed to block the purchase and the sale went through.

⁴⁴"Governor Brown Delivers 2016 State of the State Address," January 21, 2016. Available at <https://www.gov.ca.gov/news.php?id=19280>.

Implementing New Programs

Despite his words of frugality, California social spending has advanced under Brown, including especially a new state Earned Income Tax Credit (EITC). At the national level, the federal EITC – which dates back to the 1970s – amounts to an income subsidy for low-wage workers, giving them tax “refunds” that can be larger than the income tax that they pay.⁴⁵ A few states supplement the federal EITC with similar state-level programs. But California did not have an EITC until one was included in its 2015-16 budget, effective for the 2015 tax year, i.e., for tax returns due in April 2016.

Fixing the Past

In addition, in 2013, Brown pushed through a system known as the Local Control Funding Formula (LCFF) by which state education support to schools is targeted at disadvantaged students (as opposed to an equal payment per student in all districts). Both programs – new money via EITC and the more exact targeting of existing money for school via LCFF – could be looked at as budgetary legacies of the governor in his final term. The 2016-17 budget proposal contained an element related to pre-kindergarten programs that also involved more targeting.⁴⁶ Beyond sending more targeted finance for schools, however, Brown remained a skeptic about reforms imposed from Sacramento by the legislature. *“If the parent screwed up things, and if the principal's no good, if the principal can't lead, if the superintendent isn't very good, if the local school board isn't so good, what makes you think that the Legislature can fix it,”* he said.⁴⁷

Ballot Propositions

In one case, prison sentencing, Brown seemed to be following a policy of correcting a legacy of his first iteration as governor, so-called “determinant sentencing” which he signed back in the day during his first term, and which contributed to the expansion and crowding of state prisons. The governor announced support for a ballot measure that would further the trend toward reduced sentencing aimed at the state’s

⁴⁵The EITC is a variant of the so-called “negative income tax,” but it applies only to the *working* poor. To be eligible, you must have employment income.

⁴⁶The state mandates that school districts offer pre-K programs. The governor proposed that there would be block grants for early education. Districts wouldn’t be mandated to offer pre-K to all students. But families with incomes above a specified level could pay to enroll their children. Low-income students would not pay for enrollment. There was opposition to the pre-K plan in the legislature, but the governor continued to push it in the May Revise, as will be noted below.

⁴⁷Judy Lin, “Jerry Brown on subsidiarity, meritocracy, and fads in education,” *CalMatters*, May 5, 2016. Available at <https://calmatters.org/articles/brown-what-makes-you-think-that-the-legislature-can-fix-it/>.

over-capacity prisons.⁴⁸ Projections from the Legislative Analyst indicated that the prison population under realignment was leveling off at around 130,000 into the near-term future. Before the realignment process, the inmate population had been about 166,000.⁴⁹ As for the inconsistency between what he did on sentencing in term 1 and in term 4 four decades later, Brown explained, *"Problems I create, I can clean up."*⁵⁰

But while the governor favored the new sentencing proposition, he opposed a school construction measure – also slated for the November 2016 ballot – which provided for issuance of \$9 billion of state bonds. It remained unclear, however, the degree to which Brown would actively campaign against the measure which was supported by construction firms and unions.

Medi-Cal Tax

While there was contention over particular ballot measures, Brown was able to end the conflict over the special tax on health care providers that draws federal dollars to state Medi-Cal. Done properly, the tax ultimately reimburses the providers for the costs of the tax but brings about a federal match that net adds to state resources. The tax, which is a clear plus for California due to the federal subsidy (said to be over \$1 billion), needed a few GOP votes to provide the necessary two thirds margin. Ultimately, once agreement of all parties was obtained, the Medi-Cal tax was passed by the legislature and approved by federal authorities. However, part of the deal with hospitals was that an initiative would be placed on the November 2016 ballot requiring that the funding obtained through the tax had to be used for the intended purpose absent a two-thirds vote of the legislature.⁵¹

Fiscal Calmness Overwhelms Dysfunction

What seems to matter most to public perceptions is a sense of calm in Sacramento – which mainly means budgetary calm. Specific achievements or controversies are known mainly to policy wonks and relevant interest groups. As noted, the state's reconstruction of the Bay Bridge has been characterized by a series of scandals. Other recent scandals have occurred in the management of Cal Fire – the state's fire prevention

⁴⁸The measure was opposed by some in the law enforcement community and challenged in court on various grounds. But it eventually made it to the November 2016 ballot.

⁴⁹Legislative Analyst's Office, "Overview of Population and Budget Trends for CDCR," March 3, 2016. Available at <http://www.lao.ca.gov/handouts/crimjust/2016/Population-and-Budget-Trends-030316.pdf>.

⁵⁰Christopher Cadelago, "Jerry Brown: 'Problems I create, I can clean up,'" *Sacramento Bee*, April 11, 2016. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article71188862.html>.

⁵¹The initiative became Proposition 52.

and firefighting agency – and in regulatory oversight of public utilities. But public opinion about the governor and the legislature did not seem to reflect these governmental malfunctions.

An out-of-control leak of natural gas from an underground storage facility in southern California led to forced evacuation of homes in the Porter Ranch area. Moreover, the leak was said to produce a massive greenhouse gas emission – in the face of Governor Brown’s commitment to have California be doing the opposite. The leak raised issues of proper state regulatory supervision of utilities and whether there had been lax oversight in the Porter Ranch case. There was also controversy in the environmental community over the actions of Brown appointees to the Coastal Commission in removing an executive director regarded as an environmental champion.⁵² But as in the cases of other state administrative issues, none of these environmental problems seemed to rub off on the governor. Brown’s public approval levels floated around 55% during the spring of 2016. In contrast, as Governor Schwarzenegger dealt with his final (crisis) budget in 2010, he had an approval rating of just 23%.⁵³

Even the state legislature’s standing in public opinion – which is always below the governor’s – seemed unaffected by the conviction and removal of three senators, one of whom – Leland Yee of the Bay Area – entered federal prison in March 2016.⁵⁴ The only repercussion of the senate scandals was a ballot proposition (Prop 50) on the June 2016 primary ballot which permitted cutting off of pay to senators who were suspended for misconduct. The proposition was offered up to the public as a kind of *mea culpa* by the state senate and was passed in June by over three fourths of the voters.⁵⁵

Minimum Increases

On the other hand, the legislature acted in March 2016 to keep a minimum wage increase initiative off the ballot by negotiating with supporters of the increase and then passing a compromise that would raise the wage in steps reaching \$15/hour in 2023.⁵⁶ Minimum wage increases potentially raise state budgetary costs

⁵²It was reported that Brown felt annoyed at not being consulted when the executive director was originally hired several years earlier and so was happy to see him go. See Dan Weikel, “Here’s why the Coastal Commission director’s ouster didn’t upset Jerry Brown,” *Los Angeles Times*, April 14, 2016. Available at <http://www.latimes.com/local/california/la-me-coastal-commission-brown-20160414-story.html>.

⁵³These ratings are for registered voters from the Field Poll:
<http://www.field.com/fieldpollonline/subscribers/RIs2333.pdf> and
<http://www.field.com/fieldpollonline/subscribers/RIs2543.pdf>.

⁵⁴In the Public Policy Institute of California poll of July 2016, Brown had a 53% favorable rating among all adults and the legislature had 45%. See http://ppic.org/content/pubs/survey/S_716MBS.pdf.

⁵⁵When the three senators were indicted for various misdeeds, they continued to be paid under the law as it was then.

⁵⁶There were actually two rival minimum wage increase initiatives sponsored by different labor union groups. Under the deal reached with the legislature, no minimum wage initiative would appear on the ballot. In the legislative deal, after the minimum wage reached \$15/hour in 2023, it would thereafter be indexed to inflation.

for a program by which the state pays for home care aides for the disabled. Such aides tend to be low-paid workers who would be affected by hikes in the wage floor.

External Events That Didn't Happen

Two events might have affected trends in Sacramento in the lead-up to the May Revise, but didn't. A legal case had made its way to the U.S. Supreme Court that could have affected the resources available to public sector unions which are influential in state politics. Union members pay dues to their organizations. Workers who are not members, but are in bargaining units, nonetheless must pay "agency fees" that pay for the costs of representation, if the union contract so requires. Although this arrangement has long been supported by the courts, it was challenged and it appeared the Supreme Court would invalidate such fees. However, the death of Justice Antonin Scalia led to a 4-4 tie on the case and thus the fees were continued.

The other event was a report by the state auditor that opined that out-of-state students, whose tuition surcharge provides added revenue for the University of California (UC), were displacing in-state students. UC argues that out-of-staters are an addition to total enrollment and subsidize in-staters. The University adamantly disagreed.⁵⁷ The auditor's report could have had significant budgetary consequences for the University, whether its conclusions were valid or not. However, as it turned out, the controversy did not seem to have any effect on the May Revise which retained the governor's January budget proposal for UC.

New Estimates

As noted early, at around the time of the January budget, revenues were running ahead of levels forecast when the 2015-16 budget was enacted. The governor upped estimates for the year as a result, perhaps hoping that the idea that there was extra money in the state treasury would not be the headline before the legislature. And indeed, as the May Revise date approached, revenues were a little *below* the January forecast levels. But they remained *above* the original forecast. By the time the May Revise rolled around, revenues were over \$2 billion ahead of the old forecast. In effect, legislators could choose whether they wanted to think of revenues as being above or below expectations. It depended on when they wanted to feel that their expectations were formed.

⁵⁷California State Auditor, "The University of California: It's Admissions and Financial Decisions Have Disadvantaged California Resident Students," March 2016, Report 2015-107. Available at <https://www.auditor.ca.gov/pdfs/reports/2015-107.pdf>. The report contains the UC response.

The May Revise

"It is best to prepare for the days of necessity."

Governor Jerry Brown on the May Revise⁵⁸

Not surprisingly, to the extent there was a choice concerning how to think about revenues, Governor Brown wanted the legislature to focus on the side of caution. No major new programs were included in the May Revise and the governor indicated that he wouldn't accept plans for such programs in the final version. Adding an extra \$2 billion to the rainy day fund beyond what the formula required was also part of the May Revise. On the other hand, noted earlier, the extra \$2 billion for the rainy day fund was essentially drawn from the regular reserve for the General Fund, so the shift from one to the other could be viewed as a matter of symbolism.⁵⁹

Of course, it is impossible to know what the legislature might have proposed, or enacted, had the governor not signaled that his priority was fiscal prudence. Shortly before the legislature was due – under the constitution – to enact a budget, the state controller's report indicated that revenues for the first eleven months of the 2015-16 fiscal year were a bit below what the governor had forecast in the May Revise. But they were still \$1.7 billion ahead of the forecast in place when the 2015-16 budget was enacted.

And there was uncertainty concerning what voters might do in the November 2016 election. There might (or might not) be extra revenue compared to what was expected over the coming years *if* voters approved an extension of the income tax piece of Proposition 30 of 2012. The governor did not endorse the extension, nor did he oppose it. He just said he would manage either way, approval or not. However, the electorate would be voting on extending a tax that most of them did not pay: the top bracket of the personal income tax. So a legislator looking for a reason to be optimistic about future revenue might tilt toward an assumption of voter approval. And in terms of a ballot proposition that would save future money, signatures for the governor's initiative that would reduce penalties (and thus prison costs) were submitted to the secretary of state for verification shortly after the May Revise was made public.⁶⁰

In the absence of a budget crisis, however, much of the state's political attention focused on the presidential races of both major parties until it became evident that the eventual candidates would be locked in by the

⁵⁸Office of the Governor, media release of May 13, 2016. Available at <https://www.gov.ca.gov/news.php?id=19417>.

⁵⁹As previously noted, monies in the rainy day fund are harder to withdraw than those in the regular reserve. So an alternative interpretation was that the governor was trying to lock up the reserves.

⁶⁰Opponents of the initiative attempted, but failed, to block it through litigation from appearing on the ballot.

time of the June California primary.⁶¹ As noted, the one proposition on the June ballot dealing with suspensions of senators who had engaged in malfeasance was non-controversial and passed easily.⁶² Gubernatorial energy was focused on such non-budget matters as a bill he proposed (but later failed to pass) that would have limited local review and approval of certain “affordable” housing developments. It became evident that there would be many initiatives on the November 2016 ballot and speculation mounted over which ones would in fact appear. Ultimately, there would be seventeen state propositions on the ballot.⁶³

Cap-and-trade revenues from auctions fell notably below expectations. The governor’s high-speed rail and other programs depend on such revenues so the prospects for a revenue squeeze raised concerns. However, substantial revenues from prior auctions remained in reserve, so there was no immediate threat. But the cap-and-trade program under current law will expire in 2020 unless renewed, and Governor Brown was actively pushing for renewing legislation. Adding to the controversy was a report from UC-Berkeley that noted that cap-and-trade added to the costs of energy-intensive industries and thus tended to retard such economic activities.⁶⁴

Final Passage

“This solid budget makes responsible investments in California and sets aside billions of dollars to prepare for the next recession”

Governor Jerry Brown on signing the 2016-17 budget⁶⁵

As expected, the legislature – operating in a non-crisis atmosphere – enacted a budget by the June 15 deadline. In fact, the budget involves more than one bill, and not all were passed on the deadline date. But a bill labeled the budget was passed, and that was all that was required constitutionally. Litigation a few years

⁶¹Even when it became known who the two parties’ nominees would be, controversy continued. Some state Republicans were actively opposed to Trump even after it became apparent that he was their party’s nominee; others were noncommittal or supported him. On the Democratic side, some Sanders supporters complained about difficulties in voting procedures for independent voters. (Independents can vote in Democratic primaries.)

⁶²Under current law, initiatives appear only on general election (November) ballots, but the legislature can put its own propositions on any ballot.

⁶³The Service Employees International Union had circulated an initiative limiting executive compensation in the hospital industry as part of an effort to organize nonunion hospitals. However, the union had made a prior deal with the California Hospital Association (CHA) not to pursue such an effort. An arbitrator in June 2016 ruled that the union would have to cease promoting its initiative and withdraw it.

⁶⁴Wayne Gray, Joshua Linn, and Richard Morgenstern, “Employment and Output Leakage under California’s Cap-and-Trade program,” Resources for the Future, May 2016. Available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2789820.

⁶⁵Office of the Governor, media release of June 27, 2016. Available at <https://www.gov.ca.gov/news.php?id=19463>.

earlier had established that it is the legislature that decides what a budget is.⁶⁶ Once the budget is passed by the legislature, even if all the pieces are not in place, the bill goes to the governor who can sign it, veto it entirely, or exercise his line item veto on components of the budget.⁶⁷

Brown did not exercise any line-item vetoes, a decision which is highly unusual for a governor, even in cases – such as this one – in which there was an amicable accord in advance with legislative leaders.⁶⁸ Perhaps the details of budgeting were holding less fascination for the governor than they were earlier. He may have been focused on other Big Picture items. Shortly after the budget was signed, he opined on such matters as whether there should be compulsory public service for young people.⁶⁹ (He liked the idea.) And the *New York Review of Books* published a review by the governor on the dangers of nuclear warfare.⁷⁰

Continuing Evolution

Of course, passing the budget and signing it does not end the process. There remains implementation and the many detailed programs that make up broad categories such as “education.” As it does after a budget is put in place, the Legislative Analyst’s Office prepared a listing of hundreds of specific programs on which the legislature had provided directives.⁷¹ These included such items as a report on options for diaper assistance for low-income families and another report on self-service terminals at the Department of Motor Vehicles. Various capital projects were authorized such as a new courthouse in El Centro and a lifeguard facility at El Capitan State Beach. Such items may seem to be minutiae, but ultimately budgets are the sums of such multitudes of individual programs and sources of revenue. And it matters how efficiently and effectively those programs are administered and revenues are raised.

⁶⁶Back in the crisis period of 2011, then-controller John Chiang had declared what the legislature had enacted as a “budget” by the deadline had technical irregularities and refused to pay the legislature for days without what he viewed as a flawed document. A subsequent court decision ruled that the legislature defines what a proper budget is, not the controller. But the missed pay was never returned to legislators.

⁶⁷In 2011, Governor Brown vetoed the budget bill mentioned in the prior footnote. Both Brown and Chiang were heralded in the news media for rejecting a budget because it was not “balanced.” But Chiang’s rejection was based on technical issues, not balance. And the governor subsequently signed a budget containing the phantom \$4 billion in unknown revenue described earlier in this chapter.

⁶⁸During his first iteration as governor, Brown had on one occasion refrained from any line-item vetoes once (in 1982, his final year.)

⁶⁹David Siders, “Why Jerry Brown likes idea of mandatory service for young people,” Capitol Alert of *Sacramento Bee*, June 30, 2016. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article87008602.html>.

⁷⁰Jerry Brown, “A Stark Nuclear Warning,” *New York Review of Books*, July 14, 2016. Available at <http://www.nybooks.com/articles/2016/07/14/a-stark-nuclear-warning/>. Although officially dated in mid-July, the review appeared on the web almost a month earlier.

⁷¹Legislative Analyst’s Office, “Supplemental Report of the 2016-17 Budget Act,” August 2016. Available at <http://www.lao.ca.gov/reports/2015/supplemental/2015-16-supplemental-report.pdf>.

The actual budget for 2016-17 will be different from what was put on paper in June 2016. Events keep occurring that affect the budget. Stock market returns, as it turned out, were anemic for the year ending June 30, 2016, causing increases in the unfunded liabilities of the major state pension plans. Certain undocumented persons who might have become eligible for Medi-Cal were blocked from doing so by a 4-4 U.S. Supreme court decision.⁷² At this writing, it is unclear what the legislature may do regarding falling revenues from cap-and-trade and regarding extension of that program. And, of course, the path of the economy during the year will have major effects on the budget, primarily on the revenue side.

Voter Discretion

Voters in November 2016 might or might not endorse the income tax extension of Prop 30 under Proposition 55. Other items on the ballot might also have budgetary significance, depending on what voters do. Marijuana might be legalized under Proposition 64 and potentially produce some tax revenue. Tobacco taxes might be raised under Proposition 56. The governor's proposed changes under Proposition 57 in criminal penalties might reduce prison costs. General obligation bonds might be approved for school construction under Proposition 51, imposing a long-term cost on the General Fund. When asked if voters would be confused by the large number of propositions on the November 2016 state ballot, Governor Brown responded, "No more than usual."⁷³ But there was uncertainty about what they would do, even if the uncertainty was "no more than usual."

Conclusions

"For all his efforts at creating a legacy, 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, who was credited with building the best highway, water and state university systems in the nation."

Former state assembly leader and former mayor of San Francisco Willie Brown⁷⁴

Willie Brown – no relation to the "Brown clan" cited in the quote above – raises an interesting point. At the presidential level, we often associate names with achievements rather than infrastructure. Lincoln abolished

⁷²The Obama administration had created a deferred action program that gave temporary status to certain undocumented individuals. A lower court ruled the program illegal. The even split decision by the U.S. Supreme Court (one seat became vacant due to the death of Justice Antonin Scalia) meant that the lower court decision remained in place.

⁷³David Siders and Jim Miller, "California voters face full plate of initiatives on Nov. 8," Capitol Alert of *Sacramento Bee*, June 30, 2016. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article87055132.html>.

⁷⁴Willie Brown, "Why dump Chief Suhr? He's the best thing going for the SFPD," *San Francisco Chronicle*, May 13, 2016. Available at <http://www.sfchronicle.com/bayarea/williesworld/article/Why-dump-Chief-Suhr-He-s-the-best-thing-going-7468374.php>.

slavery and led the north to victory in the Civil War. The fact that the building of the Transcontinental Railroad was undertaken on Lincoln's watch is less noted or remembered. But, at the gubernatorial level, are *policies* – such as having a rainy day fund or targeting school monies toward the disadvantaged – what people remember in the long run? Or does legacy have to be tangible projects?

Willie Brown's quote doesn't deal with things people *don't* remember. They *don't* remember that Pat Brown left his successor (Ronald Reagan) with a budget crisis, even as they *do* remember Pat's highway-water-universities legacy five decades later. For that matter, Jerry Brown ran for the first term of his second iteration (in 2010) on the argument that his former political experience would allow him to resolve the budget crisis being left by Governor Schwarzenegger. The strategy worked because voters apparently forgot that in his first iteration, Jerry had left a budget crisis to his successor (George Deukmejian) to fix. While Jerry is obviously trying not to have another such crisis as the coda to his second iteration, if he succeeds in avoiding one – will that achievement be remembered? In fifty years?

For that matter, despite Jerry Brown's apocalyptic warnings about the dangers of global warming, will his efforts to reduce greenhouse gas emissions be remembered? Much of state policy on climate change is wrapped up in legislation and regulation, important components of which pre-date Brown's second iteration as governor. But there is no physical climate change monument for the coming generations to see. In contrast, Pat Brown's freeways, water project, and university campuses are still around and visible.

The history of Jerry Brown's father suggests that the high-speed rail and the water tunnels are more the stuff of public memory and legacy than is prudent fiscal policy. But the high-speed rail project, although it is currently under way, might never be completed. Much depends on future political leaders, both in Sacramento and Washington, D.C. There is no way for Jerry Brown to lock in that project before he leaves office in January 2019. The water tunnels are even less advanced than the train; as the 2016-17 fiscal year began, there was no final authorization for the tunnels let alone any actual construction.

Brown's first iteration focused on being tight with the dollar and skeptical about grand infrastructure projects. But being tight with the dollar ultimately couldn't prevent the combination of a state political crisis – Prop 13 of 1978 and the "taxpayer revolt" – and a national economic crisis – two back-to-back recessions in the early 1980s – from creating the budget disarray that he left behind. As Brown begins his planning for his next California budget – for fiscal year 2017-18 – he will have to weigh his past history – and his dad's.

Table 1: Enacting the 2016-17 Budget (\$Millions)

	IAO Outlook Nov. 2015	Governor Jan. 2016	Governor May 2016	Enacted June 2016
GF Starting Balance	+\$3,210	+\$5,172	+\$4,829	+\$4,874
Revenue & Transfers	+123,183	+120,633	+120,080	+120,310
Expenditures	-121,119	-122,609	-122,155	-122,468
Surplus/Deficit	+2,064	-1,979	-2,075	-2,158
GF Ending Balance	+5,274	+3,196	+2,754	+2,716
Rainy Day Fund				
Starting Balance	+5,641	+4,455	+3,421	+3,420
Ending Balance	+7,234	+8,011	+6,713	+6,714
Surplus/Deficit	+1,593	+3,556	+3,292	+3,294
Total Reserves				
Starting Balance	+8,851	+9,627	+8,250	+8,294
Ending Balance	+12,508	+11,207	+9,467	+9,430
Surplus/Deficit	+3,657	+1,580	+1,217	+2,716
Reserves/Expenditures	10.3%	9.1%	7.7%	7.7%

Source: <http://www.ebudget.ca.gov/2016-17/pdf/BudgetSummary/SummaryCharts.pdf>,
<http://www.ebudget.ca.gov/2016-17/pdf/Revised/BudgetSummary/SummaryCharts.pdf>,
<http://www.ebudget.ca.gov/2016-17/pdf/Enacted/BudgetSummary/SummaryCharts.pdf>,
<http://www.lao.ca.gov/reports/2015/3305/fiscal-outlook-111815.pdf>.

Table 2: Accrual Data: General Fund and Rainy Day Fund Budgets (\$Billions)

	General Fund		Rainy Day Fund*		Total	
	Year End Balance	Surplus/Deficit	Year End Balance	Surplus/Deficit	Year End Balance	Surplus/Deficit
Brown Elected; Last Schwarzenegger Budget 2010-11	+3.1	+2.3	0	0	+3.1	+2.3
Phantom 4 Budget 2011-12	+1.6	+1.5	0	0	+1.6	+1.5
Prop 30 Taxes Passed 2012-13	+2.5	+4.1	0	0	+2.5	+4.1
2013-14 - Historical	+5.6	+3.1	0	0	+5.6	+3.1
2013-14 - Current**	+5.1	+2.6	0	0	+5.1	+2.6
Brown Re-elected 2014-15	+3.4	-\$1.7	+1.6	+1.6	+5.1	-\$0.1
2015-16	+4.9	+1.4	+3.4	+1.8	+8.3	+3.2
Projected 2016-17	+2.7	-\$2.2	+6.7	+3.3	+9.4	+1.1

*Budget Stabilization Account (BSA)

**Current data from http://www.govbud.dof.ca.gov/2016-17/pdf/Enacted/BudgetSummary/BS_SCH1.pdf; Historical data from http://www.dof.ca.gov/budget/summary_schedules_charts/documents/CHART-A.pdf. Historical data include unexplained "adjustments" of the balances reported on the official table.

Note: Data may not sum to totals due to rounding. A surplus is a positive change in the balance. A deficit is a negative change in the balance.

24

Table 3: General Fund Cash Budget and Rainy Day Fund Budget (\$Billions)

	General Fund		Rainy Day Fund*		Total	
	Year End Balance**	Surplus/Deficit	Year End Balance	Surplus/Deficit	Year End Balance	Surplus/Deficit
Brown Elected; Last Schwarzenegger Budget 2010-11	-\$8.2	+\$1.8	0	0	-\$8.2	+\$1.8
Phantom 4 Budget 2011-12	-\$9.6	-\$1.4	0	0	-\$9.6	-\$1.4
Prop 30 Taxes Passed 2012-13	-\$2.4	+\$7.2	0	0	-\$2.4	+\$7.2
2013-14	+\$3.0	+\$5.4	0	0	+\$3.0	+\$5.4
Brown Re-elected 2014-15	+\$3.0	0	+\$1.6	+\$1.6	+\$4.6	+\$1.6
2015-16	-\$0.6	-\$3.6	+\$3.4	+\$1.8	+\$2.8	-\$1.8
Projected 2016-17	\$0.0	+\$3.6	+\$8.0***	+\$4.6	+\$8.0	+\$5.2

*Budget Stabilization Account (BSA)

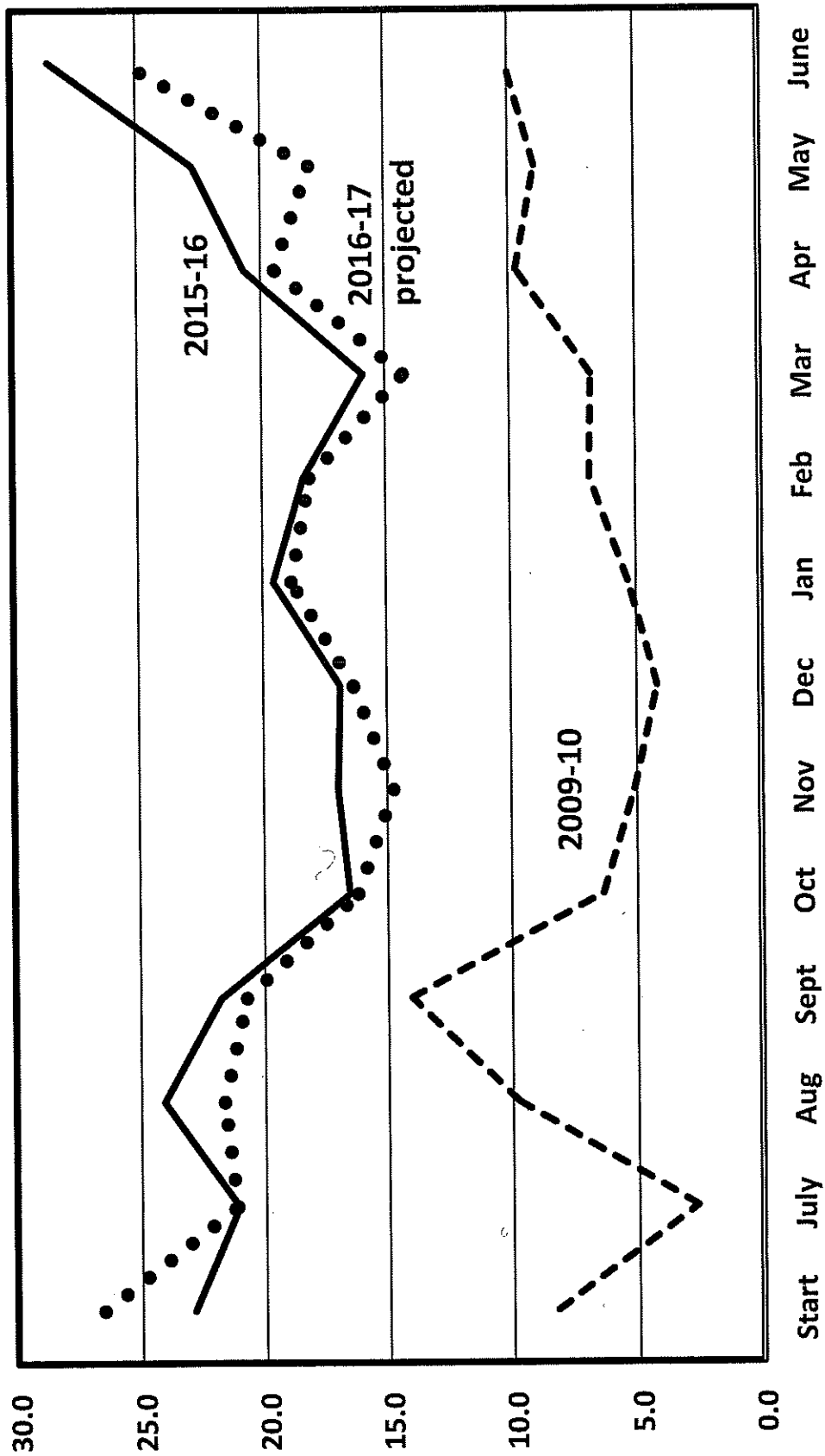
**The General Fund is listed as having a zero balance when there are loans (external or internal) outstanding. The table above depicts outstanding loans as a negative balance. The "balance" refers to total cash in the General Fund.

***Figure on cash basis. See source below.

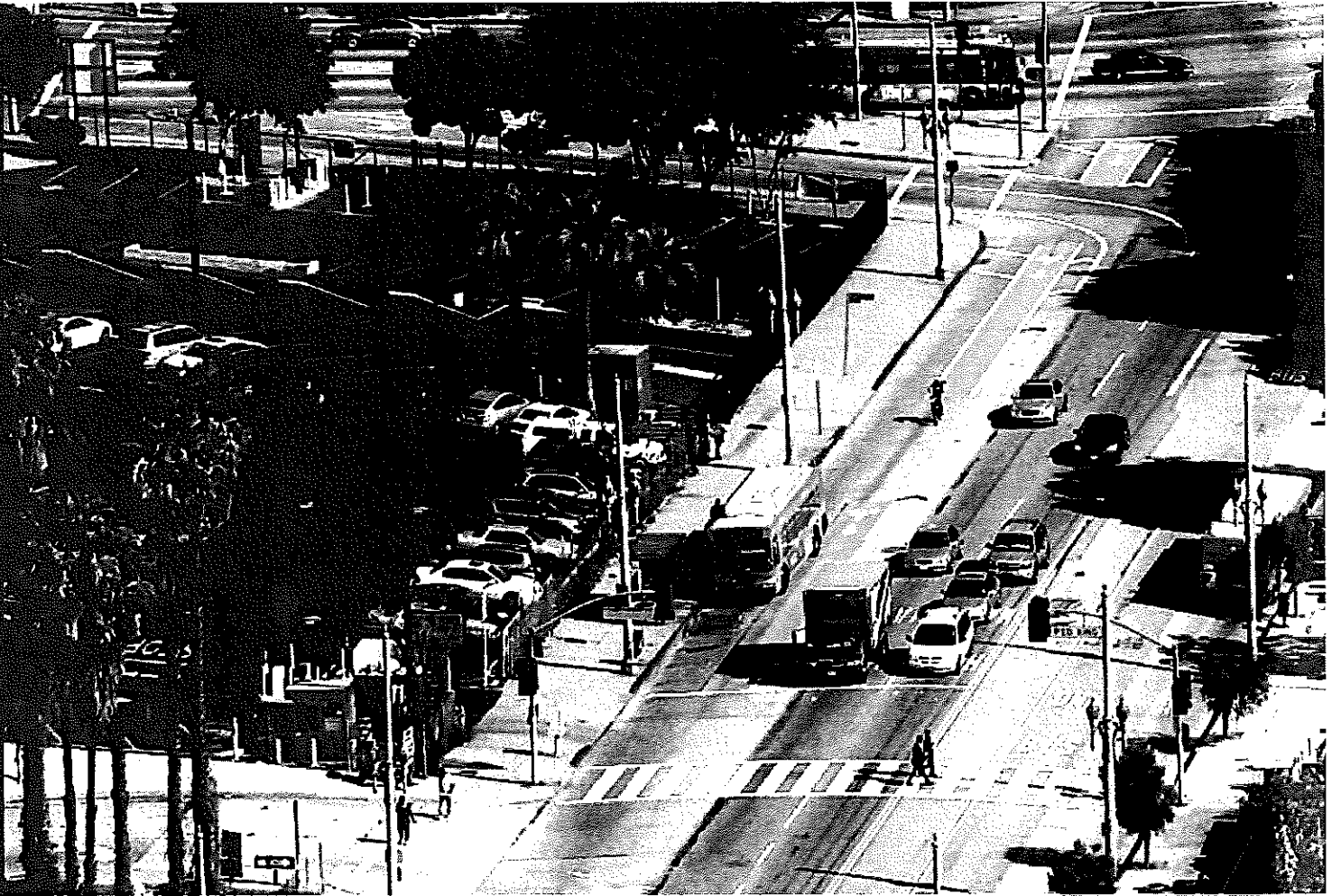
Note: Data may not sum to totals due to rounding. A surplus is a positive change in the balance. A deficit is a negative change in the balance. Source of cash reports in the General Fund: http://www.sco.ca.gov/ard_state_cash.html. Rainy Day fund data projected for 2016-17 from http://www.ebudget.ca.gov/2016-17/pdf/BudgetSummary/BS_SCH5D.pdf.

Figure 1

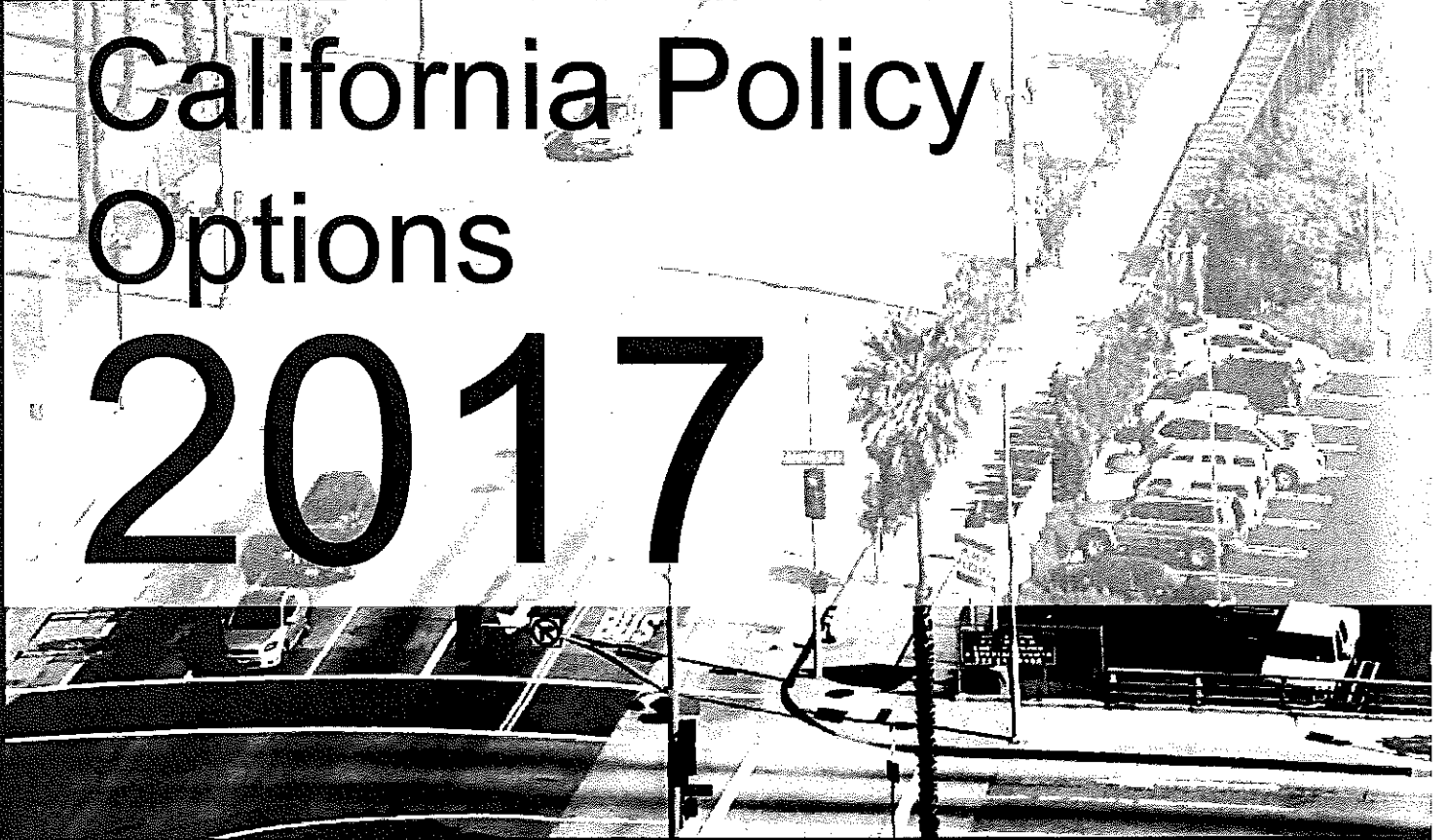
Unused Borrowable Reserves as Percent of Annual Disbursements



Source: http://www.sco.ca.gov/ard_state_cash.html.



California Policy Options 2017



UCLA Luskin School of Public Affairs
Lewis Center