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Abstract

This report will begin with a discussion of various reasons for the state's crisis. This will be followed by a brief explanation of California's budget process, a description of how that process played out this year, some proposed solutions to the state's "structural" deficit, and the outlook for the short, intermediate, and long term.

Keywords: California budget, taxes, fiscal oversight, economic growth

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> The argument about what went wrong with California is really an argument about the future of America.
> —Ross Douthat (2009)

Introduction

First, the good news. California's 2010-2011 state budget set a new record and, in so doing, produced consensus among observers from disparate ideological perspectives. The agreement passed by the legislature on October 8 and signed into law the same day by Governor Schwarzenegger came an unprecedented 115 days after the constitutionally mandated June 15 deadline for legislative approval and on the 100th day of the new fiscal year. The liberal *Los Angeles Times* (2010) editorialized that the agreement was "another kick-the-can budget that relies on gimmickry to paper over the state's structural problems." The conservative *Orange County Register* (2010) agreed, opining that the budget was the result of a "tried and failed-many-times-before approach."

On the other hand, while the jury is still out over the question of whether the Golden State has become a "failed state" (Voegeli 2009; Harris 2009), it is certainly a state in great fiscal distress.

This report will begin with a discussion of various reasons for the state's crisis. This will be followed by a brief explanation of California's budget process, a description of how that process played out this year, some proposed solutions to the state's "structural" deficit, and the outlook for the short, intermediate, and long term.

In adopting a budget for the previous (2009-2010) fiscal year, the state had to close a $60 billion deficit. It did so through a combination of tax increases, budget cuts, borrowing, federal stimulus funds, and accounting gimmicks. Compared to the amounts adopted a year earlier (and before midyear cuts during that year), the budget adopted for FY 2009-2010 included 20 percent cuts in corrections, 17 percent in health and human services, 16 percent in K-12 education, and 13 percent

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in higher education. In dollar terms the biggest cuts (about $6.5 billion each) were in health and human services and K-12 education.

Even this soon proved insufficient. By January of 2010, when the governor submitted his budget for the upcoming fiscal year to the legislature, a new gap, smaller but on top of that of the previous year, had opened up.

How We Got Here: The Economic Context

The Immediate Problem: Declining Revenue and Increased Need for Services

In current dollars, general fund revenues declined $11.2 billion (12 percent) between FY 2007-2008 and 2008-2009. An additional decline of $1.4 billion (3 percent) took place through January of 2010 (California State Controller 2008-2010). California's Standard and Poor bond rating had fallen to lower than that of Botswana, and to the lowest of any American state (Schott 2010).

At the same time that economic hard times were producing declining revenues, the need for government services was growing, especially in the area of health and human services. While the nation as a whole has suffered from high rates of unemployment, the situation in California has been worse than in most other parts of the country. Preliminary estimates for September 2010 show California's unemployment rate of 12.4 percent trailing only Nevada and Michigan (U.S. Bureau of Labor Statistics 2010).

The Long Term Problem: The Golden State is No Longer Golden

As recently as 1940, California was far wealthier than the country as a whole, with a per capita income more than 40 percent above that of the nation (see Figure 1). Beginning in the post-World War II period, the state experienced a long-term decline that may still be continuing. By 2009, per capita income exceeded the national average by only seven percent. This actually considerably overstates California's wealth. Adjusting for cost of living estimates developed by the Missouri Economic Research and Information Center (MERIC) (2009), which for the first quarter of 2009 pegged the cost of living in California at 134% of the national average, California's per capita personal income was about 19 percent less than that of the entire country.

This may be somewhat unfair, since a good part of California's high living costs are due to the high price of houses in the state. Unlike most other cost of living components, the cost of purchasing a house results in a long-term asset for the buyer. However, even if housing is removed from the MERIC index, California's cost of living was 115% of the national average and, adjusted for this, per capita personal income was about 6 percent below.

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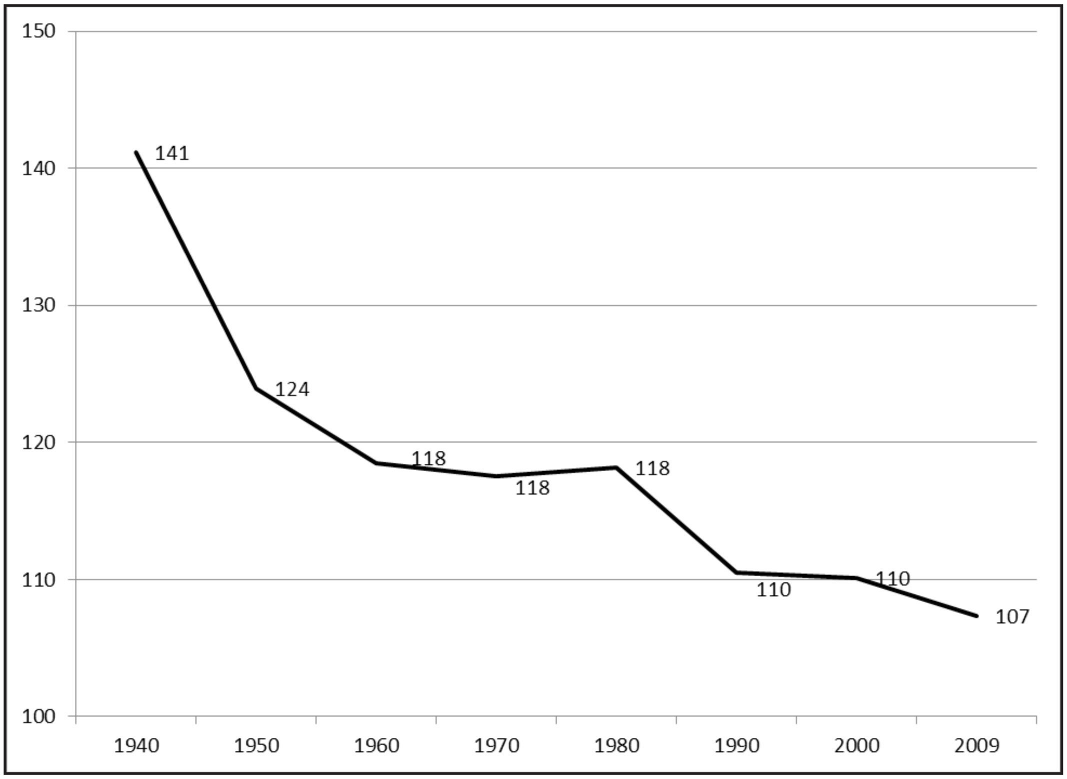
Figure 1. Per Capita Personal Income: California as Percent of U.S.



Sources:
1940-1950: U.S. Bureau of the Census (1961, 307)
1960: 1981 U.S. Bureau of the Census (1981, 429)
1970-2009: U.S. Bureau of Economic Analysis (2010).

Many observers wax nostalgic about the good old days when leaders such as Pat Brown (governor from 1959 through 1967) built systems in transportation, higher education, and other areas that were the envy of the nation (Decker 2009). Not coincidently, this was also a time when California's political institutions, including the state legislature, were regarded as models for the nation (Citizens Conference on State Legislatures 1971, 40). Simply put, California could afford these programs relatively easily compared to other states. Today, California economic science has become considerably more dismal, and tradeoffs more painful.

How We Got Here: The Fiscal Context

Centralized Revenue Structure

More than is generally true elsewhere, California's local governments (especially counties and school districts) receive a large proportion of their revenues from the state. In 2007-2008, the most recent year available, local governments in California received 40 percent of revenue (excluding utility, liquor store, and insurance trust revenue) from the state, compared to 33 percent for the U.S. generally (U.S. Bureau of the Census 2010). This centralization is the result of two events that took place in the 1970s. The first grew out of a 1971 state Supreme Court decision, *Serrano v. Priest* (California Supreme Court 1971) requiring greater equalization of funding between poor and wealthy districts. Democrats sought to meet this requirement by raising income taxes, while Republicans sought to increase the sales tax. In the end, the "Reagan-Moretti Compromise" did some of each. In 1978, voters approved Proposition 13, sharply reducing local property taxes. The pain of doing so was alleviated to some extent by the fact that the state government was, at the time, running a surplus. In tighter budget years since, the state has frequently sought to alleviate its own problems by taking revenue from local governments.

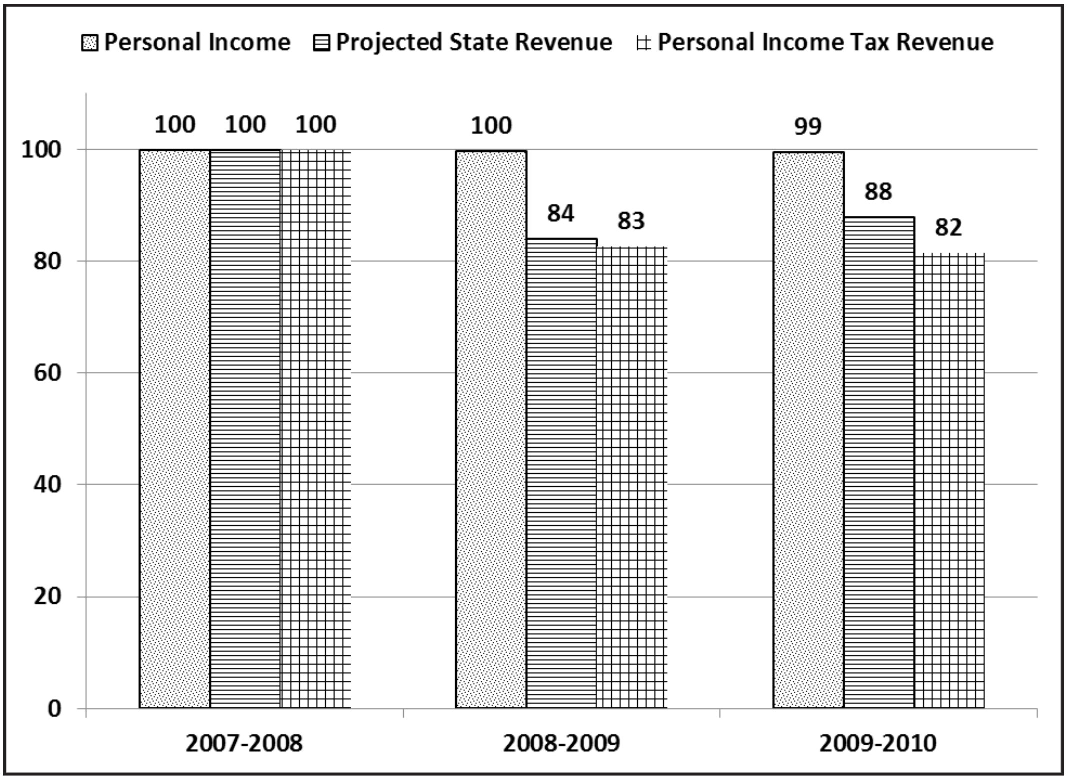
Revenue Volatility

California's economy has had more than its share of ups and downs in recent years, being at the center of the "dot com" boom and bust of a decade ago and the more recent buildup and bursting of the housing bubble. As Figure 2 shows, however, changes in the economy explain only part of recent fluctuations in state revenue. Figures for personal income are averages of quarterly reports for fiscal years 2007-2008 through 2009-2010. Figures for total state general and special fund revenues and for personal income tax revenues are calculated from those reported in the following year's projections. Fiscal year 2007-2008 is used as the base year, with all three measures indexed to 100.

Personal income in California stayed about flat during the three-year period shown. State revenue, by contrast, fell by about 16 percentage points between 2007-2008 and 2008-2009, then bounced back by about four points the third year.

California receives about two-fifths of its general and special fund revenue from the personal income tax, and has one of the highest marginal tax rates in the nation (Tax Foundation 2009). The state is, therefore, heavily dependent on how well off Californians have been faring (Weintraub 2003). The income tax, however, is an especially volatile revenue source, and is a big part of the reason why state revenue tends to vary more than the state's economy. From the base year of 2007-

Figure 2. Economic and Fiscal Change, 2008-2010



Sources: U.S. Bureau of Economic Analysis (2010), California Department of Finance (2008, 50; 2009, 37; 2010b, 10).

2008, revenue from the personal income tax fell by 12 percent the following year, and lost an additional six points in 2009-2010.

Other Problems

California's difficulties are compounded by several other factors. The state sends much more money to Washington than it gets back. This is largely a function of the fact that California has a disproportionate share of wealthy residents in high federal income tax brackets combined with the fact that it is a young state demographically, while federal assistance goes disproportionately to the elderly in the form of Social Security and Medicare (Weintraub 2006).

Attempts by California to deal with its "structural deficit" will be complicated by underfunding of obligations to state and local retirees, largely in the area of medical benefits (Pew Center on the States 2010). Unless painful and politically difficult measures are undertaken to rein in benefits, the problem will only worsen as baby boomers retire. While much of the criticism for this situation has come from the right, liberal Democrat Willie Brown (2010) has written that "we politicians" have created "incredibly generous retirement packages that pay ex-workers almost as much as current workers."

Indeed, the politics of pension reform have been changing dramatically. In 2005, Governor Schwarzenegger took on public employee unions on a series of four ballot initiatives, and was soundly defeated on all four. An additional measure dealing with state pensions was considered, but dropped as a clear nonstarter (Mathews 2006, ch. 19, *passim*). Just five years later, both major candidates for governor, Democrat Jerry Brown and Republican Meg Whitman, supported some form of pension reform in their respective platforms.

Meanwhile, some solutions to past budget deficits have unraveled. For example, federal and state court decisions have invalidated some spending cuts that had been adopted previously (California Department of Finance 2010a, 4).

How We Got Here: The Political Context

A Leadership We Deserve

A January 2010 poll by the Public Policy Institute of California (Baldassare *et al.* 2010) found that about 60 percent of respondents thought that "the state should spend less and still provide the same level of services." Magical thinking on the part of the California electorate may be the biggest single barrier to dealing effectively with the state's budget problem. A February 2010 Field Poll showed that registered voters, by a 50 percent to 13 percent margin, indicated a preference for cutting services rather than raising taxes, with 29 percent favoring an equal mix of the two and four percent having no opinion (DiCamillo and Field 2010a). When asked about specific spending cuts, however, majorities of those surveyed in another Field Poll conducted the following month (DiCamillo and Field 2010b) supported cuts only in corrections and parks and recreation, and were about evenly split on expenditures for environmental regulation and public transportation. Respondents opposed other cuts, most by overwhelming margins, including those involving education and health and human services, the largest categories of state spending. Other polls showed opposition to tax increases in those areas that could raise major amounts of revenue. Yet another Field Poll found that by a 57% to 37% margin, voters believe that the deficit problem could be solved simply by eliminating waste and inefficiency (Field Research Corporation 2009).

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Ballot Box Budgeting

Several features of California's political process contribute to the problem. California is one of 18 states that employ the initiative and, over the years, voters have approved a number of measures that have constrained both the ways in which money is raised and how it is spent. Because they must confront these measures in piecemeal fashion, voters have woven a crazy quilt of provisions that put most of the budget beyond the normal control of elected decision makers, in turn making any effort to set priorities in a systematic manner difficult or impossible.

The Two-Thirds Rule

Another factor that has made agreement on a budget so difficult has been the fact that California is one of only three states (the others being Rhode Island and Arkansas) that until now have required a supermajority to pass a budget. In California, approval has required a two-thirds vote of the total membership of both the assembly and senate. The same is true for passage of any tax increases, making California one of about a dozen states with similar requirements.

Term Limits

In 1990 voters approved an initiative limiting members of the assembly to a maximum of four two-year terms and senators to two four-year terms. (Since the measure was not retroactive, it did not begin to go into effect until the 1996 election.) In 1991, the year following passage of the measure, the average member of the assembly was in his or her ninth year in that body, while the average for the senate was 10 years (Korey 2009, 55). In other words, the maximum tenure today is shorter than the average prior to the term limit era.

Term limits make negotiation over the budget more difficult for several reasons. Leaders are weakened because they are unable to build up the kind of long-term power base needed to build political capital. (The current assembly speaker, John Pérez, was elected speaker in his freshman term and will be "termed out" after 2016.) Members lack institutional memory of the past and have less incentive to take a long-term view of the consequences of their decisions. Perhaps more subtly, they have less time to forge personal relationships, making it harder to negotiate differences and easier to demonize political opponents.

The Polarized Electorate

Formal-legal barriers to cooperation such as these might be easier to overcome in a less partisan political culture. Instead, the political environment is highly polarized, with very conservative Republicans facing very liberal Democrats. This environment is the result of a several step process that begins with the way that the electorate is organized.

• With notable exceptions, the political geography of the state divides along east-west lines, with most coastal areas being liberal and Democratic, while most inland areas are conservative and Republican (Douzet and Miller 2008). It would be very difficult to avoid drawing legislative district boundaries in a way that would avoid a large number that would be overwhelmingly either "blue" or "red."

• In addition to this "natural gerrymander" the legislature in 2001 carved out a "bipartisan gerrymander" that made almost every legislative district less competitive than it had been previously.

Figure 3 shows box and whiskers plots comparing the ideology of voters in districts represented by Democrats versus those represented by Republicans. The measure of ideology is a composite derived by the author from voting returns by district on a series of statewide propositions. It is scaled from 0 (the most liberal district in each house) to 100 (the most conservative). The horizontal lines indicate the median scores for each group of districts. The boxes represent the inter-quartile range (i.e., the middle half of a group's scores), and the whiskers represent scores that are outside the box but within 1.5 times the inter-quartile range. The measure clearly shows sharp partisan differences, with no overlap in the senate and almost none in the assembly.

• While some states allow party conventions to choose nominees under some circumstances, nominees for all partisan offices in California must be chosen through primaries. Until now the state has employed a modified closed primary, although both major parties have allowed "decline to state" voters to participate in the party's primary (except for the selection of members of county central committees and, in the case of the Republican Party, the presidential primary). The Democrats' primary electorate is far more liberal than the Republicans'. Party activists who contribute money, help in get out the vote efforts, and in other ways participate beyond voting are even more divided ideologically than the broader electorate (Korey 2009, 34-36).

The Polarized Legislature

The net result is that it is very difficult for a moderate of either party to win nomination. Once in office, the political culture within and outside the legislature only reinforces party differences. Figure 4 shows differences by party in the voting behavior of state legislators using ratings for 2009 by the California Chamber of Commerce (2009). Circles represent outliers (outside the box by 1.5 to 3 times the inter-quartile range). Asterisks represent extreme outliers (outside the box by

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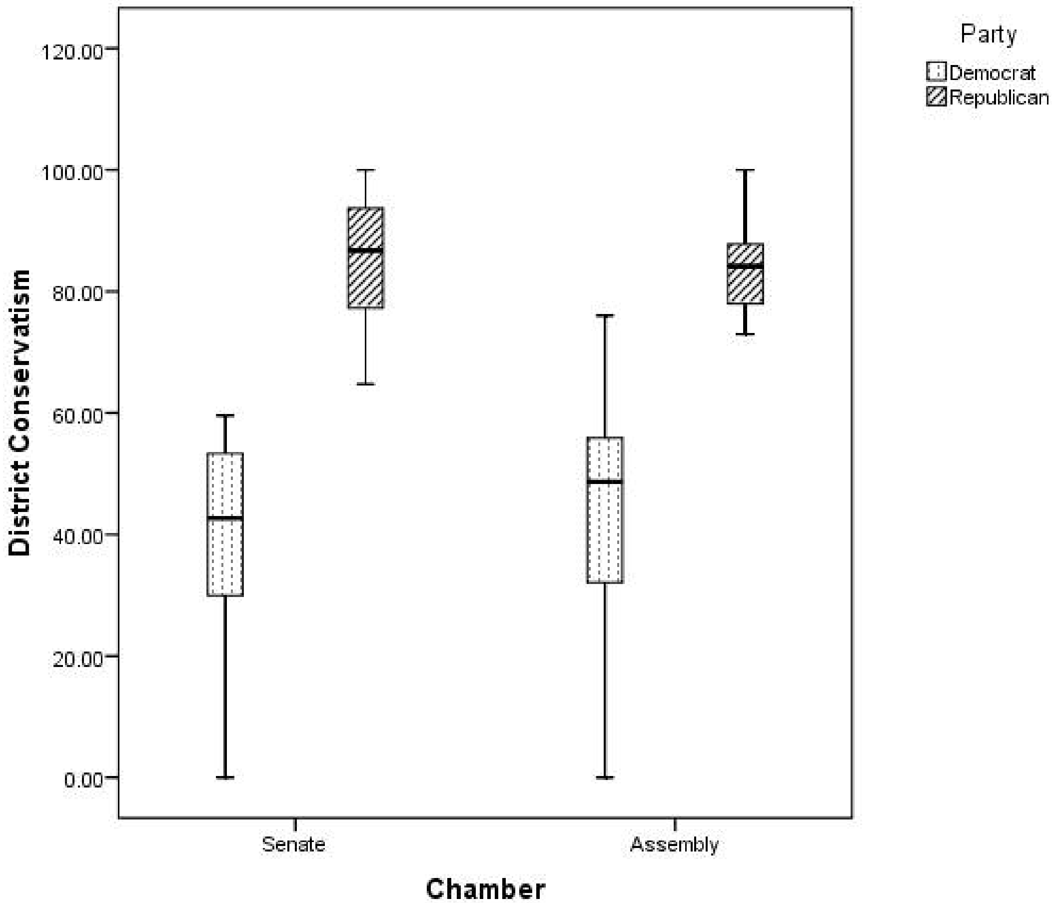
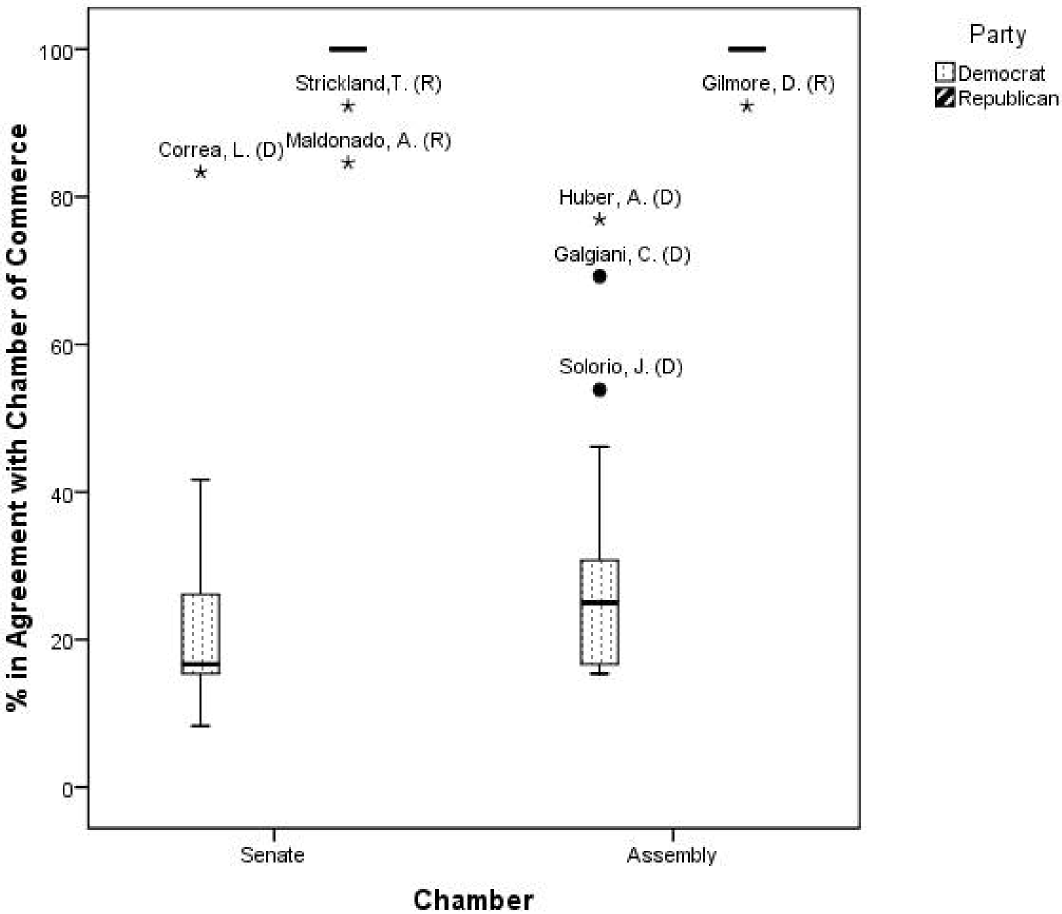
Figure 3. Ideology of District Voters by Party



more than 3 times the inter-quartile range). Though not strictly comparable with the measure of district ideology, the ratings do clearly indicate the ideological chasm separating legislators of the two parties. The figure displays little ideological diversity among Democrats, and hardly any among Republicans. (The reason why there are no boxes or whiskers for the Republicans is that all but a few received 100 percent conservative scores, so that the median lines represent almost the entire GOP caucuses.) Each party is deeply beholden to what the other side calls special interests, which on economic matters chiefly means public employee unions in the case of the Democrats, and anti-tax groups in the case of the GOP.

In recent years, Democrats have shown some willingness, however reluctant, to cut programs, but Republicans have been almost lock-step in their opposition to tax increases. The (even) greater stubbornness of the GOP might be attributable to

Figure 4. Member Ideology by Party



its status as the out party. Not having responsibility for governing may encourage what James Q. Wilson (1962, 2-3) called "amateur" politicians. By this, he did not necessarily mean those not earning their livings in politics, or lacking in knowledge, skill, or experience, but instead was referring to a certain approach to politics. An amateur, in Wilson's usage, is one who "finds politics intrinsically interesting because it expresses a conception of the public interest. The amateur politician sees the political world more in terms of ideas and principles." In recent years, associations of "amateurs" have arisen on both the left (e.g., MoveOn.org) and the right (e.g., the Tea Party movement). Probably not coincidently, these groups tend to be linked primarily to the party that at the time is out of power.

In the California Legislature, the GOP's minority status has become more or less permanent. With little hope of governing in the foreseeable future, Republican legislators have little to lose by being uncooperative.

The irony is that, while California is clearly a "blue" state, the partisan imbalance is not as lopsided as it sometimes appears. Typically, in recent assembly elections Republican candidates have garnered about 45 percent of the two-party vote. A not impossible shift of five percentage points in their direction would produce parity. When it comes to seats rather than votes, the Democratic advantage has been close to (but has not quite reached) a two to one ratio. This was true even in the 1990s, when California operated under court-ordered redistricting plans that showed little evidence of partisan gerrymanders. A better explanation than gerrymandering for the disparity between seats and votes is the fact that voter turnout is much higher in Republican-leaning districts. In other words, Republican votes tend to count less, since it takes more such votes to win in most Republican districts (Korey 2009, 47). Short of some highly unlikely form of proportional representation, the disparity is likely to continue indefinitely.

Lack of Political Capital

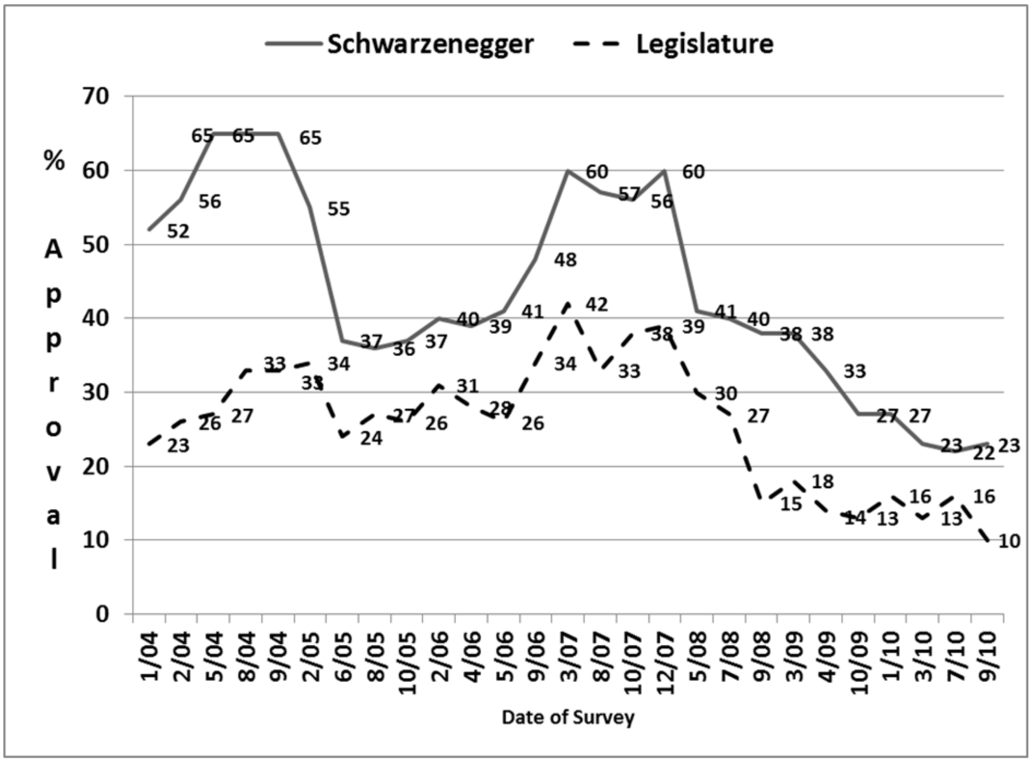
Figure 5 shows job approval ratings from surveys conducted by the Field Poll for the governor and the state legislature since Schwarzenegger took office. (One poll, in July 2006, was deleted because Field reported approval ratings for governor only.) Schwarzenegger's recent ratings look respectable only when compared to those of the legislature. These low ratings are in no small part a result of the state's inability to address its budget problems, but they make dealing with the problems more difficult because of the lack of political capital possessed by office holders.

The Budget Process (Krolak 1994)

California employs an executive budget, referred to as the "Governor's Budget," that must be submitted to the state legislature by January 10 of each year for the upcoming fiscal year, which begins on July 1. In preparing the budget, the governor is assisted by the Department of Finance (DOF; analogous to the federal Office of Management and Budget), headed by a director appointed by and serving at the pleasure of the governor. The Governor's Budget must, at least on paper, be balanced as submitted.

The budget is sent to the Joint Legislative Budget Committee, which basically serves as a holding company for the Legislative Analyst's Office (LAO). The LAO was created in 1941 and became the model for the Congressional Budget Office, providing the legislature with independent, nonpartisan informational capacity.

Figure 5. Approval Ratings of Governor and Legislature



Source: DiCamillo and Field (2006, 2010c).

In almost seven decades of existence, the LAO has had only five directors. The current director, Mac Taylor, assumed office in 2008, succeeding Elizabeth Hill, who had served since 1986. The record for longevity is still held by Alan Post (1950-1977). The staff of the LAO has been referred to as "the conscience of the Capitol. Collectively, they are the skunk that ruins the budget garden party the governor and the legislature would otherwise enjoy each year (Weintraub 2006)." While its counsel is widely respected, it is often ignored by both parties when doing so is convenient.

In May, the governor submits the "May Revision" (or "May Revise"), similar to the federal mid-session review, making any adjustments to the proposed budget necessitated by economic or other changes that have occurred since January. As the start of the new fiscal year approaches, negotiations within the legislature and between the legislature and governor intensify. Often, but not always, the principle players include the "Big 5": the governor, the assembly speaker, the assembly minority leader, the president pro tem of the senate, and the senate minority leader.

The state constitution has required that the legislature pass the budget (by the two-thirds margins discussed above) and send it to the governor by June 15. As shown in Figure 6, however, this requirement had been honored more in the breach than the observance, especially in recent years. Until this year, the modern record for tardiness (since California adopted a more or less year-round, full-time legislature after 1966) occurred in 2008, when the budget was not sent to the governor until September 16, 93 days late.

The budget itself is usually accompanied, or swiftly followed, by one or more "trailer bills" (something like reconciliation legislation in congress) that make changes in state laws needed to make the laws and the budget consistent. Once the budget has passed the legislature, the governor has the opportunity to exercise the item veto, reducing or eliminating specific items of appropriations. Like any other veto, such actions are subject to an override by a two-thirds vote of the total membership of both houses.

An initiative approved by voters in 2004 requires that, as adopted (not just as proposed by the governor), the budget must be balanced. Should it become clear during the fiscal year that the budget has gotten out of balance, the measure authorizes the governor to call a special session of the legislature to address the problem.

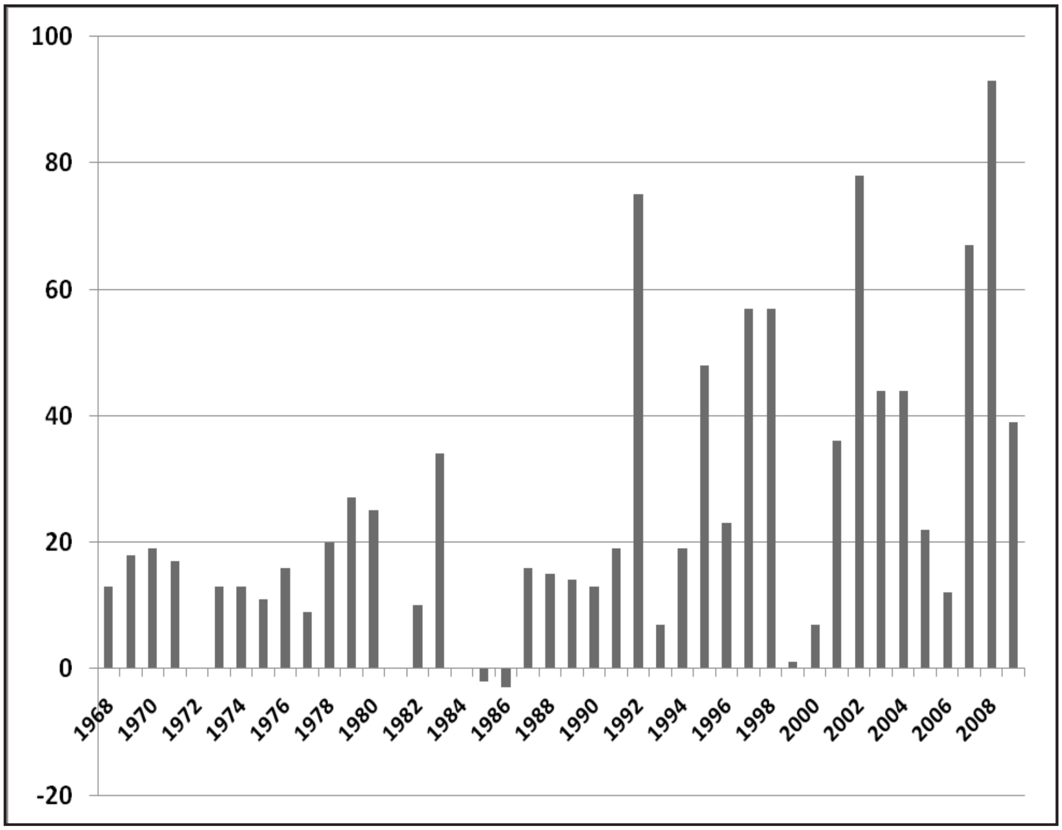
The Governor's Budget

(California Department of Finance 2010a;
California Legislative Analyst's Office 2010a)

On January 8, Schwarzenegger submitted the governor's budget to the legislature. In it, he projected a shortfall of $18.9 billion through June 2011. (In the May Revision, this number was reduced to $17.9 billion as a result of better than expected revenues.) He proposed closing the gap and creating a $1 billion reserve fund through a combination of expenditure reductions ($7.6 billion), "reforming the federal state relationship" ($7.9 billion), and various other changes ($4.5 billion). Spending cuts, the largest of which would come from K-12 education, state employee salaries and benefits, and Medi-Cal (the state's version of Medicaid) were, to put it mildly, a tough sell to Democrats in the state legislature, while Republicans could be counted on to resist suspension of various tax breaks to businesses and individuals that were also included. How California would "reform" its relationship with the federal government was not explained.

Throughout the spring and summer, there seemed to be little urgency on the part of either the governor or the legislature to pass a budget, despite warnings by State Controller John Chiang that California would soon run out of money to pay its bills. Finally, negotiations by the Big Five produced an agreement by Monday, October

Figure 6. Budget Passed by Legislature: Days Beyond June 15 Constitutional Deadline (1968-2009)



Source: California State Assembly, Office of the Chief Clerk, n.d.

4. The state assembly passed the measure on Thursday, October 7. It was approved by the senate the next day, and signed into law that evening by the governor, who item vetoed $963 million in general fund spending and an additional $162 million in special and bond fund spending (California Department of Finance 2010b, 12).

The agreement, including the item vetoes, closed the deficit, at least on paper, by a combination of spending reductions ($7.8 billion), new federal funds ($5.4 billion), increased revenues (but no general tax increases) ($3.3 billion), and borrowing and transfers ($2.7 billion) (California Legislative Analyst's Office 2010b). In short, the final budget bore a fairly close resemblance to that proposed nine months earlier by Schwarzenegger. Table 1 shows a comparison of expenditures (in millions of dollars) proposed in the governor's budget in January and that signed into law in October. The last columns compare expenditures budgeted for fiscal 2010-2011 with the amounts spent in the previous year. In general, among those agencies that account

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Table 1. General Fund Expenditures by Agency, 2010-11

	Proposed		Enacted		Change, Enacted from Proposed		Change from 2009-10	
	$	%	$	%	$	%	$	#
K-12 Education	36,004	43.4	36,079	41.7	75	0.2	347	1.0
Health and Human Services	21,000	25.3	26,346	30.4	5,346	25.5	1,952	8.0
Higher Education	11,836	14.3	11,490	13.3	-346	-2.9	888	8.4
Corrections and Rehabilitation	7,983	9.6	8,931	10.3	948	11.9	767	9.4
Legislative, Judicial, Executive	2,825	3.4	3,149	3.6	324	11.5	1,321	72.3
Natural Resources	1,732	2.1	2,108	2.4	376	21.7	235	12.5
Business, Transportation, and Housing	902	1.1	905	1.0	3	0.3	-1,607	-64.0
State and Comsumer Services	587	0.7	598	0.7	11	1.9	88	17.3
Environmental Protection	68	0.1	77	0.1	9	13.2	6	8.5
Labor and Workforce Development	59	0.1	58	0.1	-1	-1.7	1	1.8
General Government								
Non-agency Departments	578	0.7	586	0.7	8	1.4	89	17.9
Tax Relief/Local Government	534	0.6	534	0.6	0	0.0	65	13.9
Statewide Expenditures	-1,207	-1.5	-4,309	-5.0	-3,102	-257.0	-3949	-1,096.9
Totals	82,901	100	86,552	100	3,651	4.4	203	0.2

Sources: California Department of Finance (2010a, 16; 2010b, 11).

for the bulk of state expenditures, health and human services and corrections and rehabilitation did relatively well compared both to initial projections for the current year and expenditures for the prior year. The budget enacted for higher education was close to that proposed in January and represented a significant increase from the prior year. K-12 education on the other hand, barely held its own by either measure.

A few caveats should be born in mind: (1) the figures are those available as of the time the budget was enacted, and are already, as noted below, dated, (2) they include only general fund expenditures (projected at $86.6 billion), and not money from special funds ($30.9 billion), and (3) the prior year was one in which the budget was severely constrained, so overall increases hardly represent robust levels of support, and mask sharp cuts in specific areas.

Democrats were quick to criticize several of Schwarzenegger's item vetoes, which included money for care for children of the working poor, investigations of neglect and abuse of children, and mental health services for children (Sanders 2010). Observers from across the political spectrum noted that the new budget was balanced only through a variety of gimmicks. Much of the assumed federal relief has yet to be appropriated by Washington. Major "savings" in K-12 education are achieved by moving spending into the start of the 2011-2012 fiscal year, which may create cash flow problems for school districts but will not really reduce state expenditures. Loans and transfers also represent only paper solutions to the state's fiscal distress (Halper 2010).

Attempts to Solve the Problem through Direct Democracy

In Elizabethan England, it was sometimes said that dog bites could be cured by rubbing the wound with "the hair of the dog that bit you." Insofar as California's budget difficulties are the result of the combined impact of various ballot measures, it might be argued that more such measures could help solve the problem. Such measures fall into two categories, those that would alter the budget or the budget process directly, and those that would change the larger political process in ways that might impact the budget.

Two of the latter kinds of changes have already been adopted. One was an initiative approved in 2008 to take responsibility for redistricting the legislature and the California Board of Equalization (though not California's congressional delegation) away from the legislature itself and give it to a commission. A November 2010 initiative expanded the scope of the commission's work to include congressional redistricting. Proponents hope that districts drawn by a commission will be more competitive, giving moderate candidates a better chance of winning an election.

In June 2010 voters approved another ballot measure, this one a referendum, to give California what will be, in effect, a nonpartisan primary similar to Louisiana's. Under this proposal, voters, regardless of party registration, will be allowed to choose any candidate on the ballot beginning in 2011. The top two vote-getters, even if from the same party, will go against each other in the general election. (Voters rejected a similar measure in 2004.) This type of primary had been a pet project of then State Senator Abel Maldonado, and the legislature agreed to place it on the ballot as part of an agreement in 2009 to win his support for the 2010-11

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budget (Skelton 2009). As with the redistricting measure, the hope of proponents is that this change will give moderates of both parties a better shot at electoral success.

While neither of these measures standing alone would be likely to have a major impact on the budget process, the two in combination just might. A study by the Rose Institute (Johnson *et al.* 2005) showed that court-ordered redistricting plans for the 1970s and 1990s produced more competitive districts than those produced by the legislature for the 1980s and (through the early part of the decade) the 2000s. A more recent study (Gonzales 2010) showed a decline in competition following the 2001 redistricting. However, the commission may well, in the spirit of bipartisanship, produce districts no more competitive than those created a decade earlier by the legislature. Even if it does try to maximize competition, there are, as noted earlier, vast areas of the state dominated by one party, making it difficult to avoid a kind of natural gerrymander dividing most of California into districts heavily favoring one side.

In recent years, incumbents have often been more fearful of a challenge in the primary from the party base than from the opposition party in the general election. Under the new nonpartisan primary system, those registered with the minority party in a district will no longer be effectively disenfranchised, and this may make it easier for centrist candidates to prevail, especially if the redistricting commission succeeds in creating districts with even somewhat more of a partisan balance.

Voters also approved two ballot measures in November 2010 that will impact the budget process directly. Proposition 25 abolished the two-thirds requirement to pass a state budget (but left in place the supermajority required to raise taxes). Proposition 26, while not directly contradicting Proposition 25, will take the state in the opposite direction, requiring two-thirds voter approval for various state and local fees.

Of the two, Proposition 25 should have a far broader impact. Democrats, who seem likely to be in the majority in the state legislature for the foreseeable future, will be able to approve budgets without any help from Republican legislators. The major restraint on their power (aside from a Republican governor exercising the item veto), will be the fact that raising taxes will still require a two-thirds vote of the membership in each house. The combination could result in increased pressure on the spending side without a concomitant ability to increase revenue (Mathews 2010). This could result in even more recourse to “smoke and mirrors” budgeting.

One alternative that did not appear on the ballot in 2010 is the so-called “nuclear option,” calling for a constitutional convention that could rewrite the entire document, including those provisions affecting the state budget process. The group supporting this idea was unable to raise sufficient funds to qualify a measure creating such a convention.

Outlook

In the short run, the outlook for the state is grim. A $6 billion deficit has already (as of December 2010) appeared in the budget for the current fiscal year, an amount estimated to grow to over $28 billion through June 2012.

In the intermediate run, prospects are relatively good. Volatility in state revenue means that, in the next cycle of prosperity, the state's coffers will again fill, making it relatively easy to balance the budget even without raising taxes.

In the long run, there is reason for optimism in that California remains a state with enormous and varied physical and human resources (Grunwald 2009). On the other hand, the state has yet to solve its long-term structural deficit. As long as the public persists in expecting low levels of taxes and high levels of service, it is unlikely that it will.

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