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CALIFORNIA POLICY OPTIONS 2004: THE LEADERSHIP CHALLENGE

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“Democracy is the theory that the common people know what they want, and deserve to get it, good and hard.”

H.L. Mencken

“There is, in fact, no way to avoid either billions of dollars in new taxes or billions of dollars in cuts to programs with sacred cow status, such as prisons or schools, unless the governor, whoever he may be – opts for running the state even more deeply into debt. Yes, you have to wonder why any of them would want the job.”

Dan Walters in the *Sacramento Bee*, October 6, 2003

Governor Arnold Schwarzenegger has taken upon himself a leadership challenge perhaps only equaled in California history by George Donner’s fateful westward migration across the Sierra Nevada.¹ The governor faces a state treasury that is worse than broke. The economy may be improving, but slowly and inconsistently. There prevails a strong anti-tax sentiment led largely by small businesses, which employ more than half the California work force. These businesses were hard hit by the recession along with double-digit increases of worker’s compensation premiums, and they voted for the governor on his promise of not raising taxes. The state suffers from dysfunctional political and state budgeting systems, which feature myriad referendum mandates, two-thirds legislative vote needed to pass a budget, redistricting measures drawn by ideological maps that assure a polarized legislature, term limits that hamper legislative expertise and long-term thinking, and weak political leadership, (which the recall sought to address.)

The result is that California services and institutions – including education, policing, transportation systems, environmental protection, job training and health care – are under-financed, which in turn affects their performance and further erodes confidence in government and fuels anti-tax fervor. And confidence in state government is already at all time low, with only nine percent of Californians reporting before the election that they trust Sacramento to do the right thing in the budget crisis.²

And Californians have been horribly divided and often fickle on whether to solve the problem by rebuilding a stronger, better financed government, or by weakening government to spur progress through competition and markets. Lately, by referendum

and election, voters have been going in both directions, simultaneously and hard. No wonder that in the 2003 recall election, 48 percent of the voters, given a 135 candidate ballot, chose an action hero. The late songwriter Warren Zevon comes to mind: Send lawyers, guns and money Arnold get me out of this.

The Leadership Challenge

“Mobilizing people to take on difficult tasks” is the definition of leadership in a model developed by Ronald Heifetz at Harvard University working with public sector executives, elected officials, and military officers. Leadership is necessary, he says, because groups of people in difficult situations will avoid doing hard work and making hard choices to solve their problems. What groups will often do instead of that work is dither at the margins, scapegoat the opposition, or ignore the problems, all of which voters perceived to be the behaviors of the legislature and former Governor Gray Davis.

Another group work avoidance strategy, according to Heifetz, is to find a heroic leader to solve their problems for them get them out of the mess, preferably painlessly, Heroic leaders nearly always fail, Heifetz cautions, because the groups, once they depend on leaders to fix things painlessly, have only succeeded in avoiding the hard work, the trade-offs and changes in attitudes and behaviors to fit the new circumstances. In the rare instances where heroic leaders succeed, in the cases of Abraham Lincoln and Martin Luther King Jr., that success is because they were able to put the hard work of making their society whole, back on the people, where it had to be done.³

It will take constitutional and structural reforms, requiring a level of leadership not seen in Sacramento for some time, to restore credibility and confidence in state government and to stabilize state finances. Arnold Schwarzenegger has two advantages as he enters the fray. First, as a celebrity he has brought a media attention to Sacramento and government that had all but disappeared. A celebrity-focused media will have to cover government in spite of itself. Second, the size of his plurality in the election and the voter’s rage behind the recall give him a mandate for major change. That mandate, however, is not at all clear in terms of direction.

California is characterized by what Jean Ross of the watchdog group, the California Budget Project, calls “diversity and division.”⁴ And weaving through Latino, African American, Asian, and white populations; rich, middle class, poor, old, and young; whether desperately in need of services or completely self-sufficient, are polar political differences. Conservatives, with varying streaks of religion and talk radio libertarianism, make up about 15 percent of the electorate in a large election, while liberals in various shades of green comprise a moderately larger block. And after the 2000 census, when legislative territories were redrawn to conform to demographic shifts, the redistricting compromises resulted in a disproportionate representation of candidates more from the 30 percent at the ideological margins than the 70 percent somewhere in the center.

New Ideas: Untying the Gordian Knot

Journalist Hunter S. Thompson once wrote, “when the going gets weird, the weird turn pro.” A political explosion like the recall election could open the door to consideration of a wide range of seemingly radical ideas, starting with reconsideration of elements of Proposition 13, the initiative that substantially cut and limited property taxes in the late 1970s. Indeed there may be no greater political leadership challenge imaginable – getting people to take on difficult problems – than leading a reconsideration of the state tax law, which would have to assure property owners of Proposition 13’s protections, while correcting its deficiencies.

Proposition 13 was enthusiastically passed by California voters in 1978 after a decade of legislative inaction over the problem of housing inflation that drove up property taxes to the point where people on fixed incomes were losing their homes. It not only capped property taxes, but it also had the inadvertent effect of making Sacramento a major source of revenue to be redistributed to local governments, especially school districts. Prop 13 also added a requirement for a two-thirds legislative majority in order to pass any tax increase. The state government thus became a revenue source for local services but with an important limit on its ability to raise revenues.

Twenty-five years later, Proposition 13, while it protects home owners and small businesses owners, presents major problems in terms of its inequities in tax collection and distribution. The current political balance in the Legislature tends to produce an annual stalemate in the legislature, where, as was the case in the summer of 2003, a minority held the budget and the process hostage for months. That stalemate contributed to the public impression that Sacramento’s political leadership was incapable of doing its job, an impression that clearly contributed (with a host of other reasons) to the recall of Governor Gray Davis.

In terms of Proposition 13’s role in inequities of tax collection, every neighborhood in California has comparisons like this one from Santa Clara: someone bought a house in 1975 for \$90,000 and pays about \$1600 a year in property taxes, while the owners of an identical house in the neighborhood, purchased last year for \$850,000, pay about \$8,300 in property taxes.⁵ Ironically, in places like Santa Clara, hard hit by the dot.com bust, laid off workers who moved in during the boom find themselves losing their homes over property taxes, the very problem Proposition 13 sought to address for people on fixed incomes. Business owners as well face the same perceived inequity in terms of commercial property tax rates, where long time property owners have a huge competitive advantage over entrepreneurs starting businesses.⁶

Making matters worse is the fact that the property tax, at one time allocated to local schools and services, is no longer the revenue generator it was for local authorities pre-Prop 13. The property tax is restricted and prone to seizure in various ways by the state during budget crises. Local governments have been left to compete for sales tax revenues. They do so by attracting strip mall businesses, mega-stores such as Wal-Mart and Staples, and car dealerships in order to hire police and teachers and to provide local services. Since alternative property uses such as manufacturing plants and residential

structures produce less revenue than retail stores, local zoning decisions are distorted.

As noted, the state may capture property tax revenues that would otherwise go to local governments because of another by-product of Proposition 13: the slew of referenda that have since dictated to legislators and the government their spending. For instance, Proposition 98, passed in 1988, allocates around 40 percent of the state's general fund to K-14 education, pursuant to complex formulas. "To comply in tight times," writes Peter Schrag, "the state has grabbed large chunks of property tax money from the cities and counties and handed it to the schools." In addition, Schrag writes "because every initiative, by definition, reduces the discretion of state and local officials and thus reduces the ability of government to respond, it generates the pressure for still more initiatives, liberal and conservative. Because more than half of the state budget is now allocated by constitutional formulas or other mandates, every fiscal crisis--including this year's--is exacerbated."⁷

At a panel held at the UCLA School of Public Policy and Social Research in the spring of 2003, former Assembly Speaker Robert Hertzberg said: "State government was never intended to be this big. We are in a situation where we are trying to operate California – as a result of 15 initiatives (starting with Prop 13) – in handcuffs, management handcuffs." "They (Proposition 13 voters) were trying to shrink the size of government, but actually made it bigger and more complicated," Hertzberg added. "Cash was coming from local revenues, but with power moved to Sacramento, the result was a loss in local control over their own resources."

Can a governor succeed without taking on the Gordian knot of the state's tax structure and the mandates of the 15 budget initiatives passed post Proposition 13? Probably not without some miraculous economic breakthrough comparable to the dot.com boom of the 1990s. Indeed, the dot.com boom allowed former Governor Pete Wilson in his later years and Gray Davis in his early years to fund a wide range of state needs and not seek new taxes. Revenues came in from the flow of capital gains tax receipts based on the stock profits out of the Silicon Valley and Los Angeles. About half of the deficit in 2001-02 was due to the sudden shutting off of the capitol gains spigot. The Silicon Valley capital wells, real and imagined, went suddenly dry in 2000 and the last trickles ended with post terrorism blows to the tourism and entertainment industries. These sectors' difficulties also hurt local sales tax collection, hurting local government from there as well.

An actor who once played Conan faced with this dilemma, one thinks, would be tempted to cheat the oracle and slice the Proposition 13 knot.

The First Challenge: The Budget

The reality of the budget challenge will be difficult for the new governor. The 2003-04 budget was "balanced" largely by loans and shifts of special fund money, and still left an \$8 billion structural deficit in 2004-05, according to the California Legislative Analyst. The loans included in the budget were quite possibly unconstitutional.

Governor Schwarzenegger upon taking office succeeded in forwarding a proposal for a \$15 billion bond and spending cap through the legislature and on to the March ballot. But the bond measure in early polling isn't as popular as the Governor was on election day. And more important, the \$15 billion bond issued to refinance part of a \$25 billion debt, does nothing to address operating deficits that could approach \$18 billion over the next 20 months.⁸ In addition, the legislature in special session after the election did nothing to deal with the Governor's request for nearly \$2 billion in mid-year cuts, and the demands of local governments to compensate for revenues lost from rescinding the vehicle license fee hike.

In short, the governor's public leadership challenge has just begun. The question is how can the governor (who was elected on the grounds that he could solve the budget problems without borrowing from the future, increasing taxes, or cutting public education), now engage with the legislature and the voters to allow the state to do the hard work of solving the budget dilemmas? He has one budget cycle to make his mark, and in the middle of it, in March, there will be an election with a range of competing proposals on state government combined with a Democratic presidential primary ballot.

Lessons From Other States

Looking around other states with large deficits, it is instructive to look at the approaches of other governors and legislatures. A good contrast is provided by Alabama and Washington.

In Alabama, a Republican Governor, Bob Riley, began his term with an anti-tax pledge. After the state projected deep deficits and the governor and the legislature made a first round of cuts, Riley reversed course and advocated a \$1.2 billion tax increase plan, which went before voters. Alabamians rejected the tax hike at the polls by a 2-1 margin. As a result, the Governor and his staff began cutting expenditures. Current budget cuts include such measures as increasing the weekly parole rate from prison from 80 per week to 200 per week, putting state police on a four-day work week, curtailing state police overtime and limiting their driving to 150 miles a day, freezing enrollment in low-income health insurance programs for children, ending housing subsidies for seniors, removing dentures and eyeglasses from Medicare coverage, reducing spending on textbooks and classroom computers, cutting museum and state park budgets by up to 75 percent, laying off teachers, and cutting programs at two- and four-year colleges.⁹

The public's mood on the process and results has been contentious and divided. On the one hand, Alabama is hailed as a model of the future by "starve the beast" conservatives. On the other hand, it is decried for exacerbating the effects of poverty on the poor, children, and the elderly. Neither outcome was the intent of Governor Riley. Recent polls tracked his popularity rating at under 30 percent, well behind the Democrat he defeated to become governor as well as the judge who received national attention for refusing to take down the Ten Commandments.

In the state of Washington the approach was much different. Instead of starting

across-the-board budget cuts after voters failed to support a tax increase in a referendum, Governor Gary Locke asked the state to take a step back. He posed the question: What should state government do and what should it stop doing? And he brought in a consultant group to assist with the process. The governor's budget staff approached the problem by asking four questions:

- How much are citizens willing to spend?
- What results form the core of what must be done and done well to serve the citizens of Washington?
- How much will the state spend to produce each of these outcomes?
- How best can that money be spent to achieve each of the core results?

From this process, along with community, business, and government leaders, the staff developed a list of priorities of government, i.e., the results that citizens want most. These priorities included improvements in:

- Student achievement in elementary, middle and high schools
- The quality and productivity of the workforce
- The value of a state college or university education
- The health of the state's citizens
- The economic security of vulnerable children and adults
- The vitality of businesses and individuals
- Statewide mobility of people, goods, information, and energy
- The safety of people and property
- The quality of natural resources
- Cultural and recreational opportunities.

The budget team then allocated available resources across the results areas, beginning a process of strategic allocation – for instance allocating more to student achievement and less to public safety. The next step was to develop a “purchasing plan” of each result, with measurement indicators and cost-effect diagrams.

According to one team consultant, asking how to produce specific results, rather than how to cut budgets, elicits far more strategic thinking about the best uses of public money. For example, the team dealing with K-12 education said they needed to purchase more early childhood education; to start to move to a “pay for skills” compensation system for teachers; and to move away from an “across the board” basis of funding toward targeted funding for those schools and kids most in need. The health team decided the highest impact strategies focused on prevention – mitigating environmental hazards, improving food sanitation, providing public health clinics, and the like. They proposed spending more on these strategies and less on health insurance for childless adults.

In Washington as in Alabama, budget results were painful. But the Washington process garnered bipartisan support and an understanding of the logic behind the cuts.

Judging from newspaper editorials, it may also help improve confidence in government to manage during budget crises. Governor Locke's budget includes eliminating health insurance for 60,000 of the working poor, dental, hearing, and optometry coverage for poor adults on Medicaid, and cutting 2,500 state jobs. It suspends cost of living increases for state employees and teachers, suspends a class size reduction referendum, increases university tuition by nine percent, and releases about 1,200 low-risk felons.

While many groups in Washington – including environmental, police, and education advocates – were disappointed with the results, the process drew wide praise. Most dramatic, the former Republican candidate for governor who had criticized Locke for poor management during the campaign, wrote a surprising column in *The Seattle Times*. He called the budget process “a work of bold, impressive statecraft.” In a public opinion poll, 64 percent of voters endorsed the following statement: “Whether or not I agree with all of the Governor's budget recommendations, I respect his leadership and vision to solve the current problem and get the state's economy back on track.” Only 29 percent disagreed.¹⁰

From Performance Measurement to Privatization

The approach of the Schwarzenegger administration will define itself through the budget cycle. The policy hallmark of the Schwarzenegger campaign was a commitment not to raise taxes, thereby attracting new businesses and creating jobs, while protecting education. Already, Californians have seen a strong shift in the governor's office toward tax restructuring proposals, revenue and spending caps, increased privatization of state services, deregulation, and a general regulatory structure that is seen as less hostile and more supportive of growing businesses.

One such strategy was outlined long before the election by The Reason Institute, a California-based think-tank, and the Performance Institute of Washington. Reason's *Citizen's Budget* and its follow up, *A Road Map to Reform*, was supported by a former state controller, treasurer, and secretary of state. The Institute proposed a range of strategies designed to protect education and create a more business-friendly environment. Not surprisingly, their first set of recommendations for reform, a spending limit, rainy-day fund, and a trigger to limit spending when revenues drop, was a close blueprint for Schwarzenegger's opening referendum proposals to the legislature. In addition, the Institute recommended adopting a biennial (two-year) budgeting system, selling state land and assets, realigning health and social services to local governments, reforming procurement, privatizing, consolidating cabinet departments, and increasing the use of e-government services. Finally, it proposed a wide range accounting, performance, and auditing systems for state agencies.¹¹

Schwarzenegger succeeded in getting the referendum question on the March ballot, but not before compromising in the 13th hour on major provisions with the Democratic leadership in the legislature. The referendum session was a political victory for both the governor and the legislature, demonstrating that something beyond ideological gridlock was possible in Sacramento. In the process of that debate,

Schwarzenegger moved a bit to the center to govern and bargained directly with the legislature. And the legislature showed a respect for the governor's political strength. It was an interesting preview to what will happen after the governor formally submits his budget to the legislature in early January.

Bellwether Policy Options

The budget process aside, there are a number of policy options, challenges, and choices on the table throughout government. Some are embedded in the budget debate, others exist outside of it in regulatory and electoral decisions.

Referendum Campaigns. The Governor will lead referendum campaigns for the March 2004 election, for a spending cap for the state legislature and a \$15 billion bond to retire state debt. As it stands, voters will also have other interesting and contradicting choices in front of them. One referendum in circulation (985) calls for restricting the legislature's power to spend money further by requiring a two-thirds vote on all fee increases, not just on the overall state budget and on tax increases. In contrast, another proposition (987) calls for reducing the required majority for the state budget from the present two-thirds required by Proposition 13 to 55 percent. This proposal – which qualified for the March 2004 ballot in October 2003 - contains a number of accountability measures including docking the pay of legislators for every day over deadline the budget isn't passed. Overall, there were 27 initiatives in circulation as of October 2003. Topics range from aspects of the state budget and the elimination of the vehicle license fee to the proper amount of space required to pen a pregnant pig.¹²

Education. Education received the most benefit from the high technology boom of the 1990s and suffered the deepest cuts in the 2003 budget. K-12 education accounted for nearly half of the spending reductions in the 2003 budget. Nearly 20 percent of the reductions occurred in higher education, which were partly offset by fee increases. Fees rose approximately 30 percent in the University and California State University Systems. In the community colleges fees rose from \$11 to \$18 per credit.¹³

To complicate matters for 2004, according to Professor Thomas Kane of the UCLA School of Public Policy and Social Research, the key emerging issue in education for 2004 will be funding the requirements of the federal No Child Left Behind Act. "Within the next few years," Kane says, "a majority of the public schools in the state are likely to fail to achieve the federal definition of 'adequate yearly progress.'"¹⁴ As a result, schools will be required to submit school improvement plans to the state, to allow their students to transfer to other public schools, and to offer vouchers for supplemental educational services. At the same time, the state will be required to spend more on testing and districts will be required to hire more highly qualified teachers. As budgets are likely to remain tight for a few years, the state will face a major challenge meeting these federal requirements.

In higher education, the battle lines will form over access. Cuts in University of

California, Cal State University, and community college budgets are forcing those institutions to raise up fees and cut programs. California, under a 40-year-old Master Plan, was seen as an international model for quality and access to higher education, with UC as the pre-eminent public university system. But the share of the UC budget supported by the state has dropped. The immediate result of the current fiscal crisis will be an increase in fees at all levels, bringing the mission and history of higher education in California to the fore and raising questions concerning preservation of quality.

Environment and Natural Resources. The Schwarzenegger administration will in some measure define itself by reaction to environmental pressures as they compete with strong pressures to create jobs (industrial and economic development issues) in a state that is growing by 500,000 new residents per year (immigration, health, and education issues), exacerbating traffic congestion (traffic and public transportation issues), not to mention the stress on farmland (agriculture issues), and coastal development (access, marine life, and run-off). None of which were directly addressed in the campaign.

Two key policy issues in this morass worth watching in 2004 and beyond, according to J.R. DeShazo of the UCLA School of Public Policy and Social Research, are water quality in Southern California and interpretation of the Healthy Forest Initiative in Northern California.¹⁵ In either case, government agencies will face clear choices on how aggressively to pursue environmental agendas.

In southern California, a recent consent decree between the Environmental Protection Agency (EPA) and environmental groups requires the EPA to start to stem pollution flowing from farm fields, city streets, and parking lots. The EPA must set Total Maximum Daily Loads (TMDL) for pollutants entering specific streams, lakes, and coastal waters. Once set by the government, TMDLs will be divided among those groups or individuals polluting the water. For instance, the government will set a limit on the amount of nitrogen that can enter LA County's Malibu Creek. This amount will be divided up among all of the polluters associated with Malibu Creek water. But according to DeShazo, the governance and accountability among agencies is unclear; resources dedicated to the task, he believes, are inadequate. Setting TMDLs for Los Angeles County could take many years, partly because there are so many diverse sources of pollutants.

In Northern California, the Bush Administration's Healthy Forest Initiative overhauls the 1976 National Forest Management Act. It is bound to create new battlegrounds between the timber industry and environmentalists in California. Governor Schwarzenegger ran both as an environmentalist and as a supporter of business development. The Healthy Forest initiative gives regional managers of the Forest Service more discretion to approve logging, drilling, and mining operations without having to submit environmental impact statements, which can take years to complete. New rules provide a more flexible approach that could be completed in months. In addition, the Healthy Forest initiative calls for forest "thinning" to prevent the spread of forest fires. This part of the initiative has been hailed by industry and ridiculed by environmentalists.

Other experts predict that the next major, expensive threat will be urban water pollution, in particular perchlorate, an ingredient in rocket propellants, which has been found in Sacramento and the Central Valley water as well as in plumes headed for South Los Angeles and Long Beach.¹⁶ In addition Los Angeles is also coming off its worst summer of smog in over a decade and the effects of relaxed emissions standards and the pollution from the 15 billion gallons of gasoline burned annually in the state is again raising warning flags among policy-makers and environmentalists.

Federal Share. California has a younger-than-average population, and hence has proportionately fewer recipients of federal old age programs such as Social Security than the U.S. as a whole. The end of the Cold War and the decline of the aerospace and defense sector in California diminished federal spending in the state. For each dollar paid by Californians in federal taxes only 77 cents comes back. In 2002, California sent \$58 billion more to Washington in Federal taxes than the state received back in federal spending.¹⁷ Governor Schwarzenegger, a Republican, is expected to have more sway with the Bush administration than his predecessor. California will be lobbying for changes in the formula for Homeland Security grants to take into account likely targets. (Per capita, Wyoming gets more Homeland Security funds than California). It will seek federal funds for expansion of water projects, particularly for the San Joaquin Delta. And it hopes to enlist federal regulatory support to force refunds from power sellers from the electricity overcharges during the state's 2001 energy crisis. In addition, the state will be pressing for forgiveness of federal penalties for not tracking child support adequately and for overpayments in food stamps. It will ask for a federal buyout of oil leases and for an increased level of support for jailing illegal immigrants.¹⁸

Health Care. California has a relatively high percentage of residents without health insurance. Such individuals tend to use public emergency rooms at high cost. Six bills have been introduced in the State Assembly aimed at providing coverage to the 6.7 million uninsured Californians, representing 21 percent of the state's non-elderly residents.¹⁹ The options have generally fallen into three categories:

- 1) Incremental: AB 30 (Richman, R-Northridge) would extend insurance to low income workers through expansion of the Healthy Families Program. AB 1062 (Bermudez, D-Norwalk), would aim at children by consolidating Medi-Cal, Healthy Families, and Child Health and Disability Prevention programs.
- 2) Play or Pay: AB 1527 (Frommer, D-Los Angeles), AB 1528 (Cohn, D-Saratoga) and SB 2 (Burton, D-San Francisco, Speier, D-Hillsborough) would require employers above a designated size to offer insurance or, alternatively, to pay a fee to a state fund that would underwrite coverage for its workers.
- 3) Single Payer: SB 921 (Kuehl, D-Santa Monica) would create a single, government-based health insurance agency to replace current public and private health coverage.

These bills were placed into the legislative hopper largely as conversation pieces originally, with the thought that a prolonged process of debate, hearings, and refinement would ensue. It seemed unlikely that further extensions of health insurance would pass until the budget crisis was resolved at some unknown point in the future. However, with the recall pending, the legislature quickly passed SB 2, the pay-or-play option. Governor Davis signed the bill, which takes effect in 2006. As a candidate, Arnold Schwarzenegger opposed SB 2 along with the business community. An initiative has been filed to repeal it. For the moment, however, SB 2 remains on the books, guaranteeing serious debate over the problem of the uninsured in California.

Human Services. About 20 percent of California's children live in poverty.²⁰ Human Services savings in 2003-04 were achieved largely through consolidating programs with the exception of deep cuts in after school programs (perhaps anticipating eventual funding of the after school program referendum championed in 2002 by Arnold Schwarzenegger). During the transition period, Governor-elect Schwarzenegger appointed Florida Budget Director Donna Arduin, who previously served Republican administrations in New York and Michigan, to "audit" the California budget. Arduin's recommendations in previous states resulted in major human service cuts, privatization for social services, and substantial tax reductions. Human service advocates in Florida have sharply criticized \$26 million in state Medicaid cuts that eliminated hearing, denture, and vision programs for 235,000 people as well as cuts in health insurance for children, following Arduin's recommendations.

Conclusion

The referendum to recall Governor Gray Davis and ultimately elect Arnold Schwarzenegger as Governor of California was a dramatic event in the state's history. Voters perceived state government as ineffective in the face of a fiscal crisis and stalemate that left California without any budget for the first month of fiscal year 2003-04. But in the campaign, there was little talk of the commitments, compromises, and actual cuts that state government is going to have to make to return California to solvency. The real test will come in 2004 and beyond. The Governor, the Legislature, and the electorate will have very difficult choices to make affecting education, the environment, health care, and human services. There is no shortage of ideas or

constituents for them. But there is a shortage of cash.

Before it occurred, few predicted an electricity crisis for California – a factor in the recall. No one predicted the alleged manipulations of Enron and other power traders that exacerbated it. A year before the recall, fewer still predicted such a referendum could occur; no one foresaw the rise of celluloid hero Arnold Schwarzenegger to be the midterm gubernatorial replacement. No one predicted a ballot with 135 candidates including the Lieutenant Governor, an adult movie actress, a self-proclaimed “smut peddler,” has-been actors and comedians, and a slew of citizens with myriad ideas and causes of their own. Political forecasting in California remains a tricky business.

Endnotes

¹ The Donner Party consisted of 83 wagon train emigrants who were unable to cross the Sierra Nevada before winter 1847, and almost one-half starved to death or were killed in violence and probable cannibalism.

² DiCammillo, Mark, Field, Marvin. "Little Confidence in Governor or Legislature to Satisfactorily Resolve the Budget Deficit" *The Field Poll*, San Francisco, CA April 22, 2003

³ Ronald Heifetz, *Leadership Without Easy Answers*. Harvard University Press, 1996

⁴ Jean Ross, California Budget Project, comments at a Senior Fellows talk at the UCLA School of Public Policy and Social Research, March 8, 2001.

⁵ Patrick May, "Frayed Community ties just a part of Proposition 13's legacy," *San Jose Mercury News*, May 23, 2003

⁶ The perceived inequity arises because the basic rule under Prop 13 is that property is taxed at 1% of the purchase price with only a 2% increase allowed for inflation each year. If real estate prices rise faster than 2% per annum, those owners who hold on to their property will pay a lower tax relative to its market value than new purchasers. Economists are less likely than new property owners to perceive an inequity in the disparate taxes paid under Prop 13, since purchasers of properties are aware of their future tax rates and adjust their demand for those properties accordingly. In turn, real estate prices reflect the expected cost of future taxes on the property. Put another way, property prices tend to be lower *than they otherwise would be* due to the higher property tax paid by new buyers.

⁷ Peter Schrag, "What If Howard Jarvis Had Never Been Born?" *California Journal*, June 2003. p. 17

⁸ Dan Walters: "Despite hoopla on budget deal, it does nothing about deficits." *Sacramento Bee*. December 16, 2003

⁹ Edward Walsh, "Alabama Braces for Budget Cuts" *Washington Post*. September 27, 2003. P A05. Philip Rawls, "Tax Defeat in Alabama, Prospects of More Crime" *Associated Press*. September 11, 2003

¹⁰ Connie Nelson and David Osborne, "Making Ends Meet in Washington State" published by the Public Strategies Group, who served as consultants to Locke. (www.psggrp.com). Gary Locke, "The next Budget Will Come Together with a Meeting of the Minds," *Seattle Post Intelligencer* December 15, 2002.

¹¹ Carl DeMaio et. al. "Citizens Budget 2003-2005: A Balanced Approach to Solving the Deficit While Protecting Californian's Quality of Life." Reason Public Policy Institute and the Performance Institute. Spring 2003.

¹² California Secretary of State – Elections and Voter Information – Initiatives. (www.ss.ca.gov/elections/elections-j.htm)

¹³ California Budget Project "The 2003-2004 Budget and Beyond" *Budget Watch Newsletter*. September 2003 p. 1

¹⁴ Thomas Kane interview, September 20, 2003

¹⁵ J.R. DeShazo interview, September 30, 2003

¹⁶ Editors of the *California Journal*, "Environmental Roundtable" *California Journal*, October 2003, pp. 12-20

¹⁷ California Institute for federal Policy Research, "California Balance of Payments with the Federal Treasury, Fiscal Years 1981-2002. p.1

¹⁸ "Mr. Schwarzenegger Goes to Washington," *Los Angeles Times*, October 26, 2003 p. B20.

¹⁹ U.S. Bureau of the Census, Health Insurance Coverage Status and Type of Coverage by state – People under 65 1987-2001

²⁰ Frank F. Furstenberg, Maureen R. Waller, and Hongyu Wang. "The Well-Being of California's Children" *Public Policy Institute of California Research Brief* June 2003.