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# CHAPTER 3

## If Not About Legacy, Then About What Else? Jerry Brown's 2017-18 Budget

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*"I'm not here about some cockamamie legacy that some people talk about. This isn't about me. I'm going to be dead."*

Jerry Brown urging legislative vote  
in favor of his cap-and-trade program<sup>1</sup>

Every level of government has a budget and a process by which that budget is put in place. State and local governments largely set their priorities through their budgets. Although there are many things that governments do that are not considered fiscal matters, e.g., defining crimes and penalties, or establishing environmental rules, even such issues often have some expression in the budget. For example, crime definitions and penalties involve the costs of law enforcement, funding facilities for incarceration, and sometimes sources of revenue (fines). Environmental rules also require funding of enforcement. In some instances, these rules may provide revenue, e.g., the California cap-and-trade program (about which more will be said below).

As has been discussed in the budget chapters of previous editions of *California Policy Options*, California Governor Jerry Brown, despite his protestation quoted above, *is* concerned about his "legacy." Brown will have served four terms as governor when he steps down in January 2019, more than any previous governor and – unless term limits are ended – more than any future governor. Uniquely, Brown – who was first elected in 1974 – split his four terms, two in the 1970s and early 1980s, and two beginning in 2011 after his election in November 2010. Perhaps in his youth Brown wasn't thinking of legacy, although even then he likely wanted to leave his mark as someone who was "different" from conventional politicians. At this writing Brown is 79 years old and, with age, legacy has become more pressing.

What are the legacies Brown would like to leave? And what are the prospects he will be able to do so? As we review the making of the 2017-18 budget in this chapter, keep that question in mind. The 2017-18 budget won't be Jerry Brown's last; he will do another for 2018-19. But 2017-18 will be the last budget completely within Brown's term of office. The next one's second half will be a legacy Brown leaves to his successor.<sup>2</sup>

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<sup>1</sup>Quoted in Jonathan J. Cooper, "Gov. Brown Makes Dire Plea to Save California Climate Law," *Associated Press*, July 14, 2017. Available at <https://apnews.com/fb94b2fdad3047a0a7e457a0f4ca6433/California-governor-scrambles-for-support-on-climate-deal>.

<sup>2</sup> This chapter reflects information available until August 2017. Later developments are not reflected.

Remember, too, that unlike other California governors, Brown has to compete for his legacy with the ghost of his father. The difference is that Jerry Brown's dad was also state governor. And the elder Pat Brown is remembered for the Master Plan for Higher Education and the related expansion of the state's higher ed systems (including construction of new campuses), for the expansion of the freeway system, and for the creation of a major state water project.

Also noteworthy is what has been *forgotten* about Pat Brown. Nowadays, few would recall or know that Pat Brown left a budget crisis to his successor (and to the man who beat him in his bid for re-election to a third term in 1966), Ronald Reagan. Nonetheless, Pat Brown's son took the memory of his father's budget crisis to heart and tried from the beginning of his political career to maintain a position of fiscal prudence.

### What Will Future Californians Remember?

*"What am I, 79? Do I have five years more? Do I have 10 years more, 15? I don't know, 20? I don't even know if I want that long."*

Jerry Brown reflecting on climate change and cap-and-trade<sup>3</sup>

Jerry Brown has two legacy capital projects, both of which he inherited from the previous regime of Governor Arnold Schwarzenegger. One is a high-speed rail system, similar to the "bullet" trains of Japan and Europe, that would eventually connect the Bay Area with Southern California. Brown managed to move that project from the drawing board to actual construction of a segment in the Central Valley. Whether the high-speed rail ever will be completed, however, is uncertain. Completion could depend on continued federal funding which, under the current Washington administration, seems dubious. If federal funding is not forthcoming, some other source will be needed, perhaps private investment which so far has yet to materialize. As it is, the main alternative funding sources are a bond issue that voters enacted and revenue from the state's cap-and-trade program which aims at cutting greenhouse gas emissions.

Brown's other big capital project is the construction of twin water tunnels in the Bay Area that are supposed to have environmental benefits while offering provision of a more secure water supply to the south. There is controversy about both elements and the project as yet has no funding and no construction, although it has survived some regulatory and litigation hurdles. At this writing, not all of

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<sup>3</sup>Quoted in George Skelton, "As cap-and-trade evangelist, Gov. Brown shows he's the most effective politician Sacramento has seen in a long time," *Los Angeles Times*, July 17, 2017. Available at <http://www.latimes.com/politics/la-pol-sac-skelton-cap-trade-jerry-brown-20170717-story.html>.

the key public water authorities are clearly behind the plan; whoever becomes governor when Brown retires – assuming he or she supports the tunnels – will need the major water authority players to back the plan. (So far, the announced candidates have all been male.) In short, in terms of physical infrastructure, Jerry Brown’s water legacy is especially uncertain.

Brown has also moved toward two policy *ideas* – as opposed to physical infrastructure – as legacies. One is promoting rules and regulations to limit climate change. Although California is too small by itself to make a major dent in world climate change, Brown sees California as setting an example, particularly in the face of opposition to climate policy by the Trump administration. The climate issue and the related cap-and-trade program are in part linked to the high-speed rail, which – as noted above – has been receiving funding from that program.

The other concept/idea legacy Brown wants to leave is building a fiscal cushion for the state to deal with the ups and downs of the business cycle. California has had two major budget crises since the turn of the 21<sup>st</sup> century. Brown, particularly when in the midst of budget proposing and enacting, pushes the idea of prudence in fiscal affairs which, as noted earlier, has long been part of his career. More tangibly, the enlargement of the state’s “rainy day” fund has been an objective. Like the infrastructure legacies, both the climate change and the rainy day ideas date back to the Schwarzenegger era.

The contemporary environmental regime of climate-related regulation really starts with AB32, a law passed in 2006.<sup>4</sup> Then-Governor Schwarzenegger received much praise for California’s climate policy – particularly because California was moving ahead despite the decidedly unenthusiastic George W. Bush administration in Washington. Schwarzenegger, as one of his first major moves upon taking office in a 2003 recall election, proposed and then induced voters to create a state rainy day fund (“Budget Stabilization Account” or BSA) in 2004. But he never was able to put and then retain significant money in it.<sup>5</sup> Whatever went in was drained out quickly by the Great Recession. Brown, in contrast, has built up the reserve, also with voter support. But his progress in building up state financial reserves is more qualified than his rhetoric might suggest.

## **Budget 101**

Before we look at detailed budget data, we need a bit of Budget 101. State and local governments – including the State of California – typically have a General Fund which you can think of as a “checking

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<sup>4</sup>See <https://www.arb.ca.gov/cc/ab32/ab32.htm>.

<sup>5</sup>Proposition 58, approved by voters in 2004 as urged by Governor Schwarzenegger, created the BSA. See <http://vigarchive.sos.ca.gov/2004/primary/propositions/prop58-arguments.html>.

account” for ongoing expenses. Revenues go into the General Fund, mainly from taxes; state expenditures for various programs go out. The major taxes in the California case are the personal income tax (about 68% of General Fund revenue), the sales tax (20%), and the corporate tax (8%). Together, these taxes accounted for 96% of total receipts in fiscal year 2016-17.<sup>6</sup>

These taxes, like most taxes, are sensitive to the business cycle. During Good Times, state residents are working (and thus receiving income), consuming (and thus paying sales tax), and corporations are generally profitable. During Hard Times (recessions), incomes are reduced, consumption is cut back, and profits decline or may even become losses. However, California’s income tax receipts are also reflective of the state of (often volatile) financial markets, particularly the stock market.

Because the state is highly dependent on the income tax, and because the income tax is progressive, income recipients in the upper brackets pay a disproportionate share of receipts. The top 1% of income recipients – whose taxable income is especially linked to capital gains and losses in financial markets – paid close to half of the income tax in recent years. The top 20% of taxpayers paid around 90%.<sup>7</sup> Just over half of the disbursements in 2016-17 from the General Fund went to education at all levels, and enrollment in schools and universities is not volatile or especially sensitive to the business cycle. The inflows, outflows, and stock of individuals in state prisons are not business-cycle sensitive. In short, California has a state government whose revenues are volatile but whose programmatic obligations are steady, a formula for potential budget crises.

Apart from pension trusts, there are numerous funds outside the General Fund that are earmarked for special purposes. These outside funds may receive money from designated taxes or fees or other sources. The largest deal with transportation and receive revenues from the gasoline tax and other motor-vehicle related taxes and fees that are used for road repair, public transit, etc. Typically, however, when you hear about the state budget, the discussion is of the General Fund.

Under the state constitution, the legislature must enact a budget for the coming fiscal year (which begins each July 1) by June 15. At one time, before Jerry Brown began his second iteration as governor, a two-thirds vote was needed to pass a budget. Particularly during economic slumps, this requirement led to delays beyond July 1, sometimes substantial, in enacting a budget. When the state entered a fiscal

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<sup>6</sup>The figures are on a cash basis. See Table 1 for source.

<sup>7</sup>Data are available from the California Franchise Tax Board at Jim Miller, “Almost half of California 2014 income taxes paid by top 1 percent,” *Sacramento Bee*, April 27, 2016. See <http://www.sacbee.com/news/politics-government/capitol-alert/article74271532.html>.

year without a budget in place, the status of various programs was put in doubt and some were not funded. The outcome regarding what was funded absent a budget was largely based on court decisions. Voters, who were increasingly upset by the drama that ensued from delayed budgets, changed the process to allow a simple majority to pass a budget, essentially ending the delays. But raising state taxes by the legislature still requires a two-thirds vote. Voters, however, can raise taxes via the initiative process by a simple majority.

Under its constitution, California is not supposed to borrow to finance ongoing expenses. Borrowing is supposed to be reserved for capital projects such as transportation infrastructure, water facilities, etc. There are various forms of borrowing. General Obligation (GO) bonds are backed by "the full faith and credit" of the state. Voters must approve such bonds, which can be put before them by the legislature or via the initiative process. Of course, when bonds are floated (sold in financial markets), the state must pay interest and ultimately repay the principle of the loan. Bond money is not free, although voters may not always perceive the obvious point that future tax revenue will be needed to pay off the bonds.

Apart from GO bonds, state agencies may issue lease-revenue bonds whose debt service is paid from the appropriations received by those agencies and from other receipts they may have. Ultimately, the rate of interest that has to be paid is determined in the bond market. But bonds are rated by three major private rating agencies which are supposed to assess the level of risk entailed. The lower the rating, the higher the interest rate that typically must be paid on the bond to compensate lenders for the risk.

There are exceptions to the constitutional restriction on borrowing for ongoing activities. Within a fiscal year, the inflow of revenues may not match the outflows for seasonal reasons. Income taxes are due in April for example. Consumption expenditures (and thus sales tax receipts) tend to increase in the Christmas season. Court decisions have allowed the state to borrow short-term, mainly within the fiscal year, if it doesn't have the cash needed to meet obligations. The short-term borrowing is done through flotation of "Revenue Anticipation Notes" (RANs). In recent years, however, such RANs have not been needed because the state has adequate cash on hand. In contrast, during severe budget crises, the state sometimes has borrowed short-term over periods that bridge two fiscal years through "Revenue Anticipation Warrants" (RAWs).

In the most extreme situations, California has temporarily withheld payment from suppliers to the state that are owed money and from those taxpayers due tax refunds. Rather than cash, it has given them



“registered warrants” in place of cash and then redeemed the warrants when cash was available. The last time this situation arose was in 2009 in the aftermath of the Great Recession. California has never defaulted on its GO bonds, lease revenue bonds, RANs, or RAWs. Although some observers might argue that handing out registered warrants rather than cash is *de facto* “bankruptcy,” there is no legal mechanism for state governments to go bankrupt.<sup>8</sup> (Local governments in California can go bankrupt and some have over the years.)

### **A Look at the Cash Numbers**

Now that we have had a brief review of budget practice, we can look directly at one version of the state budget for the fiscal year 2016-17 and consider some history. Budget accounts come in two “flavors.” One is direct cash inflows and outflows, unadjusted for any timing. It is often argued that cash flows can be misleading since timing can produce odd results. For example, there is little difference in practice if the state receives a tax payment on June 30 or on July 1 of the following fiscal year. But if done on a cash basis, the payment will appear either in one fiscal year or another. Accountants will often prefer adjusting such payments so that they are recorded based on the year in which they are *due* rather than the accident of when they are *received* – so-called “accrual” accounting rather than cash accounting.

Official state budgets that are enacted by the legislature are based on accrual accounting. The problem is that once there is a deviation from cash, the accounts can be “adjusted” for cosmetic reasons. There is a degree of discretion in the specifics of accrual methodology. In contrast, cash is cash. So let’s start with a cash accounting view of the state budget. The cash accounts of the state are maintained (and published) by the elected state controller. Some things you may see in the controller’s numbers may surprise you.

Take a look at Table 1. It shows the budget in cash terms from the Brown budget for 2012-13 through the Brown budget for 2016-17 (the year ending June 30, 2017). The controller reports two reserves: the Special Reserve for Economic Uncertainties (SPEU) – which you can think of as reflecting the balance in the state’s checking account – and the Budget Stabilization Account (BSA), popularly known as the “rainy-day” fund. If money is being added to the two accounts combined, the budget can be said to be in *surplus*. (More is coming into the state treasury than is flowing out in the taxes and expenditures of the General fund.) If the reverse is true and the sum of the two reserves is declining, the state’s General

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<sup>8</sup>Some local governments did enter bankruptcy in the aftermath of the Great Recession, notably the City of San Bernardino and the City of Stockton. During the mid-1990s, Orange County, California entered bankruptcy after some ill-considered speculation by its treasurer of financial derivatives.



Fund is in *deficit*. Put another way, good usage links surpluses and deficits to inflows and outflows in a defined period of time, typically a year. (Sadly, in Sacramento-speak, good usage is not always what is followed.)

In the aftermath of the Great Recession, the state had run big deficits so that its reserves were negative (its General Fund was net in debt at the close of fiscal years, something that is not supposed to happen). To pay off that debt, the General Fund had to run a series of surpluses sufficient to pay off the imbalance. Thus, the General Fund in 2012-13 was in surplus, but still in debt. (The surplus reduced the net debt, but didn't fully pay it off.) Following his election in 2010, what Brown did – after a one-year delay that we don't have to rehash here – was to induce voters to enact some temporary taxes (in November 2012). He also came into office at a time of gradual economic recovery, and recoveries add revenue. Finally, he limited the amount of state spending relative to what the legislature would otherwise have desired.

These three steps pulled the general fund out of debt and built up a combined reserve. Brown persuaded voters to start putting money into the rainy-day fund (Budget Stabilization Account) in November 2014, the fund that Governor Schwarzenegger was never able to implement successfully. The fund now receives money by a combination of formula and what the governor is able to persuade the legislature to add over and above the formula.

However, some of what was built up in the reserves was drawn down by two consecutive cash deficits in 2015-16 and 2016-17, a development that does not accord with Brown's hoped-for legacy of fiscal prudence. That leaves him two more budget years, 2017-18 and 2018-19, to cement a fiscal legacy (or not), at least on a cash basis. Note again that the budget for 2018-19 will essentially be an inheritance of his successor, whose first term will begin in the middle of that fiscal year (January 2019). It might also be noted that the numbers look different when on the official accrual basis, something that we will get into below.

It would be nice to have an annual reconciliation of the two accounting methods: cash vs. accrual. Sadly, and this is a decided deficiency in state budget practice and much-touted "transparency," there is no reconciliation available. There are cash accounts and there are accrual accounts, each the seeming property of a different government entity. The cash accounts are the province of the elected state controller. The accrual accounts belong to the Department of Finance which reports to the governor. It doesn't have to be that way, but that's the way it is.

Two charts, also on a cash basis, provide additional insight into recent budget history. Chart 1 shows “unused borrowable resources” as a percent of General Fund receipts at the end of fiscal years from just before the Great Recession through 2016-17. Chart 2 shows unused borrowable resources on a *monthly* basis for fiscal year 2016-17 in billions of dollars. So the initial question regarding both charts is, what are those unused borrowable resources?

As noted earlier, the state has many funds outside the General Fund. There is cash available in these outside funds that can be borrowed by the general fund when it is in the red. The legal ability of the controller to undertake such internal borrowing is ultimately determined by the legislature. And note that this type of internal borrowing has consequences. To the extent that an outside fund that is earmarked for some public purpose, but is filled up with IOUs from the General Fund rather than with cash, it lacks money needed to fulfill whatever purpose it is supposed to accomplish.

Nonetheless, the outside funds represent a considerable cushion for the General Fund. In a sense they are a hidden reserve which is larger than the official reserves. Note on Chart 1 that unused borrowable reserves relative to receipts reached a low point at the end of 2008-09, just before the state’s cash crisis where it was handing out IOUs (registered warrants) instead of paying all of its bills. Chart 2 shows that the mismatches in timing between tax receipts and expenditures within a fiscal year can result in considerable fluctuations in unused borrowable resources. The state started fiscal 2016-17 with about \$35 billion in unused borrowable resources. By the end of December 2016, it had only a little over \$20 billion. The drawing down of almost \$15 billion is a big swing in state financial assets. Nonetheless, the \$20 billion remaining was a sufficient balance to allow the state to keep paying its bills and to do so without any external RAN borrowing.

The fact that the California public perceives that things are now going relatively smoothly in Sacramento owes much to the fact that we have not had a budget crisis since early in Jerry Brown’s second iteration as governor. And much of the reason for that absence of crisis is that the total cash cushion for the state has been growing. A good deal of that growth is simply a reflection of the fact that the state has been in an economic recovery mode since 2009, a recovery that is putting money into virtually *all* state funds that receive tax revenue, not just the General Fund. The increase in those receipts adds to the overall state budgetary cushion.

## Official Budget Numbers

As noted, when you look at the official budgets, as passed by the legislature and signed by the governor, you will not find any official reconciliation between the cash accounts and the accrual accounts. In very loose terms, there are on Table 2 some notable surpluses (growth in reserves) on an accrual basis in earlier years and not so much more recently. In that very general sense, there is *some* accord between cash and accrual. It would be nice – more than nice in fact – to be able to see an official reconciliation, but one is not on offer in Sacramento. Nor does anyone in authority seem to feel a need for such an accounting.

To the extent that the news media cover state fiscal matters, there tends to be an uncritical reproduction of official data. In good times, there is enough of a cash cushion so that the state can get along without any sign of crisis. In bad times, such as in 2009, when the controller reports that cash is running out, problems arise. California may not be worse in that regard than other state and local governments around the country. But that fact does not mean that improvements would not be desirable.

Since the official accrual budgetary figures are what we have, at this point we shift to those numbers to trace the development of the 2017-18 budget. Table 3 shows the basic stages of the budget process which we will develop in more detail in what follows. But basically, budgets emerge in a series of steps. In the fall, the Legislative Analyst's Office puts out a projection of what would happen in the next fiscal year if the budget continued on autopilot, i.e., without modification. In January, the governor submits a formal budget proposal for the next fiscal year (beginning July 1). The proposal may contain new programs, cuts in programs, and other deviations from just continuing on the present path. Typically, there is a news conference that accompanies the proposed budget with the governor and the state's finance director making the presentation and answering reporters' questions.

After receiving the governor's message, the legislature begins a period of hearings on various aspects of the budget and the governor's proposal. In mid-May, the governor submits the "May Revise," a modification of the original budget that reflects revised estimates of receipts and expenditures and other changes the governor wishes to make. At that point, the two houses of the legislature begin to formulate their own budgets which generally are based on the May Revise, but usually contain deviations from it. The two versions of the budget must ultimately be combined through a compromise between the two houses.

The state constitution requires only that the governor make a budget proposal in January and that the legislature enact a budget by June 15. Almost everything else is a practice, not a constitutional mandate. Thanks largely to various ballot propositions over the years, the budget must comply with various rules voters have previously enacted. Most notable is Proposition 98 of 1988 (and a follow-up ballot modification) that specifies formulas for K-14 spending. Another potentially significant formula that voters enacted is the so-called Gann limit (State Appropriations Limit or SAL of Prop 4 of 1979) which based on population growth and inflation puts a cap on expenditures.<sup>9</sup> The Gann limit can require tax refunds of revenues which exceed the cap. In recent years, the possibility of hitting the cap has developed.

The governor can veto the entire budget that the legislature has enacted, or – more commonly – exercise line-item vetoes on specific features within it. Because of the veto power, there usually are informal talks between the legislative leaders and the governor before enactment. And because Democrats now dominate both houses, the talks in recent years have involved only the majority leaders. Republicans have largely been cut out of the process.

#### **From Previous Budget to Election Day**

*"I had a problem just figuring out those damn propositions. Some of them are bordering on incomprehensible."*

Jerry Brown on Election Day 2016<sup>10</sup>

Generally, once a new budget is in place in late June, the legislature turns to other matters. Some of these issues may have budgetary significance whereas others are more removed. For example, the legislature, after enacting the 2016-17 budget, considered the ongoing topic of the regulation of ride-sharing services such as Uber and Lyft relative to traditional taxis. There was a visit of the Dalai Lama to the legislature. The governor reviewed a book in the *New York Review of Books* about the danger of nuclear war, a danger which he added to global warming as an existential threat.<sup>11</sup> A court decision

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<sup>9</sup>The GANN Limit (after Paul Gann who sponsored it on the 1979 ballot) originally had a tighter cap than today. After the state hit the limit in the late 1980s and tax refunds occurred, voters changed the limit by exempting certain expenditures and making other alterations. If the limit were hit, the excess revenue would be split between rebates to taxpayers and K-14. The state actually hit the limit during the dot-com boom in fiscal year 1999-2000, but because the excess over the limit lasted only one year, no rebates resulted.

<sup>10</sup>Quoted in Christopher Cadelago, "With so many ballot measures, Jerry Brown ponders further reforms," Capitol Alert of *Sacramento Bee*, November 8, 2016. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article113311988.html>.

<sup>11</sup>Jerry 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/>.

okayed the acquisition of some Delta islands by the Metropolitan Water District of Southern California which seemed to have something to do with the governor's water tunnel project. (The connection was left hazy.) And the legislature passed a bill that supported use of funds from a bond approved earlier by voters for the high-speed rail project.

The national presidential campaign continued in the post budget period. But California – which went heavily for Hillary Clinton in the November election – seemed to expect a nationwide Clinton victory. At the Democratic convention in July, Governor Brown denounced candidate Donald Trump's "lies" about climate change.<sup>12</sup> Meanwhile, the outgoing Obama administration provided a ruling that supported a California legislative effort to create a state "Secure Choice" pension system (really a tax-favored savings plan) for private-sector workers with no employer-provided retirement program.<sup>13</sup> Employers without internal retirement systems would be required to offer the program.<sup>14</sup> Of course, an expected Clinton victory would keep the ruling in place. To the extent there was a focus on Election Day in Sacramento, it was mainly on state and local races and especially the 17 ballot propositions (shown on Chart 3) that ultimately appeared on the November 2016 ballot.

Some of these propositions had fiscal significance. Prop 51, authorizing the floating of state bonds for K-14 construction, had been put on the ballot by the education establishment. But Brown opposed it and wanted such construction to be the financial responsibility of local school districts. Hospitals had put Prop 52 on the ballot dealing with certain fees as an element of the state's component of "Obamacare." The fees in a complicated way were used to finance Medi-Cal payments to hospitals, and the hospitals wanted the arrangement locked in and protected from diversion from that use.

Voters in 2012 had enacted temporary income and sales taxes at the governor's urging. Prop 55 further extended just the income tax component. Notably, the governor did not officially endorse Prop 55 although he had assumed the added revenue would continue in his budget.

On the other hand, the governor vociferously opposed Prop 53 which would have required voter approval for certain lease revenue bonds, bonds that might be necessary for his water tunnels and his

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<sup>12</sup>David Siders and Christopher Cadelago, "Jerry Brown: 'I say Trump lies ... I say Trump is a fraud,'" *Capitol Alert of Sacramento Bee*, July 27, 2016. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article92255867.html>.

<sup>13</sup>Several states were in various stages of considering creating such plans. The financial services industry opposed such state-created plans which competed with IRA plans that are privately offered in the marketplace.

<sup>14</sup>The plan would be employee funded. The default for new hires would be participation in the program, although workers could opt out. Since the plan was to be employee funded, other than minimal administrative costs, there would be no cost to employers. In principle, the state was not to be at risk.



high-speed rail project. (The object of the wealthy individual who supported this proposition was particularly to thwart the water tunnels.) Governor Brown reported that his dog Sutter was recommending that voters “pee on 53.”<sup>15</sup> He took no position on Prop 54 which provided for various reforms of the legislative process, including a provision that bills be available for 72 hours before votes were taken on them. Effectively, that rule meant that future budgets would have to be in final form three days before the June 15 deadline for legislative enactment.

Proposition 56, a hike in the tobacco tax, was primarily earmarked for various purposes and so would have little direct effect, if passed by voters, on the General Fund. But some of the revenue derived from the tax would go to Medi-Cal (the California version of Medicaid), thus helping the state support that program. Prop 57, reducing certain criminal sentences, was part of a general, ongoing effort by the governor – prodded by court decisions – to reduce the (over-crowded) population of state prisons. If successful, there would be some reduction in state incarceration costs to the budget. Marijuana legalization – Prop 64~~•~~ included tax revenue for the state and, potentially, for local governments.

The fact that there were so many propositions on the November 2016 ballot was not entirely accidental. In the past, as propositions qualified, they were put on the next statewide ballot. So some of them, based on past procedures, might have gone on the June 2016 presidential primary ballot. However, legislative Democrats, fearing that the primary might turn out more Republicans than Democrats, changed the rule to require that propositions would usually go only on general election ballots. (The legislature retained the authority to put propositions that *it* created on whatever ballot it wanted.)

Prior to the election, Governor Brown appeared sanguine about the crowded ballot. When asked whether voters would be confused about so many propositions, he replied, “no more than usual.”<sup>16</sup> But as the quote at the heading of this section indicates, by Election Day, he seemed to retreat from that notion. There is folk wisdom in California politics that voters, if faced with a confusing ballot, tend to vote “no.” But in fact, out of 17 propositions in November 2016, only five failed.<sup>17</sup>

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<sup>15</sup>Christopher Cadelago, “‘Pee on 53’ – Brown invokes Sutter against measure on Delta tunnels,” *Capitol Alert of Sacramento Bee*, October 31, 2016. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article111613807.html>.

<sup>16</sup>David Siders and Jim Miller, “California voters face full plate of initiatives,” *Sierra Star*, September 21, 2016. Available at <http://www.sierrastar.com/news/local/article103146387.html>.

<sup>17</sup>A reform in 2014 created a system whereby, once an initiative had reached 25% of needed signatures, there would be an opportunity for legislative hearings and potential alternative legislation. If the legislation was satisfactory to the initiative proponents, they could withdraw the initiative. The reform had only limited effect in 2016. Arguably, one potential initiative, an increase in the state minimum wage, was withdrawn after the



## Election Day to January Budget Day

*"The White House is the biggest Bully Pulpit, but it's not the only one. Jerry Brown's got a pretty big one of his own."*

Environmental activist on governor's position after Trump election<sup>18</sup>

The November 2016 election – after all the votes were finally tabulated – gave the Democrats supermajority status (two thirds) in both houses of the legislature. Governor Brown had only one disappointment among the ballot propositions, the passage of the K-14 bonds. Of course, the big shocker for the state was at the national level; despite the predictions of pundits and polls, Donald Trump won the presidency through the Electoral College, although he lost the popular vote. When the California Electoral College voted (for Clinton) in December 2016, it demanded an investigation of Russian interference with the national election.<sup>19</sup> Of the 2.9 million vote margin by which Hillary Clinton exceeded Donald Trump in the popular vote, 4.3 million came from California. (You read that correctly.) In effect, California was the mirror image of the rest of the U.S.

The national election results put many California programs into question. What would happen to the Affordable Care Act (Obamacare) which the state had enthusiastically implemented? What about funding for the governor's high-speed rail? What about the various California environmental rules, including those related to climate change? Brown warned Trump to "keep your hands off" the UC national labs as they relate to the climate issue. But, of course, with federal funding supporting those programs, it was not clear what that warning might mean in practice. UC's management of the Los Alamos lab – a legacy of the Manhattan Project which developed the atomic bomb during World War II – will be up for bid during the Trump administration's term.

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legislature enacted a substitute. Apart from the reform process, the Service Employees International Union (SEIU) – an influential group in state politics – had planned an initiative to cap hospital executive salaries. But it had earlier made an agreement with hospitals about various matters which included an arbitration clause regarding disagreements as to what the accord entailed. When hospitals challenged the SEIU's initiative, an arbitrator ruled it violated the accord and the initiative effort ended.

<sup>18</sup>Jamie Henn, spokesperson for 360.org, quoted in Carolyn Lochhead, "Jerry Brown finds himself at forefront of climate-change battle," *San Francisco Chronicle*, November 26, 2016. Available at <http://www.sfchronicle.com/science/article/Jerry-Brown-finds-himself-at-forefront-of-10637772.php>.

<sup>19</sup>See <https://www.youtube.com/watch?v=MM65hfa-fXk> starting at about minute 9.

What would happen to California state and local policies that limited cooperation with federal immigration control? What about the state's plan for a Secure Choice retirement savings program which had gotten a favorable ruling from the Obama administration? Also uncertain was the effect on the economy of the Trump election. Would there be changes in taxes, particularly big tax cuts, which might act as an economic stimulus (and possibly an inflation stimulus)? Would international trade policy be affected, with impacts on California's major ports? To the extent that California might collide with the Trump administration on various issues, the legislature hired former U.S. Attorney General Eric Holder on retainer to do whatever legal combat might be deemed necessary.

Despite the political and economic uncertainties, which could not be resolved until at least inauguration day (and perhaps much later), the governor was required to come up with his January budget proposal based on whatever assumptions he deemed appropriate. Preparing such a budget was certainly underway well before January 2017. Meanwhile, President-elect Trump got into a Twitter duel with Brown's predecessor as governor, Arnold Schwarzenegger over TV ratings for the show "The Apprentice" which Schwarzenegger had inherited from Trump.<sup>20</sup> This off-the-wall behavior from the president-elect suggested that there would be a chaotic start of the new administration, and uncertainties would continue well beyond inauguration. With hindsight, we know that there was indeed a chaotic beginning that has continued through this writing.

The Legislative Analyst's Office's November 2016 budget outlook suggested that if no changes were made, and if the existing budget were continued (a "workload" budget), the result would be a budget surplus of about \$4 billion in 2017-18. (Table 3) As it turned out, the LAO's projection resulted from more optimistic assumptions about revenues in 2017-18 than the governor and legislature were willing to make. It also projected more spending, i.e., leaving the budget alone would produce more spending than what the governor and the legislature ultimately were prepared to approve. As is often the case, there were leaks before the official budget unveiling. The leaks suggested that the governor would be proposing what he considered to be a lean budget based on conservative revenue estimates.

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<sup>20</sup>Schwarzenegger later quit the TV program.

## The January 2017 Budget

*"We have a number of significant fiscal pressures that are looming."*

H.D. Palmer, the governor's budget spokesperson<sup>21</sup>



***Governor Brown's deceased dog Sutter's legacy contained in the January budget message***

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The actual January budget proposal included a lower-than-LAO projection of revenue in the 2017-18 fiscal year, and suggested a lower level of spending than would have been the case in a workload (unchanged) budget. (Table 3) Ending reserves (on June 30, 2018, 18 months ahead) were projected to be lower than what LAO had forecast would be the result of a workload budget. Basically, the governor's budget – whether intended or not (and it almost surely was intended) – put a constraint on the legislature. If revenues were indeed about \$4 billion less than what the LAO had projected, and if starting reserves were about \$700 million lower, then there would be less room for spending.

Governor Brown, in addition, noted the uncertainties coming out of Washington as a further fiscal restraint. He didn't, however, include assumed changes in federal policy that might affect the California budget (such as an effort to repeal the Affordable Care Act). He proposed phasing out the state's Middle Class Scholarship program, which was quickly met with objections from members of the legislature.

Other complaints quickly surfaced. Counties complained about proposals to reduce certain services for seniors and low-income individuals. Republicans complained about continuation of the high-speed rail project. Inadequate fees for Medi-Cal providers (despite passage of the tobacco tax in November 2016)

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<sup>21</sup>Quoted in John Myers, "California Voters just approved more taxes, but the new state budget could still be lean on cash," *Los Angeles Times*, January 6, 2017

were targeted by the California Medical Association. The chair of the Agricultural Labor Relations Board quit when the the budget failed to provide funding for a worker information program. The California Business Roundtable grumbled about the budget, but voiced support for the general concept of prudence in fiscal affairs touted by the governor.

As for the issue of the vulnerability of the state to what might happen in Washington, the LAO estimated that over \$370 billion flowed into the state annually from the federal government. But the bulk of that flow went to individuals (such as Social Security payments or salaries of federal employees located in California), or to private firms for goods and services (such as defense contractors). Only about a fifth went to state government, and much of that was passed through to individuals or local governments or others. The main vulnerability of the state government directly was through Medi-Cal (Medicaid).

Later in the year, President Trump ruminated about cuts to UC-Berkeley (due to a riot in connection with a controversial conservative speaker) or to localities in California (due to “sanctuary city” policies regarding immigrants). In the case of immigration, the state filed suit against the federal government over such threats in August 2017. On the other hand, the state withdrew a proposal that had been pending with the Obama administration to give undocumented immigrants access to the state health insurance exchange. And it submitted a wishlist to the Trump administration of \$100 billion in infrastructure projects. (Congress – at this writing – has yet to approve funding for the Trump infrastructure program that was promised in the presidential campaign.)

There was a budget proposal by the Trump administration in March 2017 which, if implemented, would have entailed big cuts to various California programs, not just Medi-Cal. But the budget was quickly labeled dead on arrival, and Congress began its own process. Initially, the Trump administration blocked some funding for electrification of commuter rail in the Bay Area, but later reversed its stance. So it appeared that to the extent that California would be affected by Washington budget decisions, it would be mainly by piecemeal Congressional enactments.

Similarly, after a flurry of concern about the House bill to “repeal and replace” Obamacare, and then Senate attempts to do the same, that effort failed over the summer. California simply continued as best as it could with its health insurance program. However, the turmoil in Washington seemed to stimulate a push in Sacramento somehow to create a single-payer health plan for California. Such a plan would require the permission of the Trump administration, making its prospects extremely dubious.

But proponents kept pushing the bill through the state assembly until the speaker of the assembly stepped in, pointed to the lack of a funding plan and other operational details in the bill, and killed it. His action created an outcry in the left-wing of the Democratic Party, but the fact was that the bill was a concept, not an operational plan.<sup>22</sup> Meanwhile, Lieutenant Governor Gavin Newsom, a candidate for governor in 2018 and former mayor of San Francisco, promised a health plan for the state modeled on Healthy San Francisco, a universal plan for residents of that city which, however, is not single-payer.<sup>23</sup>

The governor tended to take a balancing approach regarding relations with Washington, sometimes making provocative remarks, but sometimes avoiding confrontation. Thus, he said California was "not going to sit around and just play patsy" with regard to the Trump proposal for a wall on the Mexican border.<sup>24</sup> But exactly what not playing patsy meant was unclear. The governor shied away from proposals to declare the entire state a "sanctuary." The word "conjures up medieval sanctuary places" in churches, he said.<sup>25</sup>

Media reports on the governor's January budget proposal sometimes treat it as if what the governor proposes is what the budget will be. While it is much more true in California than in Washington that proposals from the chief executive shape the budget, there is no budget until the legislature enacts one, and the governor then signs it. And that final step, except in periods of fiscal crisis, will be in June. So after the initial reactions to what the governor has proposed, legislative hearings on the budget and its components begin. The January budget is essentially an early step in a series of steps.

As part of the hearing process, the LAO begins to churn out reports on the budget, ranging from a Big Picture overview analysis, to detailed program discussions. On the big picture, LAO continued to believe there would be more revenue than the governor was forecasting. And it criticized what it interpreted as an attempt by the governor to tweak the GANN limit (see above) as state spending began to approach the ceiling. (The governor later dropped that effort).

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<sup>22</sup>If California were ever to create a single-payer health insurance plan, it would probably require a vote of the people to modify the state constitution in order to deal with the Gann Limit on spending and possibly other barriers. Taxes would have to be created which would require a two thirds vote of the legislature or putting the issue before the voters.

<sup>23</sup>The San Francisco plan predates the Affordable Care Act. It combines an employer mandate, community health clinics, and other elements of funding to cover all residents.

<sup>24</sup>Quoted in Christopher Cadelago, "Jerry Brown rips Trump wall," *Capitol Alert of Sacramento Bee*, March 26, 2017. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article140768068.html>.

<sup>25</sup>Quoted in George Skelton, "Gov. Brown is right about the 'sanctuary state' bill: Protect law-abiders and help boot the bad guys," *Los Angeles Times*, August 10, 2017. Available at <http://www.latimes.com/politics/la-pol-sac-skeltonjerry-brown-sanctuary-state-20170810-story.html>.



As for detailed analyses, the LAO opined – for example – that in its view, both UC and CSU were admitting some students who did not meet the eligibility standards of the Master Plan.<sup>26</sup> It noted that a major state information technology program known as FI\$CAL was having budgetary and implementation problems. The FI\$CAL issue was in fact just one of a series of administrative problems that had befallen the state in recent years.

For example, there was a scandal about improper construction standards on the replacement of part of the Bay Bridge. The Oroville Dam seemed to fall victim to an abrupt shift in the state’s weather from drought to deluge, particularly in northern California.<sup>27</sup> Its spillway for excess water collapsed, requiring a large-scale evacuation of nearby population and costly repairs. (Despite concerns about the state’s relations with the Trump administration, the new president approved emergency funding for winter storm repair in California, including Oroville.)

LAO endorsed the idea, which Brown had proposed, that the cap-and-trade program should have a two-thirds vote for a lawsuit-proof extension. Note that the governor’s high-speed rail project was reliant on cap-and-trade revenue.<sup>28</sup> The cost of buying permits under cap-and-trade was sufficiently tax-like that treating the program in the same way as a tax would be treated in the legislature was advisable. (Tax increases require a two-thirds vote of the legislature.)

Apart from high-speed rail, the governor for some time had been pushing for legislative action to raise the state gas tax and other vehicle-related charges for roads and other transportation purposes. Ultimately, the bill received the required two-thirds vote with no Republican support. One Democrat who voted for the bill had been narrowly elected in a “swing” district and was then targeted by conservative groups with a recall. Legislative Democrats changed the rules regarding recalls in an effort to move the recall election to the June 2018 primary and to avoid an earlier special election. At this

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<sup>26</sup>Under the original Master Plan for Higher Education of 1960, UC was supposed to admit the top one eighth of high school graduates as undergraduates. CSU was supposed to admit the top third. Exactly what these fractions mean in practice is unclear.

<sup>27</sup>Governor Brown officially ended his declaration of drought in April 2017.

<sup>28</sup>Under cap-and-trade, an overall ceiling is imposed on greenhouse gas emissions and the ceiling falls over time. Firms with emissions must either control them directly or buy permits to emit from the decreasing overall supply. The cap eventually falls by 2030 to 40 percent of the state’s emissions in 1990. About half of permits are given out the allocation tilts toward firms that are viewed as likely to leave the state. The rest are sold, thus generating revenue for the state, which is supposed to be used for purposes that reduce emissions. A lawsuit aimed at invalidating the existing program failed in May 2017.



writing, it appears that litigation may have blocked that delay, although the outcome isn't certain.<sup>29</sup> A Democrat who did *not* support the gas tax was stripped of his committee chairmanship. A Republican state assemblyman filed an initiative to undo the tax and indicated he would use the initiative in his long-shot campaign for governor in 2018.<sup>30</sup>

As the date of the May Revise approached, the spotlight became focused on UC after the state auditor delivered a critical report which included the allegation that UC executives had attempted to interfere with her audit. The Regents voted to establish an investigation of the charges and agreed to follow all of the suggestions contained in the audit. Essentially, these suggestions involved university budget reserves and how they were accounted and disclosed.

### The May Revise and Final Budget

*"Life and death becomes a pillar for us to wake up and notice what is really important."*

Jerry Brown at California Highway Patrol memorial  
shortly before releasing May Revise budget<sup>31</sup>

Table 3 shows the governor's May Revise proposal for 2017-18 which appeared on May 11, 2017. Governor Brown assumed more revenue and proposed more spending than in January and a somewhat lower starting regular General Fund reserve. More would also flow into the rainy-day fund. The net result was a total budget surplus of an extra \$1 billion with the combined reserve up about \$700 million from the January projection.

As the state senate put its version of the budget forward, it basically followed the governor's May Revise except that it assumed the starting reserve in the General Fund would be \$1 billion more than the governor did. So total reserves at the end of the fiscal year would also be about \$1 billion higher. The assembly, however, projected a much more flush reserve to start than the governor. Given that

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<sup>29</sup>Whenever the election is held, there will be substantial sums donated to protect the incumbent by Democrats, thanks to an opinion of the Fair Political Practices Commission. The Commission reversed an earlier ruling and relaxed rules that restricted the amount of donations the target of a recall campaign could receive.

<sup>30</sup>Normally, when the legislature enacts a bill and someone wants to block its implementation, a referendum petition is filed which, if it receives sufficient signatures, blocks the implementation until the item appears on the ballot. If voters reject it (vote "no"), the bill is killed. Why Assemblyman Travis Allen did not go the referendum route and used an initiative instead is unclear.

<sup>31</sup>Quoted in Christopher Cadelago, "'Life and death becomes a pillar for us to wake up,' Jerry Brown says at CHP memorial," Capitol Alert of *Sacramento Bee*, May 2, 2017. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article148179149.html>.

assumption, it proposed more spending, while ending up with a final combined reserve about the same as the governor's.

Unlike the interval between the January budget proposal and the May Revise, the time between the May Revise and constitutionally required action by the legislature is short. So some issues tended to be crowded out by the need to enact a budget. For example, the Obama ruling that supported the state's effort to create a Secure Choice savings plan for workers who had no employer-provided plan was revoked by the Trump administration. State leaders indicated they planned to go ahead anyway, but exactly what would be entailed without the federal ruling was unclear.

The state has an elected Board of Equalization (BOE) that administers certain tax collection and adjudication. Its origins are linked to the local property tax which before Prop 13 of 1978 involved periodic assessments by local county assessors of property values. BOE was supposed to ensure that there was equal treatment of property assessment across jurisdictions. Prop 13 changed the methodology to a formula based on the sales prices which removes substantial local discretion, so the original justification for BOE was at least reduced. Scandals at the BOE led to a desire to replace BOE with some other mechanism.

While an elected agency couldn't be abolished without amending the state constitution, its responsibilities could be reduced and placed elsewhere. But a little more than a month was not a lot of time for developing an alternative. Nevertheless, in the end, that is what was done. Similarly, the controversy at UC with regard to the state audit led to a budgetary provision withholding \$50 million until there was certification that the auditor's recommendations were implemented.

Governor Brown met with the Democratic leaders of both houses of the legislature and, in essence, negotiated a compromise deal. Table 3 suggests that the assembly's push for added spending relative to what was proposed in the May Revise was reflected in the eventual deal. The governor could have used his line-item veto on the compromise deal as it emerged from the legislature. But as he had done the year before, he made no changes in the compromise enactment. The Middle Class Scholarship program was retained. The state's Earned Income Tax Credit was expanded to include certain self-employed individuals (example, Uber drivers).

Some items that may not seem to be directly part of the budget are sometimes included in the various bills that implement the budget by including a nominal expenditure in the implementing bill. Thus, certain gun control provisions were added to the process following that route. CSU was required to

admit more students. CalPERS, the large state pension plan for state employees (other than UC) and many local employees, received a contribution via a low-interest loan from the state's short term investment pool (which earns low interest on its funds because they are short term and liquid).

Once the budget deal was reached, other issues again resurfaced. The governor worked on obtaining a two-thirds vote to extend the cap-and-trade program, telling legislators it was "the most important vote of your life."<sup>32</sup> Brown ultimately succeeded in the effort, receiving a handful of Republican votes. The business community generally prefers cap-and-trade to command-and-control regulation of emissions. That preference, combined with some side deals made to obtain those Republican votes, was sufficient to receive the needed supermajority.

Among those side deals was a constitutional amendment that would require a vote in 2024 to reset spending allocations for cap-and-trade revenues, a vote that would potentially put Brown's high-speed rail at risk.<sup>33</sup> Such a vote might give the Republicans a chance to kill the project at the ballot box. Brown gambled that his project would be so far along by 2024 that voters wouldn't want to halt it. But that gamble depends in part on who is elected governor and sufficient continued funding until then. Within Republican ranks, there were protests against the GOP votes for cap-and-trade including calls for the minority leader in the assembly to step down, which he eventually had to do.<sup>34</sup>

## Conclusion

*"I don't have a legacy. I don't know what a legacy is."*

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<sup>32</sup>Quoted in George Skelton, "As cap-and-trade evangelist, Gov. Brown shows he's the most effective politician Sacramento has seen in a long time," *Los Angeles Times*, July 17, 2017. Available at <http://www.latimes.com/politics/la-pol-sac-skelton-cap-trade-jerry-brown-20170717-story.html>.

<sup>33</sup>Various tax breaks were included to obtain GOP votes, including ending a rural fire-fighting fee. For Democrats worried about environmental justice, there was an arrangement to help poor communities adversely affected by air pollution. See Dan Smith, "Six ways Jerry Brown got the votes for a California climate deal," *Capitol Alert of Sacramento Bee*, July 17, 2017. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article161905653.html>.

<sup>34</sup>As fallout from his vote for cap-and-trade, Republican minority leader Chad Mayes was accused of having an affair. Before being ousted as minority leader, Mayes retaliated against a Republican assemblywoman who had called on him to step down by having her reassigned to the smallest office in the capitol building known as the "doghouse." After losing his post, Mayes declared, "What we've been doing for the last twenty years is not converting Californians to our ideas. We've been repelling them. And we haven't been reflecting Californians, we've become more insular and ideologically pure. And both of those are not winning strategies." Quoted in Laurel Rosenhall, "Ousted leader's advice to fellow Republicans: Stop 'repelling' Californians," *CalMatters*, August 30, 2017. Available at <https://calmatters.org/articles/ousted-leaders-advice-fellow-republicans-stop-repelling-californians/>.

Jerry Brown after the legislature passed his cap-and-trade bill<sup>35</sup>

Despite conclusion of the 2017-18 budget process, there were more elements of uncertainty left open in both the short term and long term than usual. Much of the uncertainty stemmed from the turmoil in Washington. It was unclear what might happen to the Affordable Care Act (Obamacare) and Medi-Cal (Medicaid) funding in Congress and in the hands of the president. To the extent that Governor Brown's high-speed rail depended on Washington money and favorable court and other rulings, that project, too, faced uncertainties. California's efforts to create a Secure Choice retirement savings plan, which engendered opposition from the financial services industry, also might be halted – or at least made more complicated – by actions in Washington.

There is also (always) a degree of uncertainty about the trajectory of the national economy, which tends to carry the California economy along with it. The LAO thinks that the current level of reserves that has been built up under Brown could carry the state through a recession. Of course, what would happen in practice would depend on the depth of any such recession and how the legislature reacted to it. No recessionary clouds were apparent at this writing, but forecasting the economy is not as precise a science as the computer models that are often used might make it appear.

Brown's water tunnel project is nowhere near as far along as his high-speed rail. What might happen to it will surely depend on the attitude of the next governor to be elected in November 2018. Various candidates were already announced or in decision mode as the next gubernatorial election approaches. How well the state handles the repair of the Oroville Dam could have an impact on public sentiment towards another big water project.

Jerry Brown repeatedly has denied he is worrying about legacy, but such disinterest is hard to believe. If history is a guide, if he does succeed in leaving big tangible projects, he will be remembered for them, as his dad was. But will folks – 50 years from now – remember a budget reserve? Will they remember state policies limiting greenhouse gas emissions? That's harder to predict. But there is nothing like a legacy literally carved in stone (or rail or concrete) to keep a memory alive. The fate of other achievements is more iffy.

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<sup>35</sup>Quoted in Christopher Cadelago and Taryn Luna, "Will California Democrats pay a price for Jerry Brown's latest victories?" *Sacramento Bee*, July 20, 2017. Available at <http://www.sacbee.com/news/politics-government/capitol-alert/article162565978.html>.

**Table 1: General Fund Budget, Cash Basis, FY2012-13 – FY2016-17**

| Cash \$billions             | Brown<br>Actual<br>2016-17 | Brown<br>Planned<br>2016-17 | Brown<br>Actual<br>2015-16 | Brown<br>Actual<br>2014-15 | Brown<br>Actual<br>2013-14 | Brown<br>Actual<br>2012-13 |
|-----------------------------|----------------------------|-----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Receipts                    | 122.6                      | 125.7                       | 120.4                      | 116.4                      | 104.0                      | 103.4                      |
| Disbursements               | (126.8)                    | (130.7)                     | (123.6)                    | (115.8)                    | (99.6)                     | (96.3)                     |
| Gross surplus/deficit       | (4.2)                      | (5.0)                       | (3.2)                      | 0.6                        | 4.4                        | 7.2                        |
| Transfers to reserves       |                            |                             |                            |                            |                            |                            |
| SPEU                        | 0.6                        | 0.6                         | 0.8                        | -                          | 0.1                        | *                          |
| BSA                         | 2.8                        | 3.3                         | 1.9                        | 1.6                        | -                          | -                          |
| Total reserve transfers     | 3.4                        | 3.9                         | 2.7                        | 1.6                        | 0.1                        | -                          |
| Net surplus/deficit         | (0.8)                      | (1.1)                       | (0.5)                      | 2.2                        | 4.5                        | 7.2                        |
| Unused borrowable resources | 37.0                       | 33.0                        | 35.2                       | 28.3                       | 23.8                       | 18.8                       |

\*Transfer to SPEU account was offset by equal borrowing from the account  
 Source: California State Controller, monthly cash statements, June of year shown.

Table 2: Official Budget Reserve Data (Accrual Basis), End of Year in \$ billions

|         | General<br>Fund<br>Reserve | Budget<br>Stabilization<br>Account | Total<br>Reserves | Surplus* |
|---------|----------------------------|------------------------------------|-------------------|----------|
| 2012-13 | -\$1.6                     | 0                                  | -\$1.6            | +\$1.5   |
| 2013-14 | +\$2.5                     | 0                                  | +\$2.5            | +\$4.1   |
| 2014-15 | +\$5.6                     | +\$1.6                             | +\$7.2            | +\$4.7   |
| 2015-16 | +\$4.5                     | +\$3.7                             | +\$8.2            | +\$1.0   |
| 2016-17 | +\$1.6                     | +\$6.7                             | +\$8.3            | +\$0.1   |
| 2017-18 | +\$2.4                     | +\$8.5                             | +\$10.9           | +\$2.6   |

\*The surplus is the change in total reserves from year to year. Total reserves in 2011-12 were -\$3.1 billion. On an accrual basis, no deficits (negative surpluses) occurred during the time period shown. Note: Figures for 2017-18 are enacted budget projections.

Source: California Department of Finance;

[http://www.dof.ca.gov/budget/summary\\_schedules\\_charts/documents/CHART-A.pdf](http://www.dof.ca.gov/budget/summary_schedules_charts/documents/CHART-A.pdf);

[http://ebudget.ca.gov/2017-18/pdf/Enacted/BudgetSummary/BS\\_SCH1.pdf](http://ebudget.ca.gov/2017-18/pdf/Enacted/BudgetSummary/BS_SCH1.pdf); and

[http://www.dof.ca.gov/budget/summary\\_schedules\\_charts/documents/CHART-H.pdf](http://www.dof.ca.gov/budget/summary_schedules_charts/documents/CHART-H.pdf).

Table 3: Evolution of the 2017-18 Budget

| Accrual \$ billions              | June 2017<br>Final | Post-May 2017<br>Senate | Post-May 2017<br>Assembly | May 2017<br>May Revise | January 2017<br>January Proposal | November 2017<br>LAO Outlook |
|----------------------------------|--------------------|-------------------------|---------------------------|------------------------|----------------------------------|------------------------------|
| Starting GF reserve              | 1.6                | 1.7                     | 3.1                       | 0.7                    | 1.0                              | 1.7                          |
| Revenue & transfers              | 125.9              | 125.7                   | 125.8                     | 125.9                  | 124.0                            | 128.1                        |
| Expenditures                     | 125.1              | 123.8                   | 126.2                     | 124.0                  | 122.5                            | 126.1                        |
| Surplus/deficit                  | 0.8                | 1.9                     | -0.4                      | 1.9                    | 1.5                              | 2.0                          |
| Ending GF reserve                | 2.4                | 3.6                     | 2.7                       | 2.6                    | 2.5                              | 3.7                          |
| <b>Budget Stabilization Fund</b> |                    |                         |                           |                        |                                  |                              |
| Starting balance                 | 6.7                | 6.7                     | 6.7                       | 6.7                    | 6.7                              | 6.7                          |
| Ending balance                   | 8.5                | 8.5                     | 8.5                       | 8.5                    | 7.9                              | 8.7                          |
| Surplus/deficit                  | 1.8                | 1.8                     | 1.8                       | 1.8                    | 1.2                              | 2.0                          |
| Total surplus/deficit            | 2.6                | 3.7                     | 1.4                       | 3.7                    | 2.7                              | 4.0                          |
| Total ending reserves            | 10.9               | 12.1                    | 11.1                      | 11.1                   | 10.4                             | 11.5                         |

Source: <http://www.ebudget.ca.gov/budget/2017-18/#/BudgetSummary>;

<http://www.ebudget.ca.gov/budget/2017-18MR/#/BudgetSummary>;

<http://www.ebudget.ca.gov/budget/2017-18EN/#/BudgetSummary>;

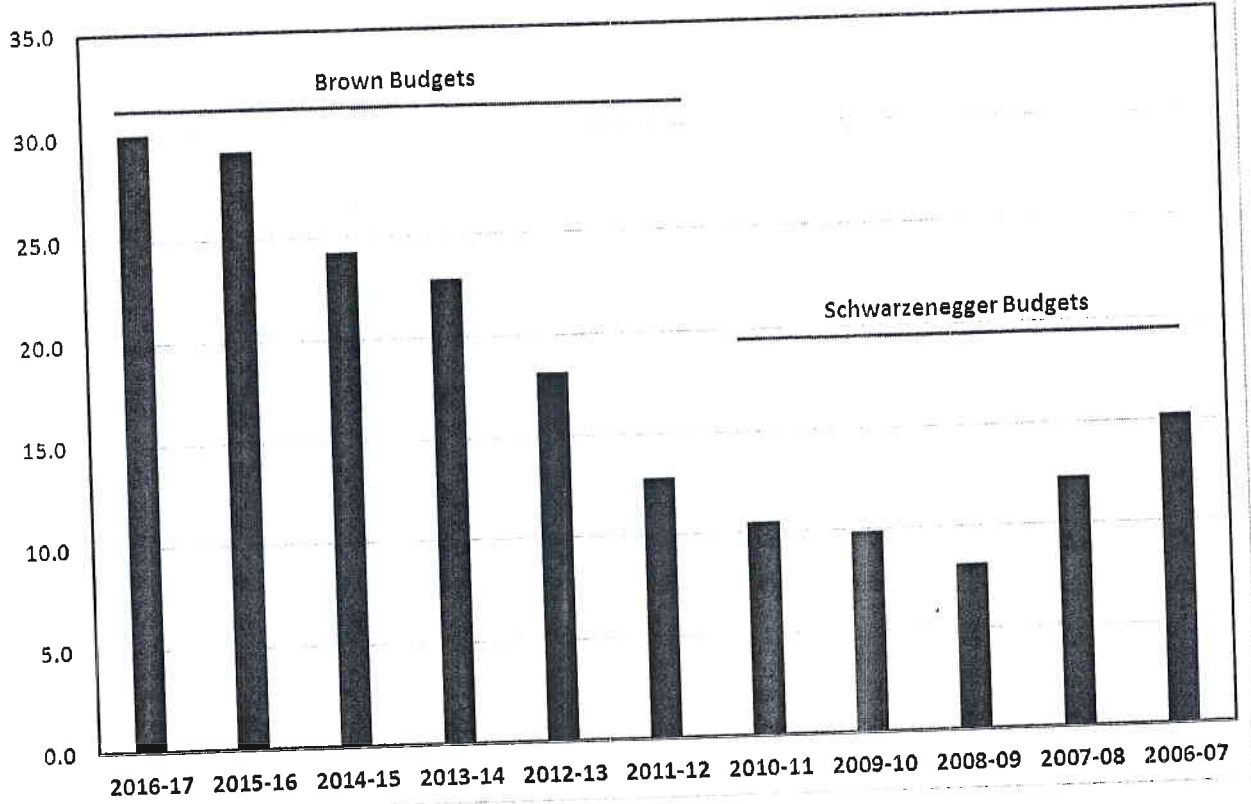
<http://www.lao.ca.gov/reports/2016/3507/Fiscal-outlook-111616.pdf>;

[http://www.lao.ca.gov/handouts/Conf\\_Comm/2017/Conference-Committee-Overview-053017.pdf](http://www.lao.ca.gov/handouts/Conf_Comm/2017/Conference-Committee-Overview-053017.pdf).



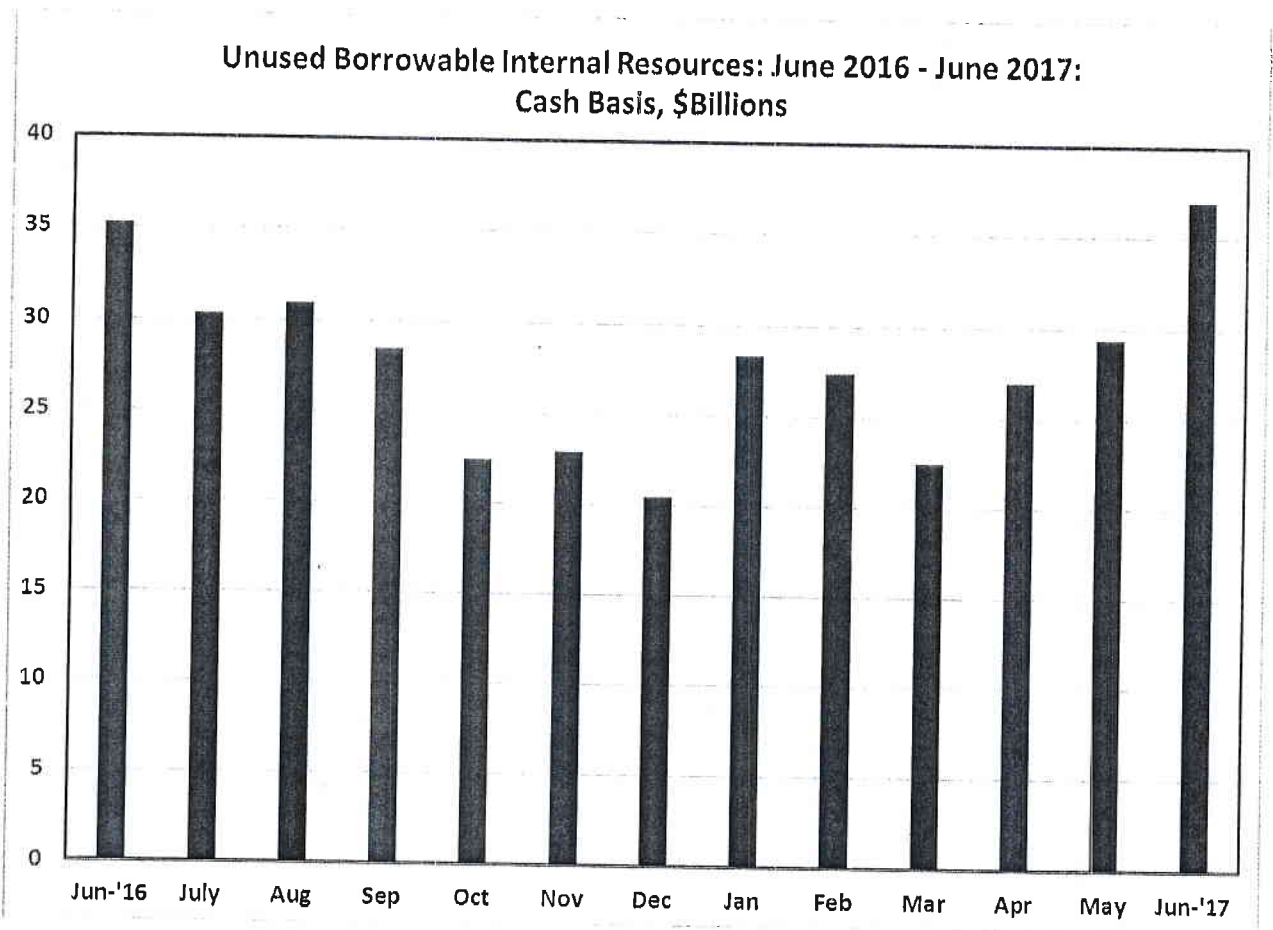
Chart 1:

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



Source: California State Controller, monthly cash statements, June editions. Available at [http://www.sco.ca.gov/ard\\_state\\_cash.html](http://www.sco.ca.gov/ard_state_cash.html).

Chart 2:



Source: California State Controller, monthly cash statements for months shown. Available at [http://www.sco.ca.gov/ard\\_state\\_cash.html](http://www.sco.ca.gov/ard_state_cash.html).

Chart 3: Ballot Propositions Placed Before Voters in November 2016

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Prop 51: Authorization for K-14 Bonds\*

Prop 52: Medi-Cal Hospital Fees

*Prop 53: Require Voter Approval for Revenue Bonds (Failed)\**

Prop 54: Legislative Procedures Including 72-Hour Rule

Prop 55: Extension of Prop 30 Temporary Income Tax\*\*

Prop 56: Tobacco Tax

Prop 57: Reduced Criminal Sentences\*\*\*

Prop 58: Revive Bilingual K-12 Education

Prop 59: Advisory Anti-US Supreme Court Citizens United Decision

*Prop 60: Require Condoms in Porn Films (Failed)*

*Prop 61: Limit Prices State Pays for Drugs (Failed)*

*Prop 62: Repeal Death Penalty (Failed)*

Prop 63: Gun Controls

Prop 64: Recreational Marijuana Legalization

*Prop 65: Specify Use of Carryout Grocery Bag Charges (Failed)*

Prop 66: Speed Up Death Penalty Process

Prop 67: Referendum: Endorse Law Banning Plastic Bags

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\*Opposed by governor.

\*\*Governor officially neutral.

\*\*\*Supported by governor.

Source: Figure 24 of Legislative Analyst's Office, *The 2017-18 Budget: California's Fiscal Outlook*.

Available at <http://www.lao.ca.gov/Publications/Report/3507>.