INTRODUCTION

Even by California standards, this has been an unusual year in the state’s budget politics. In February, Governor Schwarzenegger signed a budget deal addressing the massive deficit that had developed in FY 2008-2009. A little noted but quite astonishing feature of the agreement was the adoption of a budget for the following year, more than four months early and far ahead of any previous agreement on record.

The assumptions on which the deal had been based became obsolete almost immediately, and the whole process had to be repeated over the course of the spring and early summer. A new budget was finally agreed to in late July, but left few if any pleased with the outcome or optimistic that the state’s long term (or “structural”) deficit had been addressed.

ECONOMIC AND FISCAL ENVIRONMENT

Like the rest of the country, California is going through what has been described as the worst fiscal crisis since the Great Depression. Bad economic times have hit California state government especially hard for a couple of reasons.

The housing bubble that precipitated the crisis was bigger in California than in most states. The 2007 American Community Survey, conducted when housing values were at or near their heights, found that the median value of owner-occupied housing in California stood at $532,300, second in the nation (behind Hawaii) and 274% of the national average (U.S. Census Bureau 2007). When the bubble burst, the resulting fallout was also greater.

More than most states, California government is dependent on the economic well being of its wealthiest citizens (Weintraub 2003). California relies heavily on personal income taxes and, at 10.55% (which includes a 1% surcharge on incomes of over $1,000,000), the marginal tax rate is the third highest statewide general personal income tax in the country, behind Hawaii and Oregon (11%) (Tax Foundation 2009). This has resulted in considerable volatility in government revenue.

Because of its budget problems, ratings of California’s general obligation bonds have been reduced at least once in 2009 by each of the major rating agencies (Fitch, Moody’s, and Standard and Poor’s), and are currently the lowest in the nation among all states rated (California State Treasurer 2009).
THE POLITICAL ENVIRONMENT

The California legislature, controlled by Democrats by almost, but not quite, a two-to-one ratio, is extremely polarized ideologically. Partly this is because of the way legislative districts have been drawn and partly because California politics have long been very issue-oriented, attracting political process activists and ideologues from both the left and right.

The redistricting of the state legislature following the 2000 Census was essentially a bipartisan gerrymander, with virtually all districts safer for one party than they had been before. Many legislators became less concerned about a challenge in the general election than a primary challenge from within their own party should they depart even a little from party orthodoxy.

Figure 1 shows boxplots of the distribution of political ideology, broken down in each house by party, of legislative districts and of the representatives they send to Sacramento. The boxes to the left for each house, and each party within each house, represent scores on an index based on how districts voted on a series of ballot propositions from 2002 through 2006 on which, according to exit polls, self-identified liberals and conservatives differed by 20 percent or more in their voting. The resulting indexes have been scaled from 0 to 100, with the most conservative district scored at 100 and the most liberal at 0. The boxes to the right of these indicate how legislators voted in 2007, based on a composite of ratings by six interest groups, three liberal (the California Public Interest Research Group, the California Federation of Labor, and the California League of Conservation Voters) and three conservative (the California Chamber of Commerce, the California Taxpayers’ Association, and the California Farm Bureau). Similar to the district indexes, the most conservative member in each house received a score of 100 and the most liberal a score of 0.

While the district and member indexes are not strictly comparable, they show that districts that elect Democrats and those that elect Republicans differ sharply, but not as much as the representatives themselves. The polarization of the legislature is rooted in, but not fully explained by, polarization of the constituents they represent (Korey 2009, 34-36).
Relations between the legislature and Governor Schwarzenegger have been complicated both strategically and ideologically. From the time of his first election in October 2003 through November 2004, Schwarzenegger tried with considerable success to bypass the normal legislative process through use of the initiative (Mathews 2006). At one point, Assembly Speaker Fabian Nuñez was quoted as saying that he had “declared political war on Schwarzenegger” (Carreon 2003). In 2005, Schwarzenegger overreached when he backed four initiatives bitterly opposed by California’s powerful public employee unions. All four measures went down to defeat. Schwarzenegger in effect apologized for his actions and attempted to work more closely with Democratic legislative leaders. In 2006, in the middle of Schwarzenegger’s’ campaign for reelection, Nuñez said that,

California is once again, my friends, on the move, thanks largely to …the governor of our great state, and a good friend of mine, Governor Arnold
Schwarzenegger …and I’m proud to say of our governor that he has California back on track. (Walters 2006).

Of course this new-found amity might have been due to the fact that a reelection victory for Schwarzenegger would mean that he would be termed out in 2010, opening the door to the governorship for Los Angeles Mayor Antonio Villaraigosa (who, however, decided in 2009 against running) and in turn increasing Nuñez’s chances of becoming mayor.

In recent years, the pattern has been mixed. In 2006 Schwarzenegger teamed up with the legislature to pass several major bond measures aimed at increasing spending on the state’s infrastructure. In 2008 he supported an unsuccessful initiative backed by Nuñez and Senate President Pro Tem Don Perata to modify legislative term limits. Later that same year, he supported a successful ballot measure to take redistricting of the Senate, the Assembly, and the State Board of Equalization away from the legislature and giving it to a newly created reapportionment commission.

Ideologically, Schwarzenegger has been described as a RINO (Republican in Name Only), but is basically a Libertarian – fiscally conservative but liberal on social issues. He is, however, more complicated than this label would suggest, and has managed to reinvent himself several times in his relatively brief political career. In winning office in the Gray Davis recall election of 2003, he benefitted enormously from not having to run in a Republican primary, where he would have had difficulty winning against a more conservative candidate. His nearest rivals, conservative Republican Tom McClintock and liberal Democrat Cruz Bustamante, effectively ceded to him the political center (Korey 2004). In 2005 Schwarzenegger tacked to the right in his battles with public employee unions, but then swiftly reversed course by, among other things, appointing liberal Democrat Susan Kennedy as his chief of staff within a month of the November special election. In 2006, Democrats nominated a very liberal and highly partisan candidate, Phil Angelides, to oppose Schwarzenegger’s bid for reelection, again conceding the political center to Schwarzenegger. In November, Schwarzenegger crushed Angelides by a margin of 56% to 39%.

Figure 2 shows trends since 2003 in the public approval ratings of Schwarzenegger and the state legislature as measured by a series of Field (California) Polls (DiCamillo and Field 2006, 2009c). The figure shows that:

- the legislature’s ups and downs have generally tracked those of the governor, falling off during the bitter face-off in 2005, rebounding the following year when bipartisanship seemed to be in the air, and dropping off sharply in 2008 as the economy soured and the political institutions of the state were seemingly incapable of addressing the resulting budget crisis,

- the governor’s ratings have been more volatile than those of the legislature, and

- the legislature’s ratings have been consistently low.
The job performance of their political leadership is one subject on which Californians are remarkably nonpartisan. In the latest (April 2009) survey, Republican Governor Schwarzenegger’s approval rating among registered Democrats (32%) was actually a bit higher than among Republicans (30%). Only 19% of Democrats (and 11% of Republicans) approved of the job being done by the Democratic-controlled state legislature.

THE BUDGET: AN ELUSIVE CONCEPT

In California, references to “the budget” can be misleading, since it is an ambiguous term. In particular, the line between the “general fund” and various “special funds” has been blurred in recent years. At one time, the distinction meant that the general fund would be available to meet the state’s needs as determined by the governor and the legislature, while special funds contained money designated, or “earmarked,” for a specific purpose such as highways or K-12 education. In fact, much of the general fund is now designated for specific purposes. The most important such restriction is contained in Proposition 98, a constitutional initiative approved by voters in 1988 and modified two years later by Proposition 111. These measures require that over 40 percent of the general fund must be devoted to K-12 education, though in an emergency the legislature can override this requirement by a two-thirds vote of the
total membership of the Senate and Assembly. Another way in which the line between the
general fund and special funds can be crossed is through transfers from one to another. During
fiscal year 2001-2002, in the midst of a fiscal emergency caused by the state’s energy crisis,
more than $6 billion in revenues were transferred from the previous year’s general fund into the
then-current year electrical power fund.

An additional complication is that government revenue in California is significantly more
centralized than in most states, while the opposite is the case for direct spending. In 2005-2006,
local governments in California received 43 percent of their general revenue from the state,
compared with 34 percent in the country as a whole. This pattern is rooted in the politics of the
1970s. In 1971, the California Supreme Court (Serrano v Priest) ruled that the state had to do
more to equalize educational spending across different school districts. This resulted in increases
in the state’s sales and income taxes (the “Reagan-Moretti Compromise”), and greater reliance
on the state by local districts. In 1978, voters passed Proposition 13, sharply reducing the
revenues of local governments and again increasing their reliance on the state. The result of all
of this is that it is more important to consider state and local finance together, but also difficult to
do so because of large number of governmental units involved. The best source for
comprehensive and comparable information that includes both state and local finance, the annual
report by the U.S. Census Bureau (2009b), has a lag time of over two years. At this writing
(August 2009), the most recent report available is for FY 2005-2006.

THE BUDGET PROCESS

The Normal Process (Krolak 1994)

California’s normal budget process closely parallels that of the federal government, in
part because the latter has emulated the former rather than the other way around. This resulted
from the fact that California government was once widely regarded as a model for the nation.
More recently, it was tied for last with six other states in ratings by Governing magazine of the
administrative efficiency of the states (Barrett and Greene 2008).

The formal process begins by January 10, when the “Governor’s Budget” is submitted to
the legislature. Preparation of the budget is the responsibility of the Department of Finance
(DOF; analogous to the federal government’s Office of Management and Budget), whose
director is appointed by and serves at the pleasure of the governor. In May, the governor sends
the legislature a “May Revision” (or May Revise”) to reflect changes in the economic or political
environment that have occurred since January. This is similar to the “mid-session review”
submitted to Congress by the president in July of each year.

Assisting the legislature is the Legislative Analyst’s Office (LAO), similar to and the
model for the Congressional Budget Office. The LAO was created in 1941. Since that time,
there have been only five legislative analysts. Two people, A. Alan Post and Elizabeth Hill,
occupied the position for a combined total of 49 years.
In the final stages of the budget process, negotiations are often dominated by the “Big Five”: the governor, the Speaker and the minority leader of the Assembly, and the president pro tem and minority leader of the Senate. This is true, however, only as a generalization. In 2008, the Assembly passed its version of the budget by mid July and then promptly proceeded to adjourn. For the next month, the battle took place within the Senate, and the then Senate Minority Leader was able to play an especially central role. For his part, Governor Schwarzenegger has, during the course of his time in office, at times been very proactive in budget negotiations and at other times taken a fairly hands-off approach.

The budget is dealt with as a single bill (in contrast to the congressional process, which generally treats the federal budget as a dozen or so separate pieces of legislation). Since the 1930s, a two-thirds vote of the total membership of the senate and assembly has been required for passage. Only two other states, Rhode Island and Arkansas, require an extraordinary majority to pass a state budget. Since 1978, a two-thirds majority is also required to raise taxes. By constitutional mandate, the legislature is required to pass the budget by June 15, giving the governor time to sign the bill prior to the July 1 start of the fiscal year. Like almost all other governors, but unlike the President of the United States, the governor possesses the item veto, and can reduce or eliminate any item of appropriation.

Along with passage of the budget, the legislature may consider one or more “trailer bills” needed to make other state laws consistent with the budget just passed, somewhat in the same way that Congress often must pass “reconciliation” legislation at the federal level.

The modern budget process dates from after 1966, when California adopted a full time and more or less year round legislature. Figure 3 shows the dates when the governor signed the budget into law. As the figure shows, the requirement that it be in place by the beginning of the fiscal year is honored much more in the breach than in the observance, especially in recent years. Generally speaking, it takes longer to reach agreement on a budget in bad economic times when spending must be cut, taxes raised, or both.
The state constitution has long required that the budget, as submitted by the governor, be balanced. In 2004 voters approved a referendum, Proposition 58, additionally requiring that the budget as adopted also be in balance. In either case, however, there is ample room for sleight of hand since a budget is, after all, only an estimate, and such an estimate may be overly optimistic in its projections of revenue and expenditures. In an effort to bring budgets into a closer relationship with reality, the 2004 measure authorized the governor to declare a fiscal emergency and call the legislature in to special session to address shortfalls occurring during the fiscal year.

The 2009-2010 Budget

Even before the end of the 2007-2008 fiscal year, the state began to experience a serious shortfall in revenues. In the spring of 2008, with a deficit for the year estimated at about $16 billion, Governor Schwarzenegger, for the first time, exercised his authority under Proposition 58 to declare a fiscal emergency and order the legislature into special session to deal with it. In that session the legislature was able to close about half of the deficit through a combination of spending cuts, fee increases, and creative accounting. It should be noted that the legislature can be required to address a budget shortfall, but there is no requirement that they do so successfully.

With the economic situation continuing to deteriorate, passing a budget for the new (2008-2009) fiscal year became increasingly difficult even by recent California standards. As the summer dragged on without an agreement, Schwarzenegger threatened to pay minimum
wage to state civil service employees, arguing that without such action, the state would run out of money. State Controller John Chiang, a Democrat, went to court to prevent this action and was upheld. Setting a new record for tardiness, the legislature finally agreed on a budget on September 16, and Schwarzenegger signed it into law on September 23, almost three months after the start of the fiscal year.

The new budget began to fall apart immediately. With estimates of the deficit mounting alarmingly, Schwarzenegger again declared a fiscal emergency and called another special session in the fall of 2008. With Republicans convinced that state government was already too big, and determined to oppose any new taxes and Democrats just as united in opposition to balancing the budget through what they viewed as catastrophic reductions in state services, no agreement could be reached. As the half-way point in the current fiscal year came and went with the legislature getting no closer to an agreement, it became Controller Chiang’s turn to note that the state was running out of money, an event he projected would occur in March of 2009.

Throughout his political career, opposition to higher taxes had been one of the few areas in which Schwarzenegger has hewed to conservative positions. This time, however, he did agree to support new levies, and in early February, the Big Five finally produced a compromise. Because the compromise included new taxes, the next step would be obtaining three Republican votes in each house to produce the two-thirds majorities needed for passage. This proved relatively easy in the assembly. In addition to Minority Leader Mike Villines, Roger Niello and Anthony Adams agreed to support the compromise. To avoid their suffering any unnecessary political embarrassment, no vote on the budget was taken in the Assembly before an agreement could be reached in the Senate.

This proved far more difficult. For a time, there was even speculation that Lou Correa, a moderate Democrat who had won a very close election in 2006 in part on a pledge to oppose new taxes, might defect from his party’s position. In the end, the deciding vote was cast by GOP moderate Abel Maldonado, who joined Minority Leader Dave Cogdill and Roy Ashburn to put the measure over the top. In exchange for his support of the budget deal, Maldonado asked for and got agreement to place two referenda on the ballot. One, a long-time pet project of Maldonado’s, will appear on the June 2010 primary ballot and, if approved, create an open primary in California. The other, a measure to deny pay raises to state legislators in the event of a budget deficit, was placed on the ballot of a special election called for May 19. Maldonado also won agreement to drop a proposed 12 cents per gallon increase in the gasoline tax (Skelton 2009).

An especially unusual feature of the measure was the fact that it was intended to cover not only the balance of the current fiscal year, but also to provide a budget for FY 2009-2010. The agreement, signed by Schwarzenegger on February 20, included $15 billion in spending cuts, $12.5 billion in tax increases, $5 billion in borrowing, and a hoped for $8.5 billion in federal stimulus funds (Taylor 2009). It included placing five referenda, in addition to Maldonado’s, on the May special election ballot. These measures would temporarily raise general fund revenue through increases in sales, personal income, and vehicle license taxes and the transferring and borrowing of funds from several other sources.
For both Democrats and Republicans, retribution against those who had deviated from their party’s positions during the final stage of negotiations came swiftly. Within days, the Senate Republican Caucus removed Dave Cogdill from his position as minority leader. Delegates to the Republican state convention approved by voice vote a resolution withdrawing financial support from the campaigns of the defecting legislators (Hecht 2009). The assembly’s Republican leader, Mike Villines, stepped down from his position in May, sooner than he would likely have done otherwise. Another Republican defector, Anthony Adams, is currently facing a possible recall.

In the Democratic Party, party discipline trumped ideology as Assembly Speaker Karen Bass stripped three fellow liberals (Sandre Swanson, Warren Furutani, and Tony Mendoza) of their committee chairmanships because they had voted against including a future spending cap on the May ballot (part of the measure increasing taxes), a move that the Democratic leadership had reluctantly supported as part of the compromise (Bailey 2009).

The new budget started to unravel almost immediately. On March 13, Legislative Analyst Mac Taylor reported that continuing revenue shortfalls had already poked a gaping hole in the previous month’s agreement. With revenues expected to fall an additional $8 billion short of previous projections, Taylor estimated that a $2 billion reserve fund included in the budget would be wiped out and that, by the end of FY 2009-2010, there will be, absent further corrective action, an additional deficit of $6 billion. He projected that, by FY 2013-2014, the “operating shortfall” will reach $26 billion (Taylor 2009).

At the special election, the plan was dealt a crushing blow by the voters, who approved only Maldonado’s legislative pay raise measure (Proposition 1F, which passed by a 74% to 26% margin), while decisively rejecting the rest. Results for the other propositions were as follows (California Secretary of State 2009):

- Proposition 1A (extending through 2012-2013 increases in sales and income taxes and vehicle license fees, creating a spending cap, and establishing a “rainy day” fund to smooth out fluctuation in state spending): defeated 65% to 35%.
- Proposition 1B (restoring funding for K-14 education after 2010-2011; this measure would have gone into effect only had Proposition 1A also passed): defeated 62% to 38%.
- Proposition 1C (borrowing money from the state lottery for the general fund): defeated 64% to 36%.
- Proposition 1D (reallocating money from child services to the general fund): defeated 66% to 34%.
- Proposition 1E (reallocating money from mental health funding to the general fund): defeated 67% to 33%.
The coalitions supporting and opposing the defeated measures crossed the usual partisan and ideological divides, since the measures contained plenty for almost everyone to hate. A Field Poll of registered voters conducted the month before the election showed Propositions 1A through 1E trailing, but by narrower margins than would prove to be the case in the election itself (DiCamillo and Field 2009a). Republicans opposed all five propositions by large margins. Pluralities of Democrats (9% to 15% being undecided) supported all but Proposition 1C, but by relatively narrow margins. If one assumes that most of the undecided Democrats ended up opposing the measures, it is likely that all or most were opposed by a majority of registrants of both parties.

Finally, California’s revenue problems continued to worsen with the state’s economy. By mid July, with a new budget still not in place, the projected revenue decline for the 2009-2010 fiscal year had grown to over $26 billion.

The June 15 constitutional deadline for the legislature to approve a budget and the July 1 start of the new fiscal year both passed without an agreement in place. In early July, the state began paying some of its obligations with IOUs. The newly reconstituted Big Five (now including Senate Minority Leader Dennis Hollingsworth and Assembly Minority Leader Sam Blakeslee) continued to meet (though Assembly Speaker Karen Bass staged a brief walkout in protest of lack of progress). Finally, an agreement among the leaders was reached on July 20; the budget was passed on July 24 and signed into law by Governor Schwarzenegger on July 28. In addition to the budget bill itself, the legislature passed over two dozen trailer bills. The budget was balanced on paper in part through some accounting gimmicks, including accelerated withholding and moving some costs from the last day of the 2009-2010 fiscal year to the first day of the year following.

Recriminations did not end with the new agreement. In passing the budget, the assembly rejected Big Five agreements to take $1 billion in gas tax revenues from local governments and to open up offshore oil drilling, which would have produced an estimated $100 million in royalties for the state. Schwarzenegger countered with almost a half billion dollars in line item vetoes, mostly with cuts in health and human services. This outraged Democratic leaders, including Speaker Bass, who called the cuts an assault on “the sick, the young, the elderly and battered women” (Rothfeld and Goldmacher 2009).

Tables 1 and 2 (derived from California Department of Finance 2008, 2009) compare budgeted state revenues and expenditures for FY 2009-2010 with those enacted a year earlier (but not with actual receipts and expenditures for FY 2008-2009 which, as explained above, changed considerably during the course of the year). The figures include general and special funds, but not bond funds.
TABLE 1: State Revenues (in millions of dollars), 2008-2009 and 2009-2010

<table>
<thead>
<tr>
<th></th>
<th>2008-2009</th>
<th>2009-2010</th>
<th>Change</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>$57,169</td>
<td>$49,574</td>
<td>-$7,595</td>
<td>-13.1</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>33,575</td>
<td>32,128</td>
<td>-1,447</td>
<td>-4.3</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>13,073</td>
<td>8,799</td>
<td>-4,274</td>
<td>-32.7</td>
</tr>
<tr>
<td>Highway Users Taxes</td>
<td>3,383</td>
<td>3,145</td>
<td>-238</td>
<td>-7.0</td>
</tr>
<tr>
<td>Motor Vehicle Taxes</td>
<td>5,966</td>
<td>7,275</td>
<td>1,309</td>
<td>21.9</td>
</tr>
<tr>
<td>Insurance Tax</td>
<td>2,029</td>
<td>1,913</td>
<td>-116</td>
<td>-5.7</td>
</tr>
<tr>
<td>Liquor Tax</td>
<td>341</td>
<td>332</td>
<td>-9</td>
<td>-2.6</td>
</tr>
<tr>
<td>Tobacco Taxes</td>
<td>1,048</td>
<td>937</td>
<td>-111</td>
<td>-10.6</td>
</tr>
<tr>
<td>Other</td>
<td>11,554</td>
<td>8,861</td>
<td>-2,693</td>
<td>-23.3</td>
</tr>
<tr>
<td>Total</td>
<td>$128,138</td>
<td>$112,964</td>
<td>-$15,174</td>
<td>-11.8</td>
</tr>
</tbody>
</table>

On the revenue side, the biggest decrease occurred, not surprisingly, in the personal income tax, with substantial decreases as well in sales and corporate income taxes, areas also sensitive to economic downturns. Most major areas of expenditure suffered major cuts. Some of the largest sectors of state government, including health and human services, K-12 education, higher education, and corrections and rehabilitation, were among those hit with the largest percentage decreases. The legislature will still have to decide how to implement cuts in
corrections after Republicans balked at a proposal to do so by releasing thousands of prisoners from the state’s penal system. Local governments will also face major cutbacks, a fact not shown in Table 2, since the table presents figures by agency, while transfers to local governments cut across agency categories.

HOW THE STATE GOT INTO ITS PRESENT BIND (AND IS THERE A WAY OUT)?

How one explains the causes of the state’s current budget problem cannot be completely separated from how one thinks the problem can be solved. While liberals and conservatives will obviously differ on a number of points, at least the following factors (some of which have been discussed above) are among those deserving of consideration:

- California is no longer a rich state, able to afford high levels of service comparatively painlessly. Many Californians pine for the Governor Pat Brown era (1959-1967), when the state built a physical and social infrastructure in transportation, higher education, and other areas that was the envy of the nation (Decker 2009). Relative to the rest of the country, however, per capita income in California has been declining for many years, and is now fairly close to the national average. When one adjusts for cost of living, California may not even qualify as a middle income state. According to the most recent figures available, California per capita personal income (derived from figures from the U.S. Bureau of the Census [2009a] and the U.S. Bureau of Economic Analysis [2009]) is about 6% higher than for the nation as a whole. Adjusting for cost of living estimates developed by the Missouri Economic Research and Information Center (MERIC) (2009), which pegs the cost of living in California at 134% of the national average, California’s per capita personal income is 21% less than that of the entire country. Much of this is due to California’s very high housing costs which, even with recent declines, stand at almost double the national figure. Including housing in the index may be misleading in that, while high housing prices may be a burden for the would-be home buyer, they are a resource for home owners. Until recently the resulting “wealth effect” produced a large “bubble” of economic prosperity in the state. Even if housing is removed from the MERIC index, however, California’s cost of living is 115% of the national average and, adjusted for this, per capita personal income is 8% below.

Technical note: The cost of living index with housing excluded was estimated by regressing the MERIC index against all of its components except for housing and then calculating a modified index, adjusted to a mean of 100. Population figures are as of July 1, 2008; other data are for the first quarter of 2009.

- The state suffers from above average unemployment and has an above average proportion of people living below the poverty line and heavily dependent on state services. The fact that the poor and the unemployed are disproportionately young, immigrant, or both, creates overlapping and polarizing conflicts of class, generation, and ethnicity.
• Californians harbor contradictory expectations of government. A recent Field Poll (DiCamillo and Field 2009b) showed that registered voters, by an almost three to one margin, indicated a preference for cutting services rather than raising taxes. When asked about a dozen specific spending cuts, however, majorities of those surveyed supported cuts only in corrections and parks and recreation, the latter by a very narrow margin. Respondents overwhelmingly opposed most other cuts, including those involving education and health and human services, the largest categories of state spending.

• By passing various initiatives to limit revenues and to earmark expenditures, voters have helped to tie the hands of politicians trying to reach budget agreements. “Ballot box budgeting” is a problem not just because voters may be susceptible to “feel good” measures, but because, by the nature of the initiative process, even the wisest voters are forced to approach budgeting on a piecemeal basis rather than in a comprehensive fashion that would enable them to weigh competing priorities.

• Once thought to be relatively recession proof (largely because of the then large defense and aerospace sectors of the state economy), California has in recent years been on an economic roller coaster, leading both the dot com boom of the late 1990s and the housing boom of the current decade and, in both cases, falling especially hard when the booms went bust. The state’s heavy reliance on highly volatile personal income (including capital gains) taxes, has amplified these boom and bust cycles for government.

• In good times, California has been quick to increase spending and reduce taxes, and is often stuck with these changes when the economy sours and state revenues fall. One major area of concern is the growing pension liabilities of state and local governments.

• The two-thirds requirements for passing a budget or increasing taxes has led to chronic partisan gridlock within the state’s highly polarized legislature.

• Term limits (members of the assembly can serve for a maximum of three two-year terms, while senators can serve for up to two four-year terms) has produced a legislature with limited institutional memory and a short term vision of the state’s future. Leaders of both parties are weakened because they have little time to build power bases and are lame ducks almost as soon as they take leadership office.

Is there a way out? There probably is not anytime soon. While a variety of proposals for reform have been advanced, they either only nibble at the edges of the problem or have the potential for creating problems of their own. As long as Republicans are beholden to anti-tax organizations and Democrats to public employee unions, and as long as voters expect high levels of services combined with low taxes, it will be hard for the state to address its fiscal dilemma.
A solution favored by most Democrats is to pass an initiative lowering or eliminating the super majorities required for passing budgets or raising taxes. Under divided government (which, in the foreseeable future means a Republican governor and a Democratic legislature), gridlock could very well continue, though negotiations would admittedly be simplified with the Big Five reduced to the Big Three (that is, with Republican legislators rendered irrelevant). Under unified government, there would be an absence of meaningful checks and balances.

A solution favored by most Republicans is to adopt a cap on state spending. However, such caps have proven ineffective in the past, and an effective cap would make it harder for the state to meet legitimate needs.

Following the 2010 census, the job of redistricting the state legislature will fall to a new bipartisan commission. This commission, however, is unlikely to make more than marginal improvements in redistricting. Partly, this is a function of political geography, which creates a kind of “natural gerrymander” that, with some exceptions, divides the state between a liberal coast and a conservative interior (Douzet and Miller 2008; Korey 2009). Even in the 1990s, when legislative districts were drawn up under the direction of the California Supreme Court with little consideration of partisan concerns, most districts ended up being either strongly liberal and Democratic or strongly conservative and Republican. The legislators from these districts were already highly polarized along party lines (Korey, 1995, 1999, 2002). In addition, a bipartisan commission may be especially likely to create bipartisan gerrymanders (Cain, Mac Donald, and McDonald 2005, 25).

Ending term limits might give legislators a longer time perspective and might, by centralizing power in party leaders, make it easier for leaders to broker compromises. A culture of compromise might also be facilitated as members of both parties got to know one another better over time. To expect dramatic changes in behavior in a legislature without term limits is, however, probably overly optimistic.

Some have argued for a constitutional convention (the last one produced the original version of the current document, since amended over 500 times, in 1879) to allow for comprehensive reform of budget related structures and practices. It is argued that a new charter could not be any worse than what California now has. It could.

REFERENCES


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