



POLICY BRIEF

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THE CALIFORNIA BUDGET CRISIS AND THE STATE'S SOCIAL INFRASTRUCTURE

by Bobbi Murray

"The public safety net is the most basic form of social infrastructure."

INTRODUCTION

On July 28, 2009, 44 days after a constitutionally mandated deadline, California Governor Arnold Schwarzenegger signed the 2009–2010 state budget plan. Even though the majority-Democrat legislature had already sent Schwarzenegger a budget that would deeply slash the state's social safety net in an effort to close a \$26 billion deficit, the Republican Governor then wielded his veto power to axe another nearly \$500 million. The Governor cut child welfare and healthcare programs, protections for victims of domestic violence, and support services for the elderly. As reported in the July 29 *Los Angeles Times*:

The extra cuts the governor made Tuesday—\$489 million—took nearly \$80 million [that] pays for workers who help abused and neglected children; \$50 million from Healthy Families, which provides healthcare to children in low-income families; \$50 million from services for developmentally delayed children under age 3; \$16 million from domestic violence programs; and \$6.3 million from services for the elderly.

The 2009 budget process was not the first to conclude weeks past the deadline. Nor was it the first time deep cuts were aimed at the

most vulnerable sectors of California society. The 2008 budget was "85 Days Late and De-spised," in the words of the *New York Times* headline for the story reporting on the issue. The deficit that year was \$15 billion. A report from the nonprofit California Budget Project, *Stretched Thin 2008: State Budget Cuts Undermine California's Human Services Programs*, noted that local governments deeply slashed services in response to the 2008 state budget shortfalls. "In particular, a number of these reductions have targeted programs that counties operate on the state's behalf and that provide critical services to California's children, families, and seniors."¹

This policy brief examines the structural reasons budgets are continually late and explores the relationship between the yearly budget log-jam and deep social infrastructure cuts. It then discusses solutions to the structural and revenue issues that delay the budget every year.

SOCIAL INFRASTRUCTURE AND THE PUBLIC SAFETY NET

We define *social infrastructure* here as programs that support the survival of the most vulnerable along with those that contribute to the overall development of human potential and the common well-being. California's social infrastructure received its historic boost with the election of Edmund G. "Pat" Brown in November 1958.

¹ *Stretched Thin 2008: State Budget Cuts Undermine California's Human Services Programs* by Scott Graves and Brad Maggy, August 2008, p. 3 (Executive Summary).

In his inaugural address in January 1959, Brown, citing California voters' rejection of what he called "government in retreat" and noting California's "explosive" population and economic growth, pledged a leadership "ready to welcome growth, pursue its promise, and prepare for tomorrow." He then outlined programmatic goals that became the basis for the growth of a social infrastructure that would be admired and studied by policy makers from around the world. He called for an end to hiring discrimination and devoted a portion of the speech to his support for unions and praise for the benefits organized labor had brought California. He called for consumer protection, along with a state agency for economic development and another for research and development, to work in concert with private enterprise. Brown reiterated his conviction that the social safety net is vital to California's overall well-being. "We will remember that social insurance and public welfare benefits go directly into our life stream," he said, "and that we serve our community as well as our humanitarian principles by making California a leader in this field."²

In his second inaugural address in January 1962, Brown noted that California had become the nation's largest state and praised the state's tuition-free system of higher education—one that he had boosted through the visionary California Master Plan for Higher Education—as "the best in the world."³

CUTS TO CALIFORNIA'S SOCIAL SAFETY NET

Brown's social infrastructure vision provides a framework for analysis of present-day budget cuts of California's traditional infrastructure. The discussion in this brief begins with an outline of cuts on the survival end of the social infrastructure continuum, the public safety net, and move on to aspects of social infrastructure that develop the larger good. The *social safety net* can be defined as "publicly funded programs that provide resources to the

poor." They can take the form of welfare payments, child allowance, food programs, or workfare programs such as CalWORKS.⁴ The social safety net provides the bare necessities. The programs that make up California's safety net met with deep cuts in the 2009 budget.

Medi-Cal—health care for the poor—was one program affected because of cuts to the local agencies that carry out the state program. The budget eliminated the funds the state provides counties to cover the cost of doing business, a cut of \$24.7 million. In addition, the Governor used his line-item veto to do the following:

- Cut \$60.6 million that the legislature had approved to support county Medi-Cal operations.
- Reduce payments from the state by 10% to local hospitals that provide last-resort care to the uninsured.
- Cut the Healthy Families Program an additional \$50 million (The legislature had already slashed \$124 million from the program, which provides low-cost health insurance for children and teens).
- Cut the Child Welfare Services budget by \$80 million; the legislature had approved the expenditure, but the Governor line-item vetoed it.
- Cut In-Home Social Services, which supports care for the elderly and infirm in their own homes rather than assisted living facilities, by \$53.2 million, eliminating certain services for some on the rolls and all services for others.
- Cut California Work Opportunity and Responsibility to Kids (CalWORKS) grants by up to half for children in households where adults fail to meet work participation requirements.⁵

The safety net is the part of social infrastructure that provides last-ditch protections for the poor. While such programs aid struggling families' ability to survive, the role of

² See the Edmund G. "Pat" Brown Institute of Public Affairs homepage at: www.patbrowninstitute.org

³ See www.californiagovernors.ca.gov/h/documents/inaugural_32b.html

⁴ *Growth-Promoting Social Safety Nets* by Harold Alderman and John Hoddinott, International Food Policy Research Institute, October 2007.

⁵ *An Overview of Recent Cuts to California's Safety Net* by Scott Graves (Senior Policy Analyst), California Budget Project, August 2009.

the public safety net extends beyond that. A report for The World Bank noted that social safety nets provide liquidity for low-income households, freeing up funds for long-term investments such as children's education and nutrition.⁶

There is also a human rights aspect to the issue of the social safety net. The *United Nation's Universal Declaration of Human Rights* says, "Everyone has a right to a standard of living adequate for the health and well-being of himself and his family including food, clothing, housing, and medical care and other social services...."⁷ It is arguable that attacking the California safety net at times of budget crisis is short-sighted, if not unconscionable. Later in this policy brief, we revisit the issue of California's safety net and why it comes under the knife at times of budget shortfall.

EDUCATION AS SOCIAL INFRASTRUCTURE

The public safety net is the most basic form of social infrastructure. But most accepted definitions of *social infrastructure* go beyond the idea of simple survival to encompass human development. Essential to that is education. The discussion here will focus on higher education as an essential part of the state's infrastructure. That's not to say that California's K–12 education system is in any great shape. One in four California high school students doesn't make it to commencement day, and among Latinos, the dropout rate is one in three.⁸ Voters in 1988 approved Proposition 98, which establishes a minimum funding guarantee for K–14 education (need to reconcile K–12 and K–14), but that, too, has been under threat, since it depends on state revenues that have declined during the current national economic downturn.⁹ A discussion of the failure to support California's K–12 system deserves a policy brief in and of itself. Developing more California college students "would involve not only improvements and expansions in the state's higher education systems

but also greater investment in the state's K–12 system to slow the high school dropout rate..." said a report from the California Public Policy Institute.¹⁰ California's higher education system also deserves more attention. Few would argue that California's state universities have fueled the technical innovation that attracts venture capital and propels economic development, as Governor Brown said when he led the way to the creation of the original *California Master Plan for Education* in 1960. The plan stated the following:

The continued economic viability of the entire state depends on a high-quality educational system that uses effective strategies to help learners achieve their educational potential and objectives, that responds to high-priority public needs, and that continuously engages in efforts to envision the future learning needs of Californians for successful transition to the rapidly evolving world of the modern economy.¹¹

The master plan, enacted in large part by the California legislature as the Donohoe Higher Education Act of the Education Code, had two key features. One was the division of functions between the three post-secondary school sectors—the University of California system, California state university system, and the California community college system. UC was deemed the primary research institution and entrusted with instruction in law, dentistry, and human and veterinary medicine. Instruction is the state university system's primary mission. The community college system is charged with general and vocational education along with offerings such as workforce development and English-as-a-second-language programs. The other aspect of the master plan established universal access to higher education as a principle.¹² That has fueled California's success as one of the world's top economies, but this

⁶ "For Protection and Promotion: The Design and Implementation of Effective Safety Nets" by Margaret Grosh, Carlo del Ninno, Emil Tesliuc, and Azedine Ouerghi in *The World Bank: The Case For Safety Nets*, 2008, p. 15.

⁷ *The United Nation's Universal Declaration of Human Rights: Article 25* at: <http://www.un.org/en/documents/udhr/>

⁸ *Educating California: Choices for the Future* by Hans Johnson, Public Policy Institute of California, April 2008, p. 7.

⁹ *California Legislative Analyst's Report 2008*.

¹⁰ *Ibid.*, *Educating California: Choices for the Future*, p. 11.

¹¹ *California Master Plan for Education 2002* by the Joint Committee to Develop a Master Plan for Education, p. 2.

¹² See University of California, Office of the President Web site at: <http://www.ucop.edu/acadinit/mastplan/mpsummary.htm>

status is in danger. The Public Policy Institute calculated that by 2025, 41% of jobs will require a bachelor's degree but only 35% of Californians will have one. California's shortage of college-educated workers will reach one million.¹³ This coincides not only with the state's outsize dropout rate but also with a decline in the state's investment in higher education.

The University of California suffered a funding cut of \$813 million in the 2009–2010 budget. The system will defer hiring new faculty, impose furloughs on present staff and faculty, and cut academic programs. Other examples of the repercussions from the *New York Times*:

Many of the planned cuts and those already put into effect, impinge on the university's academic offerings. The Irvine campus has halted admissions to its education doctorate program for working professionals, and its Latin American studies program is on hiatus. Class size is expected to increase 10 percent to 20 percent next year, while faculty and staff is expected to decline by at least 10 percent over the next five years.... At the Santa Cruz campus, most general education courses with fewer than 100 students enrolled have been cancelled, along with the bachelor of arts degree in earth sciences and the minor in music. Creation of an environmental sciences major has been deferred.¹⁴

The California State University system is in for \$584 million in cuts. "State general fund support of the CSU for 2009–2010 is expected to be \$1.6 billion, which is \$500 million below the level of state support provided a decade ago," said a July 7, 2009, report from the California State University Board of Trustees meeting. Trustees are discussing adding 47,000 more CSU employees to the 21,000 already being furloughed two days a month. The funding reductions also mean enrollment cuts for 2010–2011.

Campuses will close spring 2010 enrollments and winter admissions. CSU officials expect to reduce enrollment by 32,000 students. They will also impose fee increases.¹⁵ This means possibly insurmountable obstacles for students from working families around California who will lose the opportunity to advance. It represents a loss for California, which, as we have seen previously, is facing a one-million person shortfall of college-educated workers.

CALIFORNIA'S LEGISLATIVE PROCESS AND REVENUE SOURCES

The foregoing takes a look at both the necessity of California's social infrastructure and the way budget cuts have undermined it. We next examine the recent budget standoff in 2009, explore the possible reasons it occurred, and analyze the way California legislative and tax-structures contribute to harsh reductions for social infrastructure funding. This policy brief argues that funding shortfalls, combined with a political process that allows a legislative minority to block consensus, contributes to decisions to cut the social and educational infrastructure that made California unique in the world.

California's Revenue Sources

The most drastic budget cuts in recent California history took place during the summer of 2009, when California's deficit ballooned to \$26 billion. The reasons for the outsize deficit lie with the recession that gripped the country combined with California's arcane system for collecting revenues. The nonprofit California Budget Project calculates that nearly half of the state's revenues—49.1%—derives from personal income tax, with the lowest-income households paying the largest share of income.¹⁶ Sales tax generates another 34.6% of California revenues. That adds up to a staggering 83.7% of revenues generated by taxes on individuals. Corporate taxes, by contrast, supply just 10.7% of the revenues. "In most states the revenue base is

¹³ *Ibid.*, *Educating California: Choices for the Future*, p. 1.

¹⁴ "University of California Makes Cuts After Reductions in State Financing" by Tamar Lewin, *New York Times*, July 11, 2009, at http://www.nytimes.com/2009/07/11/education/11calif.html?_r=1

¹⁵ California State University Web site: <http://www.calstate.edu/pa/News/2009/bot-meeting-july-summary.shtml>

¹⁶ *California's Tax System*, The California Budget Project, February 2009, pp. 1, 16.

one-third property tax, one-third sales tax, and one-third income tax,” said a July 27, 2009, *U.S. News and World Report* article.¹⁷ Income and sales taxes are exactly the revenue streams that dry up during a recession. In 2009, unemployment rose, income taxes dipped, and spending declined, affecting the amount of revenue from sales tax.

PROPOSITION 13’s BUDGET IMPACTS

Property taxes were essential to California’s revenue equation during the era of infrastructure expansion, but that changed drastically after voter approval of the 1978 ballot measure Proposition 13 by a 65%–35% margin. The ballot initiative cut property taxes and radically restructured the way they are assessed. Proposition 13 re-set the maximum property tax rate at 1% of the tract’s value, allowing it to increase annually by either 2% or the rate of inflation, whichever is less. It rolled property tax rates back to 1975 levels, to be re-assessed only when property changes hands. If you owned a house in 1978 and still have it, your taxes are still set at Proposition 13 levels. But if someone buys the house across the street, the property will be re-assessed at present-day levels and the new owner will pay substantially more than you do. Proposition 13 also rolled back taxes on corporate-owned land. (Howard Jarvis, who championed Proposition 13, was a lobbyist for the California Apartment Owners’ Association.) The tax rates for corporate land tend to be assessed less frequently than individual residential tracts since corporate property often changes ownership through stock acquisition or sales. If the property remains deeded to the original company, the taxes are not reassessed. Even if 90% of the stock changes hands, it is not considered a change of ownership. This is true of much of the corporate-owned farmland in the central valley. In his 1991 article *Taxation With Representation: A Citizen’s Guide to Reforming Proposition 13*, Lenny Goldberg, Executive Director of the California Tax Reform Association, documented the conditions that led to voter support of Proposition 13. He also outlined the fallout.

The state legislative analyst calculated that the tax cuts from fiscal year 1977–78 (when Proposition 13 passed) through 1988–89 added up to \$190 billion—around \$14.5 billion a year.¹⁸ In a recent interview, Goldberg said that California forgoes \$8–\$10 billion a year in tax revenue from commercial properties, according to the State Board of Equalization. This figure has not held steady over time; six years ago the estimate was \$4–\$5 billion a year. According to a *Los Angeles Times* column by Michael Hiltzik, the anti-tax California Taxpayers’ Association said that commercial property during the 2006–2007 fiscal year was assessed at only 60% of its market value. Goldberg told Hiltzik that Disneyland pays something like a nickel a square foot in taxes.¹⁹

PROPOSITION 13’s POLITICAL IMPACTS

The passage of Proposition 13 not only impacted California’s revenue over the long term, it also shifted power in California in two fundamental ways. For one, it changed the relationship between local governments and the state, giving the state more leverage over funding decisions. This legislation also made it difficult to levy new taxes, both at the state level and locally.²⁰

The Change in State vs. Local Power Dynamic

The power shift between the state and local governments took place when the proposition fixed the property tax rates instead of letting local governments calculate them based on local needs as they did before Proposition 13 passed. “Prior to the adaptation of Proposition 13, all property was assessed at the market rate and a locally determined tax rate was applied to the assessed value in order to calculate the total tax levy. The adoption of Proposition 13 in 1978 imposed assessment restrictions on the property tax that limit local governments’ ability to raise revenues from this tax.”²¹ After Proposition 13’s passage, the state determined local municipalities’ share of the property tax.

Taxation With Representation stated: “The pattern was set:

¹⁷ “California’s Dysfunctional Democracy Leaves Bleak Budget Future” by Mortimer Zucker, *U.S. News and World Report*, July 27, 2009.

¹⁸ *Taxation With Representation: A Citizen’s Guide to Reforming Proposition 13* by Lenny Goldberg, California Taxpayers Association and New California Alliance, p. 15.

¹⁹ “It’s Time to Close a Big Tax Loophole for Businesses” by Michael Hiltzik, *Los Angeles Times*, July 13, 2009.

²⁰ *Ibid.*, “Taxation With Representation” by Lenny Goldberg

²¹ “California’s Tax System: A Primer” by Elizabeth G. Hill, *Legislative Analyst*, April 2007.

the state became the primary arbiter of the flow of money to all government programs and services, a role it had formerly shared with local government...the immediate and sudden shift in political power was undeniable.” The first year after Proposition 13’s approval, the state still enjoyed a surplus that it distributed to local governments. Even then the public sector lost 100,000 jobs, a reduction of 9%; 72,000 of those jobs were school support services. Libraries and parks also cut staffing and hours.²² We have seen that pattern continue over the years.

The Two-Thirds Majority Requirement to Raise or Create Taxes

The property tax shift got voters’ attention, but Proposition 13 had another feature that deeply impacts California’s budget. Before the measure passed, the legislature needed a simple majority to approve a new tax. Proposition 13 changed that to require a two-thirds vote in favor. As the legislature is presently composed, 27 of 40 members in the Senate and 54 of 80 in the Assembly must approve tax changes.

The following section sums up the California budget process and discusses how this plays out. Proposition 13 affects the local taxing ability as well, requiring a two-thirds vote of the people to enact any tax for a specific purpose—to hire more police officers or maintain public health facilities, for example. As mentioned (see *Stretched Thin* by the California Budget Project), local governments are charged with carrying out many functions on behalf of the state—health care, child care, and law enforcement, for example. Local governments are forced to absorb increased overhead due to inflation and maintenance. When voters defeat efforts to raise additional revenues, local infrastructure feels the squeeze. The state distributes revenue that comes from the principal sources, the income tax and the sales tax.

An August 22, 2009, *San Francisco Chronicle* story provides a snapshot of what happens when sales tax declines as it did during the 2008—2009 recession. “In all, cities counties and agencies such as transportation authorities will be

losing a total of \$58 million in August because of sharper-than-expected decline in sales tax receipts in April, May, and June, the State Board of Equalization said.”²³

THE STATE BUDGET PROCESS: NUTS AND BOLTS

Before we examine the reasons for heavy cuts of our social infrastructure, it would be useful to outline the steps of the California budget process. In brief, the Governor is required by the state constitution to submit a budget proposal to the legislation by January 10. Spending recommendations cannot exceed revenues; if they do, the Governor must include funding sources. The state Director of Finance oversees budget preparation. State departments submit their budget proposals, which must be approved by either the agency in which the department functions or by the Director of Finance. Unresolved issues go to the Governor for a decision. When the Governor presents the budget proposal, an itemized budget bill goes to each the Assembly and the Senate. The Assembly Budget Committee and the Senate Budget and Fiscal Review Committee review the bills and send them to the appropriate subcommittees (such as health or education.) Hearings in these committees begin after the state Legislative Analyst issues a study on the potential fiscal impacts of the proposed budget. The subcommittees make their recommendations to the Assembly and Senate budget committees, which send a bill to the floor. It requires a two-thirds vote in each house to send the bill to the other house. Differences are to be worked out in a conference committee. The final bill requires a two-thirds vote for approval.²⁴

THE BUDGET STALEMATES

The 2009–2010 budget fight was emblematic of the stalemate over budget policy the state has suffered for years. It was made worse by the \$26 billion deficit, a by-product of declining sales and income taxes as the recession worsened. When there’s a budget deficit, the choices to balance the budget are to cut programs or raise taxes or a combination of the two. The two-thirds supermajority

²² Ibid., “Taxation With Representation” by Lenny Goldberg, p.9.

²³ “Sales Tax Revenues Plummet, Cities Suffer” by Matthew Yi, *San Francisco Chronicle*, August 22, 2009.

²⁴ State of California Web site: <http://www.dof.ca.gov/fisa/bag/process.htm>

required to raise taxes or create new ones means that 27 of 40 Senators and 54 of 80 in the Assembly must approve tax changes. The California legislature has a Democratic majority: Democratic lawmakers hold 25 of the 40 Senate seats, while Republicans hold 15. On the Assembly side, Democrats hold 50 of the 80 seats, with Republicans holding the remaining 30.

The inclination to increase taxes or to cut in order to close revenue shortfalls tends to divide sharply along party lines, with the Democrats favoring tax adjustments over slashing programs. Tax increases, meanwhile, are anathema to Republicans who would prefer cuts, or “spending more in line with revenues,” as Senate Republican Minority Leader Dennis Hollingsworth told *Bloomberg News*. Hollingsworth spoke with *Bloomberg* just after he had been chosen the new minority leader when his colleagues cashiered his predecessor for negotiating a budget deal with Democrats that included boosts to user fees and the gasoline tax, along with many cuts.²⁵

Although the Republicans are in the minority, they have great power to halt any attempts to raise taxes or fees to make up for budget shortfalls. A supermajority to change tax law requires, at minimum, that all 25 Democratic Senators plus three Republican Senators vote “yes,” and all 50 Democrats in the Assembly, plus 4 Republicans cast affirmative votes. During the 2009 budget negotiations, the Democrats proposed tax increases to close the deficit, notably a hike in the tobacco tax, which presently supplies just 0.1% of the budget, and oil extraction taxes, required by most states but not California. They also proposed closing corporate tax loopholes. These measures were either defeated on the floor by the Republican minority, which had sufficient votes to block the two-thirds needed, or vetoed by Governor Schwarzenegger himself. When California moved into the next fiscal year (beginning July 1) without a budget, the state began paying bills with IOUs, damaging its credit rating and ability to borrow. The state’s credit rating had already been

cut to the lowest in all fifty states in January 2009 in anticipation of yet another budget stalemate.²⁶

It should be noted here that, if the state were flush with funds, the sudden-death face-offs over cuts versus tax increases would be unnecessary. It is therefore arguable that California’s lopsided taxation system is one source of the yearly standoff.

OTHER FACTORS: THE INITIATIVE SYSTEM

A few words here about the role of the initiative system in California’s budget troubles. As Proposition 13 restricts the Legislature’s ability to raise new revenues, California’s system of “ballot box budgeting” locks up funds with voter-directed mandates. A November 2003 article by John G. Matsusaka of the University of Southern California and Initiative and Referendum Institute showed that 32% of the budget was claimed by initiative-launched constraints. “We can see that the problem (if it is a problem) is almost entirely the result of a single initiative, Prop. 98,” he wrote. “Without Prop. 98, only 2% of the budget is locked in by initiatives, a small number in anybody’s book.” Proposition 98 requires the state to meet minimum funding obligations for education.²⁷

While guaranteed funding for education is certainly a worthy goal, it constrains the legislature’s ability to access nearly one-third of California’s budget and, if need be, move it from one pot to another. This limits their ability to respond when there is an unforeseen dip in revenues, as there has been during the present recession. We can see how this works by taking a look at a few budget-related ballot measure. Proposition 49 was approved by a wide margin in 2002 (and championed by Arnold Schwarzenegger before he ran for governor) and commits \$550 million from the state general fund annually. The California League of Women Voters argued against the measure:

²⁵ *California Senate Republicans Oust Leader Over Budget* by William Selway and Michael B. Marois, Bloomberg.com, February 18, 2009.

²⁶ “California’s Credit Rating Cut to Lowest of All 50 States” by Tom Petruno, *Los Angeles Times*, February 3, 2009, at: http://latimesblogs.latimes.com/money_co/2009/02/california-cred.html

²⁷ *Have Voter Initiatives Paralyzed the California Budget?* by John Matsusaka, University of Southern California and Initiative and Referendum Institute, November 2003, p. 5.

There are many programs that don't have a direct impact on children, but are just as important and yet receive no protection from tough budget decisions made each year. Public safety, adult health care, environmental protection, transportation, social service programs, higher education, job training, drug rehabilitation and prevention and state fire protection will all have to compete for a smaller portion of the state budget if Proposition 49 passes.²⁸

In their article *Standing in Front of the California Ballot Train: The Present and Past of Ballot Box Budgeting*, UCLA scholars Daniel J.B. Mitchell and Werner Z. Hirsch look in depth at a history of ballot propositions in California and its relationship to governance. About Proposition 98, they observed: "Money effectively taken from local governments in 2004–05 was used to meet state commitments to K–14 education prescribed by Proposition 98." And voter-approved measures that require general obligation bonds—that is, borrowing money—also lock up the budget. Proposition 71 in November 2004 enacted a \$3 billion bond for stem cell research, Mitchell and Hirsch pointed out. "Debt service currently takes about 4% of the General Fund," they wrote. "While 4% may not seem to be a large number, it represents an outlay greater than the state's General Fund against the measure expenditure on the University of California. Moreover, that fraction will inevitably rise in the future, reducing resources for other purposes."

Some of California's tough-on-crime ballot initiatives have also constrained the budget. The "three-strikes" initiative, which became law March 7, 1994, was intended to incarcerate violent criminals for 25 years to life, but in 2004, 65% of those so imprisoned had been sentenced for nonviolent offenses. The prison system uses 8% of the general fund. Mitchell and Hirsch also note another shortcoming of budgeting by ballot: it doesn't require much to get a measure on the ballot. "It only costs \$200 to start the initiative process

rolling," they said. Those who draft the initiative language are not necessarily educated in fiscal processes or ballot language technicalities. "There are dangers if initiative development is instead left up to outsiders in nominally independent fund raising committees such as 'Citizens to Save California.'... They may also not have the technical and political expertise needed to craft ballot initiatives."²⁹ They, moreover, may have their own interests at heart. Proposition 13 was largely engineered and bankrolled by the California Apartment Owners Association; Howard Jarvis, for whom it was named, was a lobbyist for the organization.

After proponents submit text to the State Attorney General, the law then requires approximately 375,000 registered voters' signatures to qualify a statutory initiative for the ballot, 600,000 for a constitutional one. Once a measure is placed on the ballot, voters go to the polls and make their choice. But in real-world politics, money counts. Such companies as Roseville, California's, National Petition Management pay signature-gathers by the name—from seventy-five cents into the double-digit dollars, depending on the campaign.³⁰ And in a state as large as California, get-out-the-vote ground operations count, but media saturation is key to winning the day. That takes multimillions. California's initiative system, launched around the turn of the twentieth century by progressives who hoped the corporate grip the railroads held and approved in a 1911 special election, has certainly become increasingly politicized.

THE FATE OF SOCIAL INFRASTRUCTURE IF BUDGET PROCESS NOT RESOLVED

It is clear that California's social infrastructure grows more vulnerable each year the annual budget stalemate goes unresolved. The social safety net protects populations with little political muscle—children, domestic abuse victims, the elderly. Education makes sense as a social investment, but when weighed against the budgets needed for public safety, such as fire and police, the latter draw funds every

²⁸ *California League of Women Voters Analysis of Proposition 4*, November 2002. <http://ca.lwv.org/action/prop0211/prop49.html>

²⁹ *Standing in Front of the California Ballot Train: The Present and Past of Ballot Box Budgeting* by Daniel J.B. Mitchell and Werner Z. Hirsch, UCLA School of Public Affairs, January 1, 2006, pp. 9, 17, 22, 26, 41.

³⁰ *California Initiative Process Remains Confounding and Controversial* by Heather Tuggle and Zachary Stauffer, UC Berkeley Graduate School of Journalism, Election 2006, October 31, 2006, at: http://journalism.berkeley.edu/projects/election2006/2006/10/california_initiative_process.php

time, to the detriment of the former. Witness the ongoing firestorm, fueled by law enforcement and correctional officers' unions, ignited by proposals to reduce sentences for a cost savings for California's overcrowded prison system. There was little such outcry when the Governor axed the safety net in July 2009. History shows us social infrastructure will continue to be on the chopping block if California's structural budget crisis is not resolved.

CALIFORNIANS HAVE PROPOSED POSSIBLE SOLUTIONS

So where is the way out? How do we cut the Gordian knot that has become the California budget process? Many from California's business, philanthropic, and community-based organization sectors have pressed for solutions. Those under discussion are structural: e.g., revise the California constitution through a constitutional convention; overturn the two-thirds majority required for tax and budget approval. And they are fiscal: e.g., examine the aspects of California's tax structure that lead to the shortfalls, and analyze suggested fixes.

POLICY OPTIONS: A WAY FORWARD

We began this policy brief with a review of Governor Pat Brown's legacy of infrastructure creation and expansion in California. But the 1960s are far behind us now. Thirty years of orchestrated conservative punditry has created an anti-government fervor across the country and anti-tax rhetoric now largely frames the policy debate. In our state, Sacramento lawmakers have earned the electorate's enmity, and voters are sure to be suspicious or downright hostile to attempts to remedy the problems outlined in this brief. Many thoughtful people have proposed sound technical fixes to California's structural problems, but the real challenge—enacting the remedies—is a political one. That being said, what follows is an assessment of proposed policy changes to address California budget gridlock. There are three ways in which supermajority voting requirements have affected California revenues and governance:

- We have explored the ways in which a two-thirds majority vote requirement has tied up the budget process year after year.
- As we have noted, the California electorate cannot approve measures to create or raise taxes with a simple majority; it instead takes a two-thirds majority vote.
- A two-thirds majority vote in the legislature is required for that body to create or raise taxes.

These three supermajority requirements create obstacles to passing a budget in a timely manner and increasing needed revenues. It seems logical, therefore, to amend these two-thirds majority requirements. But how feasible is it?

Amend the Two-Thirds Majority Vote Required for Budget Approval

A ballot measure would be needed to change the two-thirds majority vote requirement for the legislature to pass a budget, since that would be a constitutional amendment. The California Democratic Party has pledged to ramp up its voter education and get-out-the-vote strategy to promote a broad reform agenda that might include a 2010 ballot initiative to change the two-thirds requirement. California Forward, an organization established in 2009 by some of California's most prominent foundations and co-chaired by Thomas McKernan, CEO of the Automobile Club of Southern California and Robert Hertzberg, former speaker of the California Assembly, favors this measure, among other approaches.³¹ It would take a great deal of outreach and a big media budget. In a recent Field Poll, respondents opposed changing the two-thirds majority needed to pass a budget 52% to 43%.

Change the Two-Thirds Electoral Majority Required to Approve Tax Changes

On the issue of changing requirement that two-thirds of the voters must approve new taxes, there is a potential political

³¹ See the California Forward Web site at: <http://www.caforward.org/>

opening. In an article he prepared for California Forward, author Stephen Levy, Director of the Center for Continuing Study of the California Economy, found that Californians have not shrunk from raising taxes during recent elections. "Data from the California City Finance website <http://www.californiacityfinance.com/> show that 76% of bonds and tax increases were approved," he wrote. "More than 90% of school bond measures were approved resulting in \$22 billion in new school bond authority." In addition, voters in twenty-three local municipalities approved sales tax hikes from 1/8 % to one%. Levy suggests that voters see a connection between their individual futures and a communal one. And they tend to vote for local projects where they can clearly see the benefits. More local measures would have passed if only a 50% or 55% majority were required, he said. It would take a constitutional change to lower the required vote margin, but the current polling numbers suggest that it could win the majority vote needed.

Amend the Two-Thirds Majority Legislative Vote Required to Raise Taxes or Create New Ones

The California State Democratic Party has discussed a ballot initiative to change the two-thirds majority vote required for the legislature to raise or create taxes. This requirement became part of the state constitution as a section in Proposition 13. A recent Field Poll found strong opposition to changing that policy—69% opposed, only 27% in support. A 2010 ballot initiative campaign would have to be well capitalized to overcome that margin, given the anti-tax rhetoric that has gathered momentum over the decades.

Modernize California's Economy

Rather than confining the discussion to remedies for California's budget morass, it is useful to think about changes to California's structure for collecting revenues in terms of modernizing the state's economy, the seventh largest in the world. An example would be proposals to change the way commercial property is assessed. Proposition 13

rolled taxes back to 1975 levels for both commercial and residential properties. We have discussed the way commercial property changes hands less frequently than residential, depriving the state of property tax based on the assessed market value of a given piece of commercial real estate. California voters defeated a 1992 ballot initiative, known as a split-roll measure, which would have maintained homeowner protections while restructuring the assessment of commercial properties. Another union-backed effort in 2006 failed to make it to the ballot. Yet now there is some potential to pass such a measure. A May 2009 survey from David Binder Research showed 63% of those surveyed liked idea of re-assessing commercial properties. Opponents—the California Apartment Owners Association, which first hatched Proposition 13 among them—have very deep pockets to attack the split-roll tax concept and through saturation TV advertising conflate it into a rolling back of Proposition 13 that threatens homeowners. But there are elements in California's business community that might welcome and back such a measure. They recognize that California needs capital for its economy to flourish. And they see new businesses that pay taxes on re-assessed property are at a competitive disadvantage against those who have occupied land since before 1978. Those elements could join with labor and grassroots sectors to fund a split-tax successful initiative. San Francisco recorder-assessor Phil Ting has launched a committee, Close The Loophole, to qualify such an initiative for the 2010 ballot.³²

A Constitutional Convention

A group called Repair California is presently circulating petitions to qualify two measures for the 2010 California ballot that would create the conditions for a California convention to reform the state constitution. The group's leader, Jim Wunderman, is also head of the Bay Area Council, the board of which is made up of top executives from such corporations as Bank of America, Chevron, Google, and the Federal Reserve Bank of San Francisco.³³ One Repair California measure would allow voters to call for a con-

³² See Close the Loophole Web site at: http://www.hs.facebook.com/note.php?note_id=187279181762&id=82854909764&ref=mf

³³ "The States We're In" by Hendrik Hertzberg, *New Yorker*, August 24, 2009. http://www.newyorker.com/talk/comment/2009/08/24/090824taco_talk_hertzberg

vention, the other would outline the parameters of such a gathering on such issues as the state relationship to local government, the taxation system, the initiative process. The results would be sent to the 2012 ballot for voter approval. The delegates would be chosen randomly, the way jurors are. Repair California has gone on record saying that it favors the exclusion of such social issues as marriage equality as part of the discussion and instead prefer to focus on fiscal and governance issues.³⁴ But Erwin Chemerinsky, Dean of the UC Irvine School of Law, who presided over one of two charter reform commissions in the City of Los Angeles, argues that the whole convention process, beginning with voter approval of the idea in 2010, then selection of delegates, arriving at reform proposals and getting them approved at the ballot box, could take years, and California does not have the time. Straightforward ballot measures to reform the two-thirds requirements on the state budget and taxes would be more efficacious, he said.³⁵

rearrange California's budget priorities. It is clear legislature cannot lead the state in that direction. Forward-looking labor and community organizations, philanthropic and business groups, as well as child welfare and other public interest advocates must take the lead. These stakeholders, most with a grassroots base, would do well to coalesce around a longer-term common vision that takes individual interests into account. That effort must attempt to reframe the debate in policy circles and in the media. There is, of course, the question of who might take the initiative to convene the stakeholders, but certainly there are plenty of talented veterans of the legislative budget battles that could emerge to lead such a fight. But the clock is already running for California. It must happen soon.

Include the Voice of Social Infrastructure Advocates Earlier in the Budget Process

There were many high-profile protests after the 2009 budget cuts were announced. But there are openings earlier in the budget process, at the subcommittee and committee levels, where affected sectors, such as student and faculty organizations, public sector labor unions, and child welfare advocates could potentially inject their perspective and help shape the debate.

FINAL THOUGHTS

This policy brief has examined the relationship between the annual delays in finalizing the California budget and the deep cuts to social infrastructure that tend to follow. It has also reviewed potential solutions, including pending 2010 ballot initiatives, proposed by various public policy and interest groups. Those proposals are undoubtedly based on research along with a thoughtful assessment of what is politically feasible. Any could provide a potential political opening to create a much-needed long-range change to

³⁴ "Voters Support Changing California's Constitution" by Eric Young, *San Francisco Business Times*, October 14, 2009.

³⁵ "A California Constitutional Convention" by Erwin Chemerinsky, *Los Angeles Times*, May 28, 2009.