Chapter 1

Time for an Old Guy; Time for a Young Guy: California Fiscal Affairs Shift from Brown to Newsom

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"There's a time for an old guy and there's a time for a young guy. There's a time (for a guy) with no hair on the top of (his) head; there's a time for a guy with really nice hair on the top of his head. I was the right man at the right time. Right now, Gavin Newsom is the right man at the right time."

Governor Jerry Brown after the June 2018 primary[1]

Jerry Brown in total served four terms as governor of California, a record no future governor will surpass unless term limits are abolished.[2] But Brown's four terms came in two iterations. After his election in 1974, he served two terms as governor and then – in the midst of a state budget crisis – made an unsuccessful run for the U.S. Senate. At the time of his first iteration, he was the young guy with nice hair. Brown returned for two terms after the election of 2010. By then, he was the old guy with no hair on top. When he made his comeback as governor, Brown inherited a budget crisis from his predecessor, Arnold Schwarzenegger.

Gavin Newsom, Brown's successor, had been mayor of San Francisco when he made a half-hearted attempt to run for governor in 2010. However, when it became clear that Brown would be the 2010 Democratic gubernatorial candidate, Newsom switched and ran for lieutenant governor instead. He then had to wait eight years for Brown to be termed out in order to make a second run for governor.

By the time Newsom made that second run, California had adopted its nonpartisan "top-2" primary system, and it was always clear that Newsom would come in first.[3] The only question was whether the candidate who came in second in the June 2018 primary would be a Democrat or a Republican. If the former, there could be a real contest in the November general election. If the latter, Newsom would inevitably coast to victory, given the "blue state" politics of California. As it turned out, the runner up was a Republican, John Cox, a no-name businessman, and the inevitable happened. Newsom won in November without much effort.

As noted, Jerry Brown, in his elder iteration, inherited a budget crisis from Arnold Schwarzenegger. Governor Schwarzenegger had, in turn, inherited a budget crisis from his predecessor, Governor Gray Davis. Davis had begun his two terms during the dot-com boom of the late 1990s when money was rolling into Sacramento. But he was recalled and replaced by Schwarzenegger in 2003, thanks in large part to the fiscal crisis that accompanied the dot-com bust of the early 2000s. Davis' predecessor, Governor Pete Wilson, had inherited a budget crisis from his predecessor, George Deukmejian, who inherited one from Jerry Brown The Younger. In short, of the five governors that preceded Newsom (Brown, Schwarzenegger, Davis, Wilson, and Deukmejian), only one – Davis – began his service without inheriting a budget crisis.

Thus, the recent political history of California is replete with governors facing a budget crisis challenge. Newsom, when he took office in January 2019, however, had escaped that fiscal fate. One of the first things an incoming governor has to do is prepare a budget proposal. So, Newsom's first foray into state

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[1]Quoted in Jonathan J. Cooper, "Brown backs fellow Democrat Newsom for California governor," *AP*, June 13, 2018. Available at https://www.apnews.com/d1bd70c42718450baad781a22598a0b7.

[2]Earl Warren, first elected governor in 1942, served three *consecutive* terms, but his third term was truncated by his appointment as chief justice of the U.S. Supreme Court. His record also will not be broken in the future, absent abolition of term limits. Term limits were imposed by a state ballot measure in 1990.

[3]The top-2 primary system was first used in California in 2011.

budgeting would be in Good Times. The question remained as to what would happen if the economic winds turned against him later in his first term (or maybe in his second).

This chapter looks at Newsom's first state budget from proposal to enactment and provides a background on the months before the proposal was aired. One of the realities facing any new governor is that he starts the first six months in office under a budget proposed and ultimately signed by his predecessor. Thus, the setting for Newsom's first budget was life under Brown's last one.

Background to the Transition

> *"What's out there is darkness, uncertainty, decline and recession. So good luck, baby."*
>
> Governor Jerry Brown presenting his final budget proposal
> when asked what fiscal conditions would face his then-unknown successor[4]

One way of interpreting Jerry Brown's second iteration as governor was as an expiation for the budget crisis that he left at the end of his first iteration to successor George Deukmejian. Budget crises have two components. The first is the general direction of the economy. If there is a national recession, there will inevitably be a California state recession. A state recession means a reduction, often sharp, in state tax revenue. And then there is internal policy, things that might have been done – or not done – to cushion the state budget from the external effect of recession.

The main thing a state or local government can do to reduce the impact of a recession is to build up a large budget reserve. In a way, a state or local government is similar to a household. Just as a household, it can have a reserve of saving to cushion the impact of a sharp drop in income. In the household case, a job loss might trigger a family income/budget crisis. In the government case, it is typically a recession that cuts into tax revenue. Jerry Brown, in his first iteration as governor, *had* built up a large reserve, but that reserve had perversely – when combined with a different type of political failing – produced a fiscal crisis.

In the late 1970s, a property tax revolt had begun to brew in California, as home prices shot up. At the time, California had a conventional property tax system whereby a local county assessor would regularly determine the value of properties (residential and commercial). Local governments – cities, school districts, and other entities – would then collect revenue based on a percentage of the assessment. Rapidly rising assessed values led to rapidly rising property tax bills.

Despite the brewing revolt, state legislators and Governor Brown seemed oblivious to what was happening until it was too late. Local property taxpayers looked at the large reserve Brown had accumulated as part of his positioning himself as a fiscal conservative but a social liberal. They wondered why the "obscene" reserve couldn't be used somehow to reduce their property taxes.

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[4]Quoted in Jose A. Del Real, "Jerry Brown Warns of Recession and Reveals His Final Budget," California Today of *New York Times*, January 11, 2018. Available at https://www.nytimes.com/2018/01/11/us/california-today-jerry-brown-warns-of-recession-and-reveals-his-final-budget.html.

The upshot of the governor's and the legislature's political insensitivity to the growing property tax revolt was Proposition 13 of June 1978 which drastically cut local property taxes, limited future property tax rate increases, and rolled back assessments. Once Prop 13 passed, the state jumped in with its reserve to bail out local governments, or at least to allow them time to adjust. But in the early 1980s, two back-to-back national recessions cut into state revenue at the same time the reserve was being drained for the bailout. Thus, the combination of Prop 13's bailout and the recession impact was the root of Brown's budget crisis of that era and the fiscal legacy he left to incoming governor George Deukmejian.

When Brown came back into office as governor after the election of 2010, he backed a ballot proposition providing for an increase in state income and sales taxes. Voters approved the increases and later approved an extension of the income tax portion. Meanwhile, the state's economy was gradually recovering from the severe Great Recession of 2008, which had led to the budget crisis Brown had inherited from Schwarzenegger. Brown built up a "rainy day" reserve, which – in a way – was what he had tried to do in his first iteration. During the second iteration, however, there was no taxpayer revolt nor was there any equivalent of Prop 13 to drain the reserve.

Thus, the legacy Brown had left for Newsom was a large reserve and an economy in a period of boom. Perhaps under Newsom there would eventually come to pass Brown's prognostication of "darkness, uncertainty, and recession." But in the first six months of Newsom's term as governor when his 2019-20 state budget was proposed and enacted, none of those things happened.

General Background on Budgeting

"Don't screw it up."

Jerry Brown's final advice to incoming Governor Newsom[5]

Before we can trace the evolution of Gavin Newsom's first budget, a short lesson in budgetary methodology is needed. As is typical of state and local budgets, California divides its budget into various "funds." The largest is the General Fund which can be thought of as a state checking account from which ongoing day-to-day bills are paid. At the state level, the biggest source of expenditure is education, about 51% of the General Fund in Newsom's first budget.[6] At the K-14 level, state spending for education is largely a passing of funding to local school districts and community college districts. Most such funding is governed according to Proposition 98 of 1988 which allocates money according to specified formulas. The University of California and California State University systems are directly funded by the state, and – in contrast to K-14 – are state government entities.

The state has other responsibilities apart from education. Twenty-eight percent of the General Fund goes to Health and Human Resources. About 9% of the General Fund goes to prison and incarceration-

[5]Quoted in Scott Shafer, "Passing the Torch, California Gov. Jerry Brown Tells Newsom, 'Don't Screw It Up,'" *National Public Radio*, January 7, 2019. Available at https://www.npr.org/2019/01/07/682722290/passing-the-torch-california-gov-jerry-brown-tells-newsom-don-t-screw-it-up.

[6]The various percentages from the 2019-20 budget cited here and below are taken from Department of Finance estimates available at http://www.ebudget.ca.gov/2019-20/pdf/Enacted/BudgetSummary/SummaryCharts.pdf.

related purposes. The rest goes to the myriad administrative functions undertaken by the state. Revenue for the General Fund comes primarily from three taxes: the personal income tax (70%), the sales tax (19%), and the corporation tax (9%). Through a combination of formula and discretionary allocation, some General Fund revenue is taken off the top and diverted to another fund, the Budget Stabilization Account (BSA), sometimes referred to as the "rainy day fund." (More about that fund and other reserves later.)

Typically, when people refer to the state budget, they are referring to the General Fund. But the state budget has many funds that are earmarked for various purposes outside the General Fund. The largest external funds deal with transportation. The gasoline and other motor vehicle-related taxes go into funds that provide for roads and public transit. But there are many less visible funds such as Illegal Drug Lab Cleanup Account, the Medical Waste Management Fund, the San Joaquin River Conservancy Fund, and the Marine Invasive Species Control Fund, to name but a few.

Expenditures from the General Fund account for about 69% of all state expenditures (excluding spending from the various state pension funds). Special funds outside the General Fund account for 28% of the overall state budget. Finally, there are various bond funds that account for the remainder. The state borrows by issuing bonds for various capital purposes. Once the funds are raised, expenditures for those purposes are made as needed.

It is important to note that budgeting, at least when budgets are enacted, is an exercise in forecasting. The revenue that will be available depends on what the various taxes bring in, an amount heavily dependent on the direction of the state economy. Because the personal income tax represents a large share of state revenue, and because the income tax is "progressive," i.e., it collects a disproportionate share of its revenue from top earners, state revenue is closely linked to the economic fate of a relatively small number of taxpayers.

The top 1% of tax filers pay 40-50% of the monies collected by the personal income tax.[7] Those top earners tend to derive significant incomes from financial markets. Thus, the ups and downs of the stock market can be strongly reflected in personal income tax collections. As a result, budget forecasting involves not only projecting trends in the real economy but also financial booms and busts.

Any economic forecast is prone to error which becomes known only after the fact. The volatility of the California tax system (especially because of its dependence on financial markets as well as general economic trends) is an important motivation for building up reserves to handle fiscal uncertainties. There is no magic number or ratio that provides security against uncertainties (even if there are formulas that determine how much funding at a minimum must go into reserves).

Ultimately, all that can be said is that the more money there is in reserve, the more protection there is against some future economic and financial downturn. There is a political judgment to be made about a) how much to divert from the private sector in taxes, b) how much to spend on various public services, and c) how much to put away in reserve as insurance against uncertainty. Making those decisions is

[7]Legislative Analyst's Office, *California's Tax System: A Visual Guide*, April 12, 2018. Available at https://lao.ca.gov/reports/2018/3805/ca-tax-system-041218.pdf.

what legislatures and governors are supposed to do. And in California – with its direct democracy – such decisions are sometimes shared with voters.

In a sense, despite the fact that the budget is a product of both the executive and legislative branch, the governor has a built-in advantage. Under the California constitution, the governor is charged with initiating the budget process. In early January, a budget proposal for the coming fiscal year (which starts each July 1) must be presented to the legislature. To formulate the proposal, the governor has the Department of Finance with its budgetary experts.

In contrast, the legislature is fragmented. There are eighty members of the state assembly and forty members of the state senate. These 120 legislators have staff support, of course. But particularly with term limits and turnover, there is more expertise in the hands of the governor. To balance the process back in the 1940s, the legislature created the Legislative Analyst's Office (LAO) which provides commentary on, and critiques of, the budget outlook forecast and the specifics of the governor's proposal.

Once the governor has made the required January proposal, the legislature begins to hold hearings on that proposal, on the review of the proposal by the LAO, and on what witnesses and interest groups have to say. It is a practice, not a constitutional mandate, that in May, the governor presents the "May Revise," which is a modification of the original proposal that reflects additional information that has accrued about the state of the economy, tax collections, etc., as well as political developments. After the May Revise is presented, the assembly and the senate formulate what are essentially their own variants of the May Revise which eventually have to be reconciled with each other and the governor's proposal.

In its current political configuration, the legislature is dominated by Democrats. The Democratic leadership and the governor will confer on what is acceptable to the latter. Only a simple majority in the legislature is needed to pass a budget. If any tax increases are part of the budget, however, a two-thirds majority in both houses is needed. In the past, this super-majority requirement gave Republicans some limited leverage. But of late, the Democrats have the needed two thirds. So, Republicans have tended to be bystanders in the budget process.[8]

In principle, the governor could veto the entire budget. But absent some crisis, such a veto is very unlikely. However, the governor does have so-called line-item veto power. He can remove or reduce expenditures within the budget. However, since there is eventually a three-way deal among the leaders, even such vetoes will be limited. The legislature must enact a budget by mid-June under the constitution or lose a day's pay for each day beyond the official deadline.[9] The governor then can determine what line-item vetoes, if any, are to be made.

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[8]The two-thirds requirement for tax increases was part of Proposition 13 of 1978. There was a longstanding requirement of two-thirds support in each house for any budget, whether or not it included a tax increase. However, in 2010, Proposition 25 reduced the budget enactment requirement to a simple majority. Prior to that time, particularly during budget crises, budgets were often delayed beyond July 1. The state then didn't have a budget which prevented various expenditures and created more and more fiscal problems as time passed.

[9]Proposition 25 of 2010 created the daily pay penalty. However, under subsequent court interpretation, it is up to the legislature to determine exactly what passing a budget means. Typically, there is a main budget bill and then

Definitions and Numbers

"I'd say we're in for contentious times and for too many rules, too many constricting mandates and probably too much spending" Brown told the Associated Press... He said Gov.-elect Gavin Newsom may have a hard time keeping fellow Democrats in check because "he's got to please some of these groups enough of the time to still be viable as a political leader."

Governor Jerry Brown in late December 2018[10]

Jerry Brown's prognostication of "too much spending" above raises an interesting issue. "Too much" is clearly a subjective judgment call. But "spending" presumably is something that can be measured. And, more generally, concepts that surround budgeting such as spending, revenue, surpluses, deficits, and reserves presumably are objective facts. You might think that although we may disagree on whether budgeting behavior is prudent or not, we surely can agree on what the accounts that track budgeting mean. Sadly, it's not so simple.

Stocks and Flows

One key element in budgetary language is a division between *stocks* and *flows*. Put simply, stocks refer to snapshots of the budget at a moment in time, often the beginning or end of a period such as a fiscal year. Let's consider a simple example based on a household. Imagine a household that has a checking account for day-to-day expenses. At the beginning of the year, let us imagine that the household has $1,000 in the account. That's a *stock* observation. At the end of the year, it has, say, $400 – another *stock* observation.

For the account to have dropped by $600 during the year, it must be the case that the net *flows* into the account (income or revenue deposits) and the net *flows* out of the account (spending) came to -$600, i.e., spending exceeded revenue by $600. Perhaps $40,100 came in and $40,700 *flow*ed out, for example. Note that the household, despite the net out*flow* from its checking account, is not in immediate trouble. Its checks won't bounce as long as there is sufficient money left in the account to cover them. Still, if the same revenues and spending are repeated in the following year, there would be a potential problem; the account would be short by $200.

In budgetary language, the checking account started with a reserve (*stock* concept) of $1,000. Revenues were $40,100 (*flow* concept). Spending was $40,700 (*flow* concept). The account ran a deficit (*flow* concept) of -$600. Thus, at the end of the year, the reserve (*stock* concept) in the checking account was $400.

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various "trailer" bills. It is often the case that the legislature passes the main bill, but the complete set of trailers comes later.

[10]Quote from "Ahead of Departure, Brown Predicts Too Much Democratic Spending," *KPIX 5 San Francisco*, December 19, 2018. Available at https://sanfrancisco.cbslocal.com/2018/12/19/jerry-brown-exit-interview-predicts-too-much-spending-democrats/.

The point of potential crisis comes in the second year. But whether there is a crisis in part depends on whether the household has other reserves tucked away apart from the balance in its checking account. Perhaps it has a savings account with a balance of, say, $300 at the beginning of the second year. If so, it could pull $200 from that account in the second year and deposit it into its checking account. And if it did, no checks would bounce in year 2. But in year 3, with a balance of zero initially in its checking account any only $100 left in its savings account, some kind of change in behavior would be required. Having reserves can push away a budget crisis resulting from deficits for a time. But eventually, some kind of corrective action would need to be undertaken. Either income would need to be boosted or spending would need to be reduced.

Moving to the State Level

The household example can be translated into state and local budgeting concepts. The checking account is similar to a governmental General Fund. Income into the checking account is analogous to tax and other revenue that flows into the General Fund. Checks written on the account are analogous to government spending. The amount in the checking account (or savings account) can be termed a "reserve." The excess of spending over income during the course of a year is a "deficit." If income had exceeded spending (which would have added to reserves rather than subtracted from them), we would term that excess a "surplus."

Now let's apply these concepts to the actual California state budget accounts. Governor Jerry Brown and the legislature enacted the fiscal year 2018-19 budget in June 2018. Since Brown was termed out in early January 2019, his last budget would run through the last six months of his term and then the first six months of his successor's term. Note that at the point at which it was passed, that budget was entirely a forecast. What revenues would be collected in the year starting July 1, 2018 were estimates. Similarly, expenditures for that year were also estimates. Many expenditures depend on actual developments, e.g., the cost of operating the state prisons depends on the number of prisoners which, in turn, depends on sentencing behavior, crime rates, arrests, etc.

Table 1 shows the evolution of the estimates of the Brown 2018-19 budget during the fiscal year. Originally, it was estimated that the General Fund would have a starting reserve of about $8.5 billion. Income of the General Fund was estimated to be $133.3 billion. The outflow from the General Fund was estimated at $138.7 billion. The excess of spending relative to income – the deficit in the General Fund – was -$5.4 billion. Given that deficit, only $3.1 billion would be left in the General Fund reserve at the end of the fiscal year.

The state has various equivalents of savings accounts, however, apart from the balance in the General Fund. The Budget Stabilization Account (BSA or "rainy day fund") was originally created during the Schwarzenegger period but Governor Schwarzenegger was never able to make much use of it. Under Brown, the BSA was given real life through a combination of a formula - which takes revenue off the top before it goes to the General Fund - and other allocations made by the legislature.

Additionally, a "safety net reserve" was created for additional savings to get around certain limitations applicable to the BSA. Finally, there is a Prop 98 reserve available to school districts which up through

fiscal year 2018-19 had received no funding. When these reserves were summed, the initial estimate was that net total reserves would be $17.1 billion at the end of the year.

At various points during the fiscal year, re-estimates are made of reserves, inflows, outflows, and surpluses or deficits. As noted, it was initially estimated that when all the reserves are added together, there would be a total of $17.1 billion. Thus, there were more than enough funds available to offset the projected -$5.4 billion deficit in the General Fund. In effect, that $17.1 billion was projected to be Brown's fiscal legacy for his successor. Table 1 shows the re-estimates made in November 2018, January 2019, May 2019, and June 2019 of the final Brown budget. The total of all estimated reserves rose by almost $5 billion to $22.0 billion as the year progressed. (Re-estimates for a particular fiscal year continue to be made even after that year has ended.)

Table 2 provides a similar look at Governor Newsom's first budget (for 2019-20). It is the practice of the Legislative Analyst's Office (LAO) to provide a "workload" estimate in November for the next year's budget. Essentially, this is an estimate of what would happen if the existing set of taxes and programs continued on auto-pilot. As can be seen on the table, the LAO projected that if there were no changes, by the end of the next fiscal year, i.e., 2019-20, total reserves would be above $30 billion. At the time, as Table 1 shows, the LAO was projecting that at the beginning of 2019-20, total reserves would be about $24 billion. So, the LAO was suggesting that doing nothing would add about $6 billion to total reserves.

We know from Table 1 that Brown's last budget in fact left a reserve total of about $22.0 billion in June 2019. And we know from Table 2 that Newsom's first budget projects a total reserve twelve months later of $20.6 billion. So, on net, Newsom's first budget ran an overall deficit of about -$1.4 billion.

Table 3 compares Brown's last budget with Newsom's first budget. When you add all the reserves together, both had small deficits. Brown's is so small that it is within the noise factor. That is, he essentially left a balanced budget with a relatively large reserve. Newsom (and the legislature) chose to run a small deficit, but to leave a sizable total reserve. Perhaps this is the statistical reflection of Brown's prognostication at the head of this section that Newsom would have *"to please some of these groups enough of the time to still be viable as a political leader."*

It's hard to get away from the fact that Gavin Newsom's first budget was put together in an era of Good Times. The state's economy had recovered from the Great Recession by the time he took office. His predecessor had built up reserves that were sufficient to handle unforeseen perturbations in the economy that might occur during fiscal 2019-20. But one element of state budgeting had not been corrected and that is basic definitions.

Sloppy Language

The state has long featured sloppy budgetary language in both Good Times and Bad. In particular, the use of the terms "surplus" and "deficit" has always been loose. In the past, this looseness has involved two basic sins. Surpluses and deficits are *flow* concepts. But they have been sometimes confused with *stock* concepts such as reserves in California budget-speak. In addition, as *flow* concepts, they inherently involve a time period, typically the fiscal year. In the past, however, varying multiyear periods have been

used without clear specification. Sometimes, the motivation has been to disguise the fact that a problem is looming. Sometimes the motivation seemed to be to exaggerate the depths of a problem in order to stimulate legislative action. Sometimes, there seems to have been no motivation; just confusion.

It is difficult to evaluate fiscal policy if there is confusing descriptive language and the sins of the past were bad enough. But somehow, during the formulation of Newsom's first budget, a new misuse of terminology developed. The word "surplus" started being used by both the governor and the Legislative Analyst to describe the fuzzy concept of "discretionary spending."[11]

First, in theory, almost any element of state spending is "discretionary" in the sense that even when there is a controlling legal obligation or formula involved, some legal change – perhaps a ballot proposition - could allow a change. And there are forms of spending that are discretionary but politically would be difficult to cut or eliminate. Only debt service is really not discretionary. So, there is no simple, objective, and meaningful definition of discretionary spending. Second, the numbers for this version of "surplus" fall into the $20 billion range, which by coincidence is the range of total reserves. So, there is even more potential confusion.

Use of the term surplus to describe discretionary spending is a *really, really* bad practice. It seems to have arisen after the retirement of one Legislative Analysis in December 2018, and appointment of another. Prior to that time, although discretionary spending was discussed in LAO reports, it was not referred to as a "surplus."[12] Note that even in the worst of times, there will be some discretionary spending – so there will always be a "surplus." Good Times are good times to implement clear and precise budgetary language. But it hasn't been happening. In fact, California seems to be going in the opposite direction.

Cash Accounts and Reserves

"Based on the experience of recent recessions, we estimate the state would need about $20 billion in reserves to cover a budget problem associated with a mild recession and $40 billion to cover a moderate recession."

Legislative Analyst's Office[13]

Up to this point, it may have appeared that the various reserves discussed are used only in economic downturns. In fact, there is a seasonal use for cash kept outside the General Fund. And there is more cash available than what is in the official reserves.

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[11]For example, Gabriel Petek, Legislative Analyst's Office, "Amid Good Fiscal Times, Planning for the Future Is Crucial," May 21, 2019: *"At a moment when the state anticipates $22 billion in discretionary resources (also referred to as its surplus), few would dispute that California is in the midst of 'good times.'"* Underline added. Available at https://lao.ca.gov/Publications/Report/4051.

[12]Legislative Analyst Mac Taylor retired in December 2018. His budgetary discussions, while referring to discretionary spending, did not characterize such spending as a surplus. See, for example, Legislative Analyst's Office, "Initial Comments on the May Revision," May 12, 2018. Available at https://lao.ca.gov/Publications/Report/3832.

[13]Legislative Analyst's Office, "Initial Comments on the Governor's May Revision," May 12, 2019. Available at https://lao.ca.gov/Publications/Report/4039.

As noted, there are various funds outside the General Fund that are earmarked for specific purposes, such as transportation. Cash flows into these funds from various sources. For example, in the case of transportation, there are taxes related to gasoline consumption and various other taxes and fees related to motor vehicles. The elected state controller is charged with keeping track of all the inflows, outflows, and balances in the various accounts outside the General Fund including the official reserves.

There is a seasonal pattern to inflows into the General Fund. Income tax liabilities must be settled in April. Sales tax receipts come in disproportionately during the Christmas sales period in November-December. But expenditures from the General Fund don't follow the same pattern. Civil servants must be paid month after month.

When there isn't enough cash on hand in the General Fund to pay for ongoing expenses because of seasonal mismatch, the controller can engage in internal borrowing – pulling cash out of reserves and other funds outside the General Fund. As Table 4 shows, during Good Times – as in the 2018-19 fiscal year – such borrowing peaks in the winter months and then notably declines in April, as personal income tax receipts come in. The amount left in the external funds (including the reserve funds) and available to be borrowed legally is referred to as "unused borrowable resources." As can be seen from the table, by June 2019, such resources amounted to over $51 billion, an amount well beyond the cash in the official reserves.

Of course, the state has not always had such Good Times. If there aren't sufficient internal sources available, the state can borrow short term (within the fiscal year) from the outside financial market by issuing Revenue Anticipation Notes (RANs). In really extreme circumstances, it is possible to borrow across fiscal years through the issuance of Revenue Anticipation Warrants (RAWs). However, the more extreme the circumstances are, the more costly such borrowing will be in terms of interest rates that must be paid and difficulty in arranging loans. In a few cases of extreme budget crisis, the state has not paid all its bills on time and instead forced creditors to take IOUs known as Registered Warrants. The most recent such episode occurred in the summer of 2009 in the wake of the Great Recession.

Note that apart from such unusual cases, once the state begins to rely heavily on internal borrowing that goes beyond what is in the official reserves, it is effectively filling the external funds with IOUs from the General Fund. When the earmarked external funds are filled with such IOUs, they cannot fulfill the missions to which they are dedicated. You can't fill potholes in a highway with IOUs. So, overreliance on internal borrowing – as occurs when state economic conditions are difficult – has negative effects.

Nonetheless, the accounts maintained by the controller point to the fact that there is a greater cushion available to the state – or at least to the state's General Fund – than the official reserves. Table 5 shows the evolution of unused borrowable reserves from the ends of fiscal 2008-09 through 2018-19. In June 2019, on the eve of the episode in which the state issued IOUs to some creditors - such reserves were only 7% of annual disbursements from the General Fund. By the end of Jerry Brown's final budget, the ratio – which had risen year by year – stood at 35%.

There is one bit of bad news, however. Careful readers may have noted that while annual expenditures on Table 1 for fiscal 2018-19 were about $143 billion as reported by the governor and the Department

of Finance, disbursements for the same fiscal year as reported by the controller on Table 5 are listed as about $146 billion. In short, there is a discrepancy.

Budget aficionados will quickly explain that while the controller's accounts are on a cash basis, recording inflows and outflows of cash as they occur, the state budget enacted by the legislature and reported by the Department of Finance is on an accrual basis. Under accrual accounting, inflows and outflows are assigned to the period when they are due, not when they occur. Thus, if a tax liability is due in June, but the check arrives on July 1, in cash terms the receipt is recorded in the fiscal year beginning in July. But in accrual terms, it is recorded in the year ending in June when it was actually due.

There is a rationale for using accrual accounting for budget planning purposes. And there is also room for mischief, since it is up to the legislature and governor to determine the precise methodological details.[14] And there is a rationale for the controller to use cash accounting, since she has to know what cash is available to pay bills. But in theory, it should be possible to reconcile discrepancies, such as the one cited above. In practice, California doesn't publish a reconciliation.[15]

How the Sausage Was Made: Summertime 2018 – Campaign Time

"*Our values are under assault. We're engaged in an epic battle. It looks like voters will have a real choice this November, between a governor who's going to stand up to Donald Trump and a foot soldier in his war on California.*"

Gavin Newsom on coming in first in the June 5, 2018 gubernatorial primary and preparing to run against Republican John Cox in the general election[16]

When Jerry Brown ran for governor in 2010, the focus was heavily on the state budget because of the ongoing budget crisis. When he ran for re-election in 2014, there was still a focus on the budget in that Brown was backing a ballot proposition to put funding by formula into the "rainy day fund" (Budget Stabilization Account) to deal with future downturns. In contrast, the 2018 gubernatorial election was

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[14]As an example, in 2009, the state postponed its paychecks for state employees from June 30 to July 1. If the state used true accrual bookkeeping, that change would have made no difference (although it affected cash accounting). The gimmick at the time "saved" almost $1 billion purely cosmetically and only because the state's version of accrual accounting is not true accrual. Thereafter, the state continued the practice. Governor Newsom's first budget proposed undoing the gimmick (which means that there would be 13 months of pay in the fiscal year. See John Myers, "The one-day, $1-billion California budget gimmick that has lasted for almost a decade," *Los Angeles Times*, February 10, 2019. Note that Myers seems to misunderstand the accounting trick and assumes that the cosmetic "saving" continues year after year. But after the first year, there are twelve rather than eleven months of pay again. Available at https://www.latimes.com/politics/la-pol-ca-road-map-california-budget-payroll-gimmick-20190210-story.html.

[15]There is also a discrepancy between cash receipts as reported by the controller and cash receipts as reported by the Department of Finance in their separate monthly reports. The latter explains the discrepancy as due to a lag in agencies' reporting of information to the former. It remains unclear, however, why the controller's reports have to be put out ahead of such lagged reporting.

[16]Quoted in "Gavin Newsom, John Cox secure California primary wins, move closer to becoming governor," *ABC 7 News*, June 6, 2018. Available at https://abc7news.com/politics/gavin-newsom-john-cox-secure-california-primary-wins/3566225/.

held in Good Times and the budget crisis was a thing of the past. The early months of the campaign coincided with Brown's final budget formulation. But fiscal policy *per se* was not a major issue in the campaign.[17]

Number 2 in Top-2

There was no doubt – given the tilt in California politics in the second decade of the 21st century - that the eventual gubernatorial winner would be a Democrat. But there were two Republicans in the nonpartisan race heading for the June 2018 primary as well as four Democrats. It was clear from polling that in that "top-2" primary, Lieutenant Governor Gavin Newsom would be the top vote getter. He had essentially been running for governor for eight years, waiting for Jerry Brown to be termed out. The question was whether the number 2 vote getter would be one of the three other Democrats or one of the two Republicans. If a Republican were number 2, the winner in November would be Newsom, and he would not really need to do much campaigning. If one of the Democrats were to be number 2, however, there would be a real contest and the outcome was not preordained.

National and state Republicans wanted one of the two Republicans – state senator Travis Allen or businessman John Cox – to be on the gubernatorial ballot in the November general election. This goal was not based on any idea that either one could win against Newsom or any other Democrat, but because of the impact on Republican voters. It was felt that if there were no Republican at the top of the ticket, Republican turnout in the election would be reduced, and Republican congressional candidates and legislative candidates could be hurt.

Although between Allen and Cox, Allen was arguably the most loyal Trump supporter (Cox reportedly did not vote for Trump in 2016), President Trump eventually endorsed Cox as the stronger of the two. In the primary, Cox came in second, thus knocking out Allen and also the Democrats competing with Newsom.[18] Once the primary was over, Cox was given only nominal support by the Republican establishment. There was only one perfunctory radio debate between Cox and Newsom during the subsequent campaign period and little advertising.

After the Primary

With the budget not a focus, thanks to Good Times and the inevitability of a Newsom victory after the June primary was over, other issues became the political focus thereafter. Of course, Newsom was well aware that he would need to produce his first budget proposal in early January. But he had no need to be specific during the remaining campaign about what would be in it or about how his priorities might differ from Brown's. His stances on Brown's high-speed rail between the Bay Area and southern

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[17]The description that follows of political events is drawn from various news sources. References are provided mainly for quotes and certain other facts.

[18]The Democrats, apart from Newsom, were state treasurer John Chiang, former Los Angeles mayor Antonio Villaraigosa, and state superintendent of public instruction Delaine Eastin. Cox in his youth had been a Democrat but ran unsuccessfully for various offices as a Republican in Illinois before coming to California. Allen did not endorse Cox until the end of July 2018. The debate by the six candidates on May 8, 2018 before the primary can be heard at https://archive.org/details/govdebate582018edit_201907.

California remained somewhat fuzzy. During the primary, he said there was sufficient funding to build it from the Bay Area to the Central Valley.[19]

Newsom did signal that he regarded the state's housing supply (or lack of it) as an important issue and touted an education platform of "cradle to career." These areas were both indirectly connected to what Newsom had earlier said was California's biggest problem: income inequality.[20] But these general ideas did not require putting detailed budgetary price tags on the policies. And Newsom did pick up – after the election – on one Brown budgetary failure, an effort to pass a cellphone tax to fund an upgrade to the 911 emergency system. The proposal failed for lack of a two-thirds majority under Brown, but it was later included in Newsom's first budget package (and was adopted).

During the summer of 2018, the issues in part revolved around various propositions that would be on the November ballot. Table 6 summarizes these propositions and their eventual outcome. Some of these propositions did have budgetary significance, especially those involving issuance of bonds (the debt service of which must eventually be paid) and an attempt to repeal an increase in the gas tax for transportation enacted by the legislature. The gas tax repeal (Prop 6) appeared to be – like the Cox candidacy – focused on encouraging Republican voter turnout and – also like the Cox candidacy – did not have major campaign funding behind it once put on the ballot.[21] It never polled well and was ultimately defeated. A September 2018 PPIC poll showed 39% support among "likely voters." Even among Republicans, support was only 50%.[22]

One proposition was removed from the November 2018 ballot by the state supreme court, a pet project of billionaire Tim Draper to split California into smaller states. Earlier, Draper had funded a campaign to break California into six pieces, but he failed to obtain sufficient signatures. He then successfully funded another campaign. This time, he revised the proposition to divide the state in three. Both propositions were wacko ideas, probably intended to dilute the state's electoral votes. And the court found that such a proposal could not be accomplished by initiative.[23]

By the summer of 2018, it was too late to add initiatives or referenda to the November 2018 ballot. Any new petitions received were aimed at the 2020 general election. Brown signed a bill abolishing the bail system in the state. The bail industry then obtained the necessary signatures for a referendum on the

[19]You can hear Newsom's remarks on high-speed rail (and those of the other primary candidates) at https://www.youtube.com/watch?v=Dxk2gyUkBsk.

[20]Quoted in Tom Elias, "Newsom: Income Equality State's Biggest Problem," *Santa Monica Mirror*, December 21, 2018. Available at https://smmirror.com/2018/12/newsom-income-equality-states-biggest-problem/.

[21]A Democratic state senator from a "swing district," Josh Newman, was recalled in June 2018 for having voted for the gas tax.

[22]Public Policy Institute of California (PPIC), *Californians and Their Government*, September 2018. Available at https://www.ppic.org/wp-content/uploads/ppic-statewide-survey-september-2018.pdf.

[23]An even wackier proposal for California to secede from the U.S. and become an independent country ("Calexit") – which seems to be promoted by a man residing in Moscow – comes and goes on social media.

new law, effectively preventing its implication – even if voters ultimately agreed with the legislature and governor – until after the November 2020 election.[24]

An initiative has been placed on the 2020 ballot that offers a version of the "split roll" property tax concept which, if adopted by voters, would result in a dramatic change in Prop 13's property tax restrictions. Under a "split roll," commercial property would be taxed at current market value determined by periodic assessments while residential property would remain under the Prop 13 limitations. The Legislative Analyst's Office estimated that the change could produce an added $6.5 billion to $10.5 billion in property tax revenue.[25] Polling suggested that such a proposition could obtain majority support if it were tied to support of popular programs such as education.[26] Governor Brown, however, remained neutral about the proposition, other than suggesting that economic conditions at the time of the 2020 general election would affect voter support.[27]

Non-Budget Concerns

Absent a budget crisis as a focus, some of the attention was on symbolic gestures. For example, the legislature passed a bill that indicated a legislative "intent" to provide universal health care, but in fact set up a committee to study the issue and report in 2021. And there were aftershocks from the former budget crisis that arose as part of the Great Recession. When in crisis, the legislature sometimes takes questionable actions to shore up state funding that end up being undone later. A court in July 2018 ruled that the state had improperly funneled $330 million in revenue from a lawsuit against financial institutions involved in mortgage/foreclosure misconduct into the General Fund rather than to affected homeowners. Litigation in that matter continued for another year before a final repayment order was issued, so any immediate budget impact was avoided.

Two other court decisions influenced California's political affairs. The state supreme court's *Dynamex* decision of April 2018 potentially made it difficult for employers – notably ride-sharing firms such as Uber and Lyft – to classify workers as "independent contractors" rather than as employees.[28] The former classification avoided payroll taxes and other labor and benefit obligations. As a result, the legislature began working on responses to *Dynamex*, an effort whose conclusion remains uncertain at this writing. The federal *Janus* decision of the U.S. Supreme Court of June 2018 made public sector labor unions unable to collect fees in lieu of dues from non-members.[29] Such unions are major players in California

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[24]When a referendum receives sufficient signatures to go on the ballot, the law on which there is to be a vote remains suspended until after the election. If voter reject the law, it dies. If voters endorse it, the law goes into effect.

[25]Joint estimate dated February 5, 2018 of the Legislative Analyst's Office and the Department of Finance for the Attorney General. Available at https://lao.ca.gov/ballot/2017/170715.pdf.

[26]See Public Policy Institute of California, *Californians & Higher Education*, November 2018. Available at https://www.ppic.org/wp-content/uploads/ppic-statewide-survey-november-2018.pdf.

[27]John Myers, "A sagging economy could doom a 2020 ballot measure to raise commercial property taxes, Gov. Jerry Brown says," *Los Angeles Times*, December 23, 2018. Web link no longer available.

[28]*Dynamex Operations v. Superior Court*. Available at http://s3.amazonaws.com/cdn.orrick.com/files/S222732.PDF.

[29]*Janus v. American Federation of State, County, and Municipal Employees, Council 31, et al.* Available at https://www.supremecourt.gov/opinions/17pdf/16-1466_2b3j.pdf. Governor Brown signed a law in September

politics, and their loss of revenue could have significant effects. One resulting follow-on lawsuit sought fee refunds retroactively.[30] Going forward, the full political impact of *Janus* was uncertain.

California continued to play its role in the "resistance" to various policies by the Trump administration. As of July 2018, a *Los Angeles Times* count put the total of state lawsuits against Trump proposals at 38.[31] Included was the legal challenge to asking a citizenship question on the 2020 Census, a challenge which eventually succeeded. Environmental deregulation proposed by the Trump administration was also opposed. Legislation challenged the Trump administration on such matters as "net neutrality" and the offering of cheap health insurance that omitted coverage requirements under federal "Obamacare." At one point, Governor Brown referred to the president as a "liar, criminal, fool" with regard to a climate change-related policy.[32] Trump, for his part, singled out candidate Newsom as favoring "open borders."[33]

However, at the same time as it functioned as part of the opposition to Trump administration, the state also requested federal aid in disaster situations such as wildfires, and generally received it. Although the state was generally successful in gaining those funds, it was less successful in denying the federal government some added revenue resulting from the 2017 Trump tax legislation.

That legislation limited deductions for property tax and state income tax to $10,000, effectively taxing "blue" coastal states with high property values and progressive income taxes.[34] There were various proposals to allow state tax deductions for "charitable" contributions to state government to circumvent the ban. Brown vetoed one such bill sponsored by Democrat Kevin de León who, at the time, was running for the U.S. Senate against fellow Democrat Dianne Feinstein.[35] Other such proposals were never enacted, in part over concerns about their validity under U.S. tax law.[36]

2018 limiting lawsuits in state court against unions for back dues and fees. However, some suits for such refunds were filed in federal court.

[30]A claim for a retroactive refund was denied by one federal court. But various cases were filed around the country and the matter has not been determined at this writing.

[31]Patrick McGreevy, "California has sued to Trump administration 38 times. Here's a look at the legal challenges," *Los Angeles Times*, July 22, 2018. Available at https://www.latimes.com/politics/la-pol-ca-california-sues-trump-20180722-story.html.

[32]Quoted in Tal Axelrod, "Jerry Brown knocks Trump as a 'liar, criminal, fool' on climate change," *The Hill*, September 15, 2018. Available at https://thehill.com/blogs/blog-briefing-room/energy-environment/406841-jerry-brown-knocks-trump-as-a-liar-criminal-fool and https://www.youtube.com/watch?v=bE6UhrWYt18.

[33]Eric Ting, "Trump calls out Gavin Newsom during Montana rally, Newsom responds," *SFGATE*, September 7, 2018. Available at https://www.sfgate.com/politics/article/Trump-Gavin-Newsom-rally-health-care-immigrants-13211462.php.

[34]President Trump was quoted as indicating that he was willing to reconsider the $10,000 cap. However, his statement appeared to be an off-the-cuff remark. And, of course, it would take an act of congress to change the law. See Emily Cadei, "Trump 'open to talking about' a change in tax law that is costing Californians $12 billion," Capital Alert of *Sacramento Bee*, February 7, 2019. Available at https://www.sacbee.com/news/politics-government/capitol-alert/article225644525.html.

[35]Under the top-2 primary system, incumbent Feinstein had come in first with de León second. Hence, there were no Republicans in the general election for the U.S. senate seat. Governor Brown endorsed Feinstein even before the June 2018 primary.

[36]The IRS warned that such contributions might be deemed violations of tax law. The idea of converting state taxes into charitable contributions predated the Trump tax law since it effectively amounted to a federal subsidy of state

How the Sausage Was Made: Fall 2018 – Election and Beyond

"When it comes to fiscal discipline, I am absolutely in that same mold (as Jerry Brown)... I'm not profligate."

Gubernatorial candidate Gavin Newsom[37]

To the extent that there was a gubernatorial campaign, the highlight was a radio debate between Gavin Newsom and John Cox on the morning of Columbus Day. The day and time – combined with the radio-only format (no TV) – meant that few voters heard it. Cox tried to avoid mention of Donald Trump. Newsom brought Trump up. Generally, the two candidates disagreed on most issues during the debate with Newsom – not surprisingly – better able to cite facts and figures.

General Election

The 2014 gubernatorial election - with Jerry Brown running against a no-name Republican (Neel Kashkari) who had no real campaign chest (similar to Cox in that respect) – suggested that the Republican would nonetheless receive about 40% of the vote.[38] And in the end, the 2018 general election was a repeat of 2014. Newsom received just under 62%; Cox received just over 38%. Democrats won supermajority control of the two houses of the legislature.

At the national level, the GOP lost key congressional seats in California.[39] After the election, a former Republican state assembly leader stated that "the Grand Old Party is dead" and that "one party rule" would continue in California unless Republicans separated from President Trump or some new third party was formed.[40] Whether such developments are possible is a long-term matter. That Travis Allen who had competed with Cox in the primary, announced a quixotic drive to recall Newsom, before the governor-elect had even taken office, suggested such party reform would be difficult.[41] In the immediate term, Newsom would be dealing essentially with politics *within* his party rather than with two-party conflict.

In the course of the 2018 general election campaign, Newsom indicated he would cut back the two Brown-favored infrastructure projects, the twin-tunnel water project (which he would reduce to one

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government activity. See Phillip C. Blackman and Kirk J. Stark, "Too Good to Be True? How State Charitable Tax Credits Could Increase Federal Funding for California," in Daniel J.B. Mitchell, ed., *California Policy Options 2013* (UCLA Luskin School of Public Affairs, 2013), Chapter 2. Available at https://issuu.com/uclapubaffairs/docs/2013_ca_policy_options.

[37]Alexei Koseff, "'The adult in the room': Gavin Newsom says he's not necessarily a big spender," Capitol Alert of *Sacramento Bee*, October 31, 2018. Available at https://www.sacbee.com/news/politics-government/capitol-alert/article220906265.html.

[38]Kashkari had been a Treasury Department official in the George W. Bush administration. At this writing, he is president of the Federal Reserve Bank of Minneapolis.

[39]It appeared that the GOP was not geared up to take advantage of changes in state election law – so-called ballot "harvesting" – that Brown had signed in 2016. The new law allowed campaign workers to drop off mail ballots for voters and then collect and return them. Democrats were better able to take advantage of the new procedure.

[40]Kristin Olsen, "GOP is dead in California: A new way must rise," *CALMatters*, November 13, 2018. Available at https://calmatters.org/commentary/my-turn-gop-is-dead-in-california-a-new-way-must-rise/.

[41]Tweet of December 5, 2018: https://twitter.com/JoinTravisAllen/status/1070377504353923072.

tunnel) and the high-speed rail (of which, he said, he would initially build only the Bay Area to Central Valley leg).[42] Cox attacked Newsom for an affair he had had with a wife of his campaign manager in 2007 when he was mayor of San Francisco. But it turned out that Cox had an illicit affair that led to his divorce back in Illinois. In short, the campaign – such as it was – was not especially illuminating about budget priorities except to suggest that Cox was largely against whatever Newsom might be for.

Once the November election had passed, however, Newsom needed to focus on specific priorities and on formulating a budget proposal. He announced the appointment of Ana Matosantos – who had been budget director under Governors Schwarzenegger and Brown – to be his cabinet secretary. Brown's existing finance director Keely Bosler – the official most directly involved in budget preparation – was continued in office. Of course, many programs and issues simply pass from one governor to the next.

For example, under Brown, the state had formulated a modest pension saving plan known as "CalSavers" for employees in private firms without their own retirement savings programs. CalSavers was already in limited operation, but it was set for a full-scale launch at the start of the 2019-20 budget year.[43] The state's wildfires problem continued without regard to election results or the change in governor.

Members of the legislature, many of whom continued in office, had their own priorities for the budget and for other state issues. While Newsom said such legislative proposals would be "whittled down," his statement did not prevent bills from being filed.[44] On social issues, Brown had sent the state's National Guard to the Mexican border for limited functions in an effort to appease the Trump administration. Newsom said he would be withdrawing those troops once in office.

Other issues that were passing from one governor to another included wildfires – particularly their impact on utilities such as PG&E (which fell into bankruptcy) – which were being held liable for damage caused by their equipment, the high-speed rail and twin tunnels, a pending court test of the "California Rule" on pensions (which says that accrued benefits cannot be cut),[45] problems of inefficiency at the

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[42]See George Skelton, "Gavin Newsom says he would scale back the bullet train and twin tunnels if elected," *Los Angeles Times*, October 11, 2018. Available at https://www.latimes.com/politics/la-pol-sac-skelton-john-cox-gavin-newsom-california-governor-debate-20181011-story.html.

[43]The intent of CalSavers is to increase saving for retirement. Workers would be able to opt out. But social science research indicates that people tend to go with the default settings of such programs, i.e., most people affected wouldn't opt out. Several states are considering such programs. One possible counterargument is that by reducing take-home income, such plans *might* push low-wage enrollees toward higher-interest debt from credit cards and payday lenders. See Timothy F. Harris, Kenneth Troske, & Aaron Yelowitz, "How will State-Run Auto-IRAs Impact Workers?" *Journal of Retirement*, Fall 2018, pp. 27-33 Available at http://www.yelowitz.com/AutoIRA_Harris_Troske_Yelowitz.pdf. As a political matter, one impetus for creating CalSavers was to blunt public resentment towards public-sector defined-benefit plans due to their unfunded liability and the disappearance of such plans in the private sector.

[44]Sophia Bollag and Alexei Koseff, "Democrats' spending list needs to be 'whittled down,' Gavin Newsom says," Capitol Alert of *Sacramento Bee*, December 5, 2018. Available at https://www.sacbee.com/news/politics-government/capitol-alert/article230109659.html.

[45]Brown predicted "fiscal oblivion" if the California rule were not relaxed. See Adam Ashton and Amy Chance, "Jerry Brown predicts 'fiscal oblivion' if pensions are off limits for government employers," *Sacramento Bee*,

Department of Motor Vehicles (DMV) leading to long lines, incorrect DMV handling of "Real ID" license issuance, and errors in "motor voter" election registrations. Finally, an initiative aimed at reversing sentencing and parole reforms under Prop 47 (2014) and Prop 57 (2016) which qualified for the 2020 ballot was under a legal challenge by Governor Brown at the time he left office; the new governor could continue the challenge or not.[46]

How the Sausage Was Made: New Governor - New Budget

"To make the California Dream available to all, our state must be fiscally sound."

Governor Gavin Newsom[47]

It is often the practice for governors to leak some details of their January budget proposals before the official release. When a governor-elect is going to be the author of a new budget, that practice becomes more compressed since there are sensitivities about the incoming governor not impinging on the incumbent. Just a few days before his oath of office, however, there was some leaking about the Newsom budget, notably that there would be a focus on early childhood education and something on extending the California family leave program.[48]

New Governor; New Budget

In any event, once the Newsom regime officially began on January 7, 2019, Jerry Brown more or less faded from view and didn't weigh in on his successor's policy decisions, budgetary or otherwise. With one exception when he endorsed an "establishment" candidate for the CALPERS board over a maverick, Brown avoided state politics and – to the extent he was visible – focused on his favorite Big Picture global issues: the nuclear threat and climate change.[49]

December 21, 2018. Available at https://www.sacbee.com/news/politics-government/the-state-worker/article223385445.html.

[46]The fate of this litigation at this writing remains unclear. The initiative is listed by the state secretary of state as qualified for the November 2020 ballot. Apart from trying to defend Props 47 and 57, Brown issued end-of-year and end-of-term clemency grants to various persons. In an unusual step, the state supreme court reversed some of them, an authority has in cases of "abuse of power." Thus, the reversals were a rebuke to Brown that could be used in the campaign for the new initiative.

[47]Media release: "Governor Newsom Proposes 2019-20 'California For All' State Budget," January 10, 2019. Available at https://www.gov.ca.gov/2019/01/10/governor-newsom-proposes-2019-20-california-for-all-state-budget/.

[48]John Myers, "Gov.-elect Gavin Newsom will propose almost $2 billion for early childhood program," *Los Angeles Times*, January 2, 2019. Available at https://enewspaper.latimes.com/infinity/article_share.aspx?guid=ad829be0-9421-44cf-8b21-78d5d73c1c42; Claire Cain Miller and Jim Tankersley, "A California Dream for Paid Leave Has an Old Problem: How to Pay for It," *New York Times*, January 6, 2019. Available at https://www.nytimes.com/2019/01/06/upshot/a-california-dream-for-paid-leave-has-an-old-problem-how-to-pay-for-it.html.

[49]After leaving office, Brown became executive chairman of the Bulletin of Atomic Scientists, the organization that keeps the "Doomsday Clock." CALPERS is the large state pension plan that covers most state employees (except at the University of California) and many local government employees. See Wes Venteicher, "Jerry Brown, his eye still on pensions, endorses candidate in CalPERS board election," State Worker of *Sacramento Bee*, July 25, 2019. Available at https://www.sacbee.com/news/politics-government/the-state-worker/article233092102.html. In

The actual 2019-20 budget was due to be announced on January 10 by Governor Newsom. Table 7 shows the difference between forecast cash receipts and actual, figures that formed a backdrop to the formulation of the first Newsom budget. At around the time the first Newsom budget would have actually begun to be drafted (probably the months of October and November 2018), revenues were running somewhat above projections. But by the time the budget was officially unveiled, they had fallen behind forecast levels. It's possible, even likely, that the budget drafters had some advance information on the shift – which might have added a note of caution.

In principle, Newsom's first budget proposal in January proposed spending at virtually the same nominal amount as he projected for Brown's final budget. That seeming freeze might have suggested fiscal caution. But on the other hand, Newsom's *projection* of what Brown's final 2018-19 budget would be was higher than what the Legislative Analyst had forecast in November and higher than what Newsom's own Department of Finance ultimately concluded it turned out to be in June 2019. (See Tables 1 and 2.) In short, the seeming freeze had a cosmetic element. Similarly, a proposal to add to the rainy-day fund (BSA) had a cosmetic element since *total* reserves, including the rainy-day fund, were projected to *fall* under the proposal, as discussed earlier.

Meanwhile, Newsom had inherited Brown's tensions with the Trump administration. Wildfire fighting had budgetary implications for California, and President Trump periodically threatened to cut back on FEMA assistance on the grounds that California was doing a poor job of forest management. Much of those threats were tweets, however, not actual policy and – notably – the threats were opposed by California Republican legislators. Newsom did acknowledge state mismanagement in the DMV with its long lines and other problems, and he announced that a dramatically-named "strike force" would be appointed to study what needed to be done. (The strike force's recommendations were made public in July 2019.)

The January budget proposal did, as leaked, include expanded early childhood education. At the other end of the education spectrum, tuition was frozen at UC and CSU, i.e., possible tuition increases were in some sense "bought out" by the state. It included funding to encourage affordable housing and to address homelessness. The governor's budget proposal also contained a threat to withhold transportation funding from local governments that didn't cooperate with housing expansion. The state's Earned Income Tax Credit (EITC), a tax-subsidy for low-income *working* Californians, was proposed to be expanded.

One Time vs. Ongoing vs. Expectations

Much of the spending on new programs was labeled "one time." While the label is meant to single that the program is not guaranteed to continue beyond one year, and that it could be cut back if Hard Times

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summer 2019, Brown also was slated to become a visiting professor at UC-Berkeley in connection with a new institute dealing with climate policy and California-China relations. See Sophia Bollag, "Jerry Brown's new gig: Launching a California-China climate change institute at UC Berkeley," Capitol Alert of *Sacramento Bee*, June 12, 2019. Available at https://www.sacbee.com/news/politics-government/capitol-alert/article231494868.html. (As of this writing, it is unclear whether Brown had begun this additional role.)

arrive, the label by itself doesn't control public expectations. That is, some one-time spending may prove to be difficult to cut back despite the label.[50]

Even when new spending programs are proposed with new earmarked taxes to support them, expectations can be created about the spending side despite the fact that the taxes – the revenue side – ultimately were not enacted. The governor proposed a fund to clean up contaminated rural water supply. The effort would be funded by a new water tax, i.e., all water consumers would have been taxed to provide for the cleanup. As it turned out, however, the eventual enacted budget included the spending, but not the tax. Funding would come from the cap-and-trade program which is supposed to be used only for activities to reduce greenhouse gas emission.[51]

Apart from the water tax, the January budget proposed some changes in the larger tax system to make it "conform" to the federal system. Some of the changes proposed cut revenue, but others raised it to bring in an extra $1.4 billion net. There were also changes aimed at obtaining more sales tax revenue from certain online sales from out-of-state sellers that had previously escaped taxation.

Events

Even though news reporting of the governor's budget proposal sometimes makes it seem that it is the adopted fiscal plan of the state, it is in fact only a recommendation that must be enacted by the legislature – which is likely to want to make changes – and then signed by the governor. And events continue to occur after the January proposed budget is announced that influence legislative preferences as well as cash inflows to the state.

For example, shortly after the Newsom's January budget was made public, a six-day teacher strike erupted in the Los Angeles Unified School District, by far the largest district in the state. One element in the agreement was that both management and labor would approach the governor and legislature for added funding. The budget for K-12 generally is the largest single item in the budget. Complaints that charter school funding was impinging on traditional public schools were also an element in the strike, and generally set in motion efforts in the legislature to curtail and regulate the charters.

Whether You Like It or Not, Words Matter – Part 1

While events such as the teacher strike were external to Sacramento and the governor, some events were self-made. Newsom's first state of the state address to the legislature on February 12, 2019 made various points. Some of it was aimed at highlighting opposition to federal/Trump policies, particularly on immigration. But, of course, it was not especially newsworthy that California had become a center of "resistance" to the Trump administration. He singled out the City of Huntington Beach for not meeting state obligations on housing. But the state had sued the city previously so no change in policy was being announced. He announced that the Brown twin tunnel water project would be downsized to one tunnel.

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[50]Of course, some programs are truly "one time." A prime example was an allocation for an effort to promote full population response to the 2020 Census.

[51]The rationale was that poor quality water leads customers to use bottled water which involves emission of greenhouse gas for delivery.

But, as noted earlier, that decision had been suggested by Newsom during the gubernatorial election campaign. What did get attention was this statement of the governor:

> ..."*Let's level about high-speed rail... Right now, there simply isn't a path to get from Sacramento to San Diego, let alone from San Francisco to L.A. I wish there were. However, we do have the capacity to complete a high-speed rail link between Merced and Bakersfield. I know that some critics will say this is a 'train to nowhere'*"...[52]

The problem was that by itself, the severely truncated rail link would not be viable due to lack of demand and traffic. How many people are in a great hurry to get from Merced to Bakersfield? It's true that the full statement by the governor in the speech alluded to finishing the Merced-Bakersfield segment with the funding at hand and then seeking other sources of money for further construction. But the statement, especially the tone of the delivery which the printed text doesn't capture, led to the interpretation that the project was essentially being scrapped.[53]

The remarks were quickly walked back by Newsom, but not before President Trump tweeted that he wanted a refund of the federal dollars that had previously gone into the project. It was more than a tweet; there were actual administrative moves to claw back past funding. The remarks also had a more local effect. If the governor was no longer backing the high-speed rail, some legislators in the Bay Area and the LA area concluded, why not divert the funding to local commuter rail systems in the two regions? The diversion could be dressed up as enhancing existing systems that would someday and somehow connect to a future high-speed rail. These ideas were around before Newsom became governor. But Jerry Brown's known support for the system tended to squelch such discussions. By the summer of 2019, assembly speaker Anthony Rendon was saying that he "like(d) the concept" of the fund diversion.[54]

Apart from the specifics of the high-speed rail, there was a larger lesson. When a lieutenant governor says something, it is just somebody's opinion. But when a governor says something, or even appears to say something, it is taken as official policy by friend and foe alike. As we will see below, despite the brouhaha related to the rail project, the cautionary lesson on words may not have been completely learned.

Indeed, there had been an episode of casual language that produced unwanted results when Newsom was mayor of San Francisco. In 2000, state voters had passed Prop 22 banning gay marriage in California with 61% of the vote, a position not especially popular in San Francisco. To test the law, then-Mayor Newsom began issuing gay marriage licenses until a court ordered a halt. While the gay marriages were being authorized in the city, Newsom spoke to a crowd and announced to the world that gay marriage was "gonna happen, *whether you like it or not.*"

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[52]"Governor Newsom Delivers State of the State Address," February 12, 2019. Available at https://www.gov.ca.gov/2019/02/12/state-of-the-state-address/.

[53]"California Scraps LA-San Francisco High-Speed Rail as Too Costly," *Fortune*, February 12, 2019. Available at https://fortune.com/2019/02/12/california-scraps-high-speed-rail/. To get a sense of the "tone" of the statement, go to https://www.youtube.com/watch?v=kcXq7Gmb0sI.

[54]Ralph Vartabedian, "In a blow to the bullet train, California might shift billions to L.A. and Bay Area projects," *Los Angeles Times*, July 30, 2019. Available at https://www.latimes.com/california/story/2019-07-28/california-redirects-funds-high-speed-rail-project.

Prop 22 was eventually struck down by the state supreme court, but proponents of the ban produced a new ballot measure – Prop 8 of 2008 – which the court upheld. Prominent in the passage of Prop 8 was a TV ad which repeated Newsom's "whether-you-like-it-or-not" remarks.[55] Voters don't like to be told their opinions don't matter, and the ad was therefore very effective. As with his statement on high-speed rail, while the words were important, the tone with which they were delivered particularly offended voters.

Prop 22 had passed with 61% of the vote. Prop 8 passed with only 52%. So public opinion was clearly becoming more tolerant of gay marriage. In fact, Prop 8 was behind in some polls and was opposed by then-Governor Schwarzenegger. It seemed quite possible that absent the TV ad with Newsom's remarks, Prop 8 might have been defeated. Newsom said he was "humbled" by the passage of Prop 8, although it's not clear whether he tied that outcome to his words.[56]

Apart from careless language, there is also a saying about actions speaking louder than words. Shortly after the inauguration, it was found that the governor was running Facebook ads in so-called "swing" states outside California that might determine the outcome of the forthcoming presidential election.[57] Was the new governor planning to enter the 2020 presidential race so soon after taking office? Such an action would have had a precedent; Jerry Brown, when he first took office in 1975, made a presidential bid in 1976.[58]

A Newsom spokesperson quickly denied there was any such plan (at least for 2020). And about a month later, Newsom endorsed California Senator Kamala Harris for president and became a co-chair of her campaign. But the episode, like the rail statement, was another diversion from the governor's California legislative agenda. And the purpose of the Facebook ads, if they weren't for a possible national campaign, remained unclear.

How the Sausage Was Made: Getting to the May Revise

"What is the governor of California's top priority? I don't know. And I suspect that neither does he. I wasn't a fan of Jerry Brown's very limited and budget-focused governorship. The state has let so many problems fester that any smart successor was going to have a big and broad agenda, as Newsom does. But even with a big agenda, there need to be priorities. And Newsom moves so fast over so much territory, it's hard to see where he's focusing."

Joe Mathews, Editor, Zócalo Public Square[59]

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[55]You can see the TV ad at https://archive.org/details/whetheryoulikeitornotnewsom.

[56]Jonathan Lloyd, "Whether He Likes It or Not, Prop 8 'Humbled' Newsom," *NBC Los Angeles*, July 16, 2009. Available at https://www.nbclosangeles.com/news/politics/Whether-You-Like-It-or-Not-Newsom-Says-Hes-Changed.html.

[57]Phil Willon, "Gov. Gavin Newsom's Facebook ads in swing states stir 2020 speculation," *Los Angeles Times*, January 19, 2019. Available at https://www.latimes.com/politics/la-pol-ca-governor-gavin-newsom-facebook-ads-presidential-campaign-20190119-story.html.

[58]Brown also ran in 1980 and 1992.

[59]Joe Mathews, "What is Newsom's Top Priority?" *Fox and Hounds*, April 2, 2019. Available at http://www.foxandhoundsdaily.com/2019/04/what-is-newsoms-top-priority/.

Mathews' critique above was not the only one of that type that was made in the early months of Newsom's term. One element to which Mathews may have been alluding with his invocation of Jerry Brown was that Brown was not especially focused on the managerial aspect of governing, as opposed to policy. Part of the governor's role as chief executive is simply making sure that the state's bureaucracy is effectively putting into operation the policy programs which the legislature, the governor, and – in some cases through direct democracy – the voters, have tasked officials to carry out.

Brown did not have an interest in such routine functions. But Brown did like to venture on to the national and even international stage, e.g., talking about climate change at the U.N. and at the Vatican. Similarly, Governor Newsom flew off to El Salvador in mid-April 2019 – with the May Revise budget due in less than a month – to explore the refugee crisis (and received the foreseeable criticism). As one columnist noted, you didn't have to go to El Salvador to understand why people there might be fleeing poverty and violence.[60]

Administration Deficiencies

You don't have to look far to see signs of managerial lapses in the state government Newsom inherited. Problems at the DMV didn't suddenly arise with the obligation to produce real ID drivers' licenses. The federal real ID requirement simply exacerbated an existing deficiency. Similarly, various state entities have wrestled ineffectively with big computer projects, the latest of which is a system known as FI$CAL that is supposed to handle state receipts and purchases.[61] There have been scandals in agencies ranging from parks to industrial relations.[62] The Franchise Tax Board reported in April 2019 that it had issued about 23,500 tax refunds improperly due to a "system error."[63]

Old infrastructure – notably the Oroville Dam's failed spillway – has not always been properly maintained.[64] New infrastructure, such as the replacement for a segment of the Bay Bridge, has

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[60]George Skelton, "Forget the trip to El Salvador, Newsom needs to focus on California's problems," *Los Angeles Times*, April 1, 2019. Available at https://www.latimes.com/politics/la-pol-sac-skelton-gavin-newsom-el-salvador-20190401-story.html.

[61]Wes Venteicher, "California controller 'gravely concerned' about state's $1 billion accounting program," State Worker of *Sacramento Bee*, March 27, 2019. Available at https://www.sacbee.com/news/politics-government/the-state-worker/article228458249.html.

[62]Ben Adler, "Independent Commission Calls for Big Changes in State Parks Department," *Capitol Public Radio*, January 29, 2015. Available at http://www.capradio.org/articles/2015/01/29/independent-commission-calls-for-big-changes-in-state-parks-department/; Kathleen Pender, "Major California labor official accused of 'gross misconduct' in nepotism probe," *San Francisco Chronicle*, March 30, 2019. Available at https://www.sfchronicle.com/business/networth/article/Major-California-labor-official-accused-of-13728257.php.

[63]Bryan Anderson, "Double-check your state tax refund: California is reviewing 23,500 it paid too soon," Capitol Alert of *Sacramento Bee*, April 17, 2019. Available at https://www.sacbee.com/news/politics-government/capitol-alert/article229340184.html.

[64]Ralph Vartabedian, "Human error played a role in Oroville Dam spillway failure, report finds," *Los Angeles Times*, January 5, 2018. Available at https://www.latimes.com/local/california/la-me-oroville-investigation-report-20180105-story.html.

sometimes been improperly constructed.[65] Even Brown's favored infrastructure project, the high-speed rail, had been hit with cost overruns and costly consulting contracts.[66] So, Newsom, upon taking office, defaulted into a clean-up job, whether he wanted it or not.

Too Many Objectives

Apart from time-consuming managerial duties, there were fears that too many objectives could lead to failures. For example, Newsom indicated special concern about adding to the state's housing stock, and he was suing cities which didn't meet state requirements. There was general public anxiety about the rising cost of housing which was seen as driving people away from the state and hindering growth. And, indeed, Department of Finance estimates indicated that California's population was growing very slowly.[67] A bill in the legislature by state senator Scott Wiener of San Francisco was supposed to ease local zoning restrictions that were said to be blocking new housing. The bill was controversial. But regardless of the merits or demerits of the bill, it appeared to be legislation favored by the governor, at least in concept. Yet it was suddenly killed in the legislature, after which the governor expressed regret as to its demise.[68] The death of SB 50 seemed to catch the governor unawares.

Words Matter – Part 2

Soon after the Wiener bill failed, the governor oddly did spend time intervening with regard to a bill in the legislature aimed at halting frivolous child vaccination exemptions which can be dangerous to public health. He succeeded in limiting the bill's scope to the cheers of misguided anti-vaccination enthusiasts and to the consternation of those seeking to remedy the state's falling vaccination rate.[69] It was unclear why the governor wanted to water down the vaccine bill or if he really did. Had he thought through the implications of the governor being applauded by anti-vaxxers?

Newsom cited concerns about bureaucracy when questioned. But after Newsom's intervention became controversial, the governor clarified that he supported vaccination of children. The episode seemed to be a repeat of the careless use of words that occurred earlier with regard to high-speed rail (and even earlier with regard to gay marriage).

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[65]Jaxon Van Derbeken, "Bay Bridge's troubles: How a landmark became a debacle," *SFGATE*, January 29, 2015. Available at https://www.sfgate.com/bayarea/article/Bay-Bridge-s-troubles-How-a-landmark-became-a-6021955.php.

[66]Ralph Vartabedian, "How California's faltering high-speed rail project was 'captured' by costly consultants," *Los Angeles Times*, April 26, 2019. Available at https://www.latimes.com/local/california/la-me-california-high-speed-rail-consultants-20190426-story.html.

[67]The population grew only 0.5% during 2018, according to Department of Finance estimates. See http://www.dof.ca.gov/Forecasting/Demographics/Estimates/E-1/documents/E-1_2019_InternetVersion.xls.

[68]Bryan Anderson and Hannah Wiley, "High-profile California housing bill dies without a vote: 'I'm deeply disappointed,'" Capitol Alert of *Sacramento Bee*, May 16, 2019. Available at https://www.sacbee.com/news/politics-government/capitol-alert/article230481529.html.

[69]Melody Gutierrez, "Gov. Newsom criticized the new vaccine bill. Anti-vaccine activists are celebrating," *Los Angeles Times*, June 4, 2019. Available at https://www.latimes.com/politics/la-pol-ca-gavin-newsom-raises-bureaucracy-concern-with-exemption-bill-20190604-story.html.

Legislative Developments

While the governor starts the state's budgetary conversation with his January proposal, the action then moves to the legislature. To assist the legislature, the Legislative Analyst's Office cranks out numerous budget-related publications, some on its own initiative and some at the request of particular legislative committees. LAO representatives also testify at legislative hearings, as do representatives of interest groups and the public. Legislators file bills that have budgetary implications, some of which catch public attention.

Two proposals, both of which had histories that predated the Newsom governorship, attracted considerable interest. The state sales tax is the second largest source of revenue (behind the personal income tax). One bill proposed exempting diapers from the sales tax. Another proposed exempting tampons and related products.

Ultimately, whether such bills would come into force – even if passed by the legislature – was largely a function of the governor's attitude, given his veto authority. In the past, Jerry Brown had been averse to exempting favored products from the sales tax. So, the question was whether Newsom would include a diaper/tampon exemption in the May Revise or would sign or veto the bills if they came to him separately.

Death Penalty

Brown had always opposed the death penalty in California, and his opposition was public knowledge. But he didn't lead a campaign against it and was not active in a campaign for a 2016 initiative that would have abolished it – but was rejected by voters. The voters in 2016, in fact, supported another initiative aimed at *speeding up* the death penalty.

Despite this seeming public support for the penalty, Newsom issued an executive order in March 2019 which effectively halted any executions. Given the 2016 votes, the move was seen as gutsy and perhaps risky. However, apart from moral issues, Newsom cited the budgetary costs of maintaining a death row with over 700 inmates.[70] Brown had gotten voters to go along with ballot propositions that reduced certain criminal sentences (but not the death penalty) by emphasizing costs. Whether Newsom will at some point use the cost rationale with regard to abolition of the death penalty is unknown.

Judicial Developments

When the state experiences a budget crisis, there is pressure to take actions of uncertain legality – and worry about the consequences later, when the crisis is over. A court ruling in 2018 affected the judiciary itself involving back pay increases to judges which should have been paid during the budget crisis of the Great Recession but weren't. There were also tax refunds due under a court decision to certain businesses that had been issued IOUs in 2009 when the state ran out of cash. Now that the state was

[70]Paige Austin, "All California Death Sentences Blocked by Gov. Newsom," *Patch*, March 13, 2019. Available at https://patch.com/california/sacramento/all-california-death-sentences-blocked-gov-newsom.

enjoying Good Times, the May Revise budget could include a final cleanup of problems left over from the earlier crisis.

At around the time of the issuance of the May Revise, the state reached another judicial milestone. By one count, it had filed fifty lawsuits against the Trump administration. The 50th involved an attempt by the Trump administration to narrow certain authority of the state to make Medi-Cal expenditures. (Medi-Cal is the California name for the federal Medicaid program.)

How the Sausage Was Made: From May Revise to the Enacted Budget

"From diapers to childcare, raising kids is expensive wherever you live. But when you factor in the cost of living here in California, it is close to impossible."

Governor Gavin Newsom unveiling the May Revise[71]

Table 7 shows that in the early months of calendar 2019, state revenues were falling below projections that were made when the 2018-19 budget was enacted. But by April 2019, revenues had pulled ahead of projections. April, of course, is a big revenue month because it contains the due date for the personal income tax. Thereafter, revenues remained ahead of the earlier forecast. So, the fiscal atmosphere around the formulation of the May Revise and the eventual final enacted budget remained positive.

The governor released his revised budget proposal on May 9, 2019. That step set in motion a process of specific budget making – as opposed to hearings on this or that aspect of the budget – in the two houses of the legislature. There was more revenue than predicted in January, according to Newsom, and higher estimate of the General Fund reserve, so he had added new spending of close to $3 billion. (Table 2.) The eventual budget plans produced separately by the assembly and the senate assumed a notably higher General Fund reserve and somewhat more spending than Newsom's revised proposal. (Table 8.)

Although it's not possible to know for sure why the two houses chose to make estimates of the starting General Fund reserve that were notably higher than what the governor and the LAO were forecasting, it appeared to be because they were assuming less revenue and needed an offset. But it was unclear why they would have assumed less revenue than the governor and the LAO were predicting. In the final deal, the governor stuck with his May Revise revenue estimate, but adopted the senate's spending level. He "paid" for the added spending with an assumed higher starting General Fund reserve and a somewhat lower ending level of total reserves. The governor made minor line-item vetoes, too small to make any difference at the macro level.[72] Of course, the *actual* numbers – as opposed to the June 2019 estimates - will be whatever they turn out to be. What is put on paper a year ahead doesn't control the final results.

The end product, signed on June 27, 2019, must be viewed as a prosperity budget. The state's EITC program to aid the working poor was enhanced. Its family leave program was also enhanced. Coverage under Medi-Cal for undocumented persons was raised to age 26. Added money was found for improving water quality in rural areas. Diapers and tampons were excluded from the sales tax. Full-time students

[71]Marisa Lagos, "Newsom Proposes Scrapping State Taxes on Tampons, Diapers," *KQED News*, May 7, 2019. Available at https://www.kqed.org/news/11745618/newsom-proposes-scrapping-taxes-on-tampons-diapers.
[72]A new courthouse was deleted along with some extra funding for the Public Employment Relations Board.

were given a second year of community college free of tuition. State capacity to fight wildfires was expanded. Various allocations were made available to localities for dealing with homelessness issues. School districts were given partial relief from having to pay into their underfunded pension plans. In short, in Sacramento, the good times rolled.

As the 2018-19 fiscal year came to an end, many of the same issues remained under Gavin Newsom that existed under Jerry Brown. In addition, there were uncertainties about the economy and uncertainties about the outcome of the 2020 election and its implication for California. Apart from the national side of that election, the state ballot would contain the split roll proposal for property taxes. If enacted, the new system would represent the first major change in Prop 13 since its 1978 debut. Additionally, a Prop 13 rule restricting local (non-property) tax increases for specific purposes to be passed by a two-thirds vote also seemed to have acquired a loophole, thanks to a state supreme court decision.[73] Gavin Newsom apparently had some ambitions to bring the interest groups together and substitute some alternative overhaul of the state and local tax systems. Whether such a deal could be brokered was an open question.[74] The end of a budget year doesn't mean all issues are resolved.

Final Thoughts on Good Times Budgeting

"Hey everybody
Let's have some fun
You only live but once
And when you're dead, you're done
So, let the good times roll..."

Lyrics: Louis Jourdan's version of *"Let the Good Times Roll"*[75]

Many members of the legislature in 2018-19, thanks to term limits, had little direct knowledge of the contrast between the atmosphere surrounding the formulation of the 2019-20 budget and the tense climate that surrounded budget making a decade before in the aftermath of the Great Recession. Term limits don't contribute to long-term perspectives. If another such economic downturn developed, the state is clearly better prepared than it was back then, thanks to the reserve accumulation that occurred under Jerry Brown. But even with its reserves, the outcome of an economic reversal would depend on the speed with which the governor and legislature responded. Particularly under California's *de facto* one-party regime of governance, the governor would have to provide guidance.

The shift from the old guy (Jerry Brown) to the young guy (Gavin Newsom) cited at the beginning of this chapter was bound to produce some hiccups. The young guy wanted to move beyond the old guy's

[73]The court's ruling distinguished tax increases proposed by governments from those put on the ballot through the initiative process. The latter, it seemed to indicate, needed only a simple majority. See Ben Christopher, "California's Supreme Court has thrown cities – and citizens – into chaos over local taxes," *Capital Public Radio*, February 14, 2019. Available at http://www.capradio.org/articles/2019/02/17/californias-supreme-court-has-thrown-citiesand-citizensinto-chaos-over-local-taxes/.

[74]If a deal were brokered, the split role proposal would remain on the ballot. But it would become an "orphan" proposition without support and presumably be rejected.

[75]Complete Louis Jourdan version of the song at https://genius.com/Louis-jordan-let-the-good-times-roll-lyrics and https://www.youtube.com/watch?v=YdQJ3Q0uhYE.

budget-focused policies. That is, he wanted to move from a state budget that was structured to accumulate reserves prudently to avoid some future fiscal meltdown, to one that dealt with a variety of California's challenges differently from what came before. But having too many goals can mean a loss of focus. In a period of Good Times, money is around, everything can be done, and focus isn't crucial. In leaner times, however, priorities will matter. Moreover, careless gubernatorial language and actions – whether on high-speed rail, vaccinations, or anything else – can have unintended consequences. The old guy knew these things. Much in the future will depend on what the young guy has learned.

Table 1: Brown's Last General Fund (GF) Budget, 2018-19 ($ Millions)

	Brown July 2018	LAO Nov. 2018	Newsom Jan. 2019	Newsom May 2019	LAO Estimate May 2019	Newsom June 2019
GF reserve 7-1-2018	$8,483	$10,076	$12,377	$11,419	$11,213	$11,419
Revenue & Transfers	133,332	137,514	136,945	138,046	138,388	138,047
Expenditures	138,688	137,310	144,082	143,241	143,039	142,694
GF Surplus/ Deficit	-5,356	+204	-7,137	-5,195	-4,651	-4,647
GF reserve 6-30-2019	3,127	10,218	5,240	6,224	6,561	6,772
BSA* 6-30-2019	13,768	13,768	13,535	14,358	na	14,358
Safety net reserve 6-30-2019	200	200	900**	900**	na	900
Prop 98 Reserve 6-30-2019	-	-	-	-	-	-
Total Reserves***	17,095	24,249	19,675	21,482	na	$22,030

*BSA = Budget Stabilization Account (rainy day fund).
**The January 2019 budget proposal included an increase in the safety net reserve in 2018-19 to $900 million from $200 million. The May revise left the safety net reserve off the official table. LAO did not publish its BSA and safety net reserve estimates for 2018-19 in May 2019.
***Sum of GF reserve, BSA, safety net reserve, and Prop 98 reserve.
Note: The LAO did not provide BSA or safety net reserve estimates in May 2019.
Source: California Department of Finance:
http://www.ebudget.ca.gov/2018-19/pdf/Enacted/BudgetSummary/SummaryCharts.pdf;
http://www.ebudget.ca.gov/2019-20/pdf/BudgetSummary/SummaryCharts.pdf;
http://www.ebudget.ca.gov/2019-20/pdf/Revised/BudgetSummary/SummaryCharts.pdf;
http://www.ebudget.ca.gov/2019-20/pdf/Enacted/BudgetSummary/SummaryCharts.pdf.
Legislative Analyst's Office:
https://lao.ca.gov/reports/2018/3896/fiscal-outlook-111418.pdf;
https://lao.ca.gov/Publications/Report/3669.

Table 2: Newsom's First General Fund (GF) Budget, 2019-20 ($ Millions)

	LAO Workload Nov. 2018	Newsom Jan. 2019	Newsom May 2019	LAO Estimate May 2019	Enacted Newsom June 2019
GF reserve 7-1-2019	$10,281	$5,240	$6,224	$6,561	$6,772
Revenue & Transfers	145,065	142,618	143,839	144,478	143,805
Expenditures	139,373	144,191	147,033	147,048	147,781
GF Surplus/ Deficit	+5,692	-1,573	-3,194	-2,570	-3,976
GF reserve 6-30-2020	15,973	3,667	3,030	3,991	2,796
BSA* 6-30-2020	14,513	15,302	16,515	16,372	16,516
Safety net Reserve 6-30-2020	200	900	900	900	900
Prop 98 Reserve 6-30-2020	-	-	389	313	377
Total Reserves**	30,686	19,869	20,834	21,576	20,589

*BSA = Budget Stabilization Account (rainy day fund)
**Sum of GF reserve, BSA, safety net reserve, and Prop 98 reserve.
Source: California Department of Finance:
http://www.ebudget.ca.gov/2019-20/pdf/BudgetSummary/SummaryCharts.pdf;
http://www.ebudget.ca.gov/2019-20/pdf/Revised/BudgetSummary/SummaryCharts.pdf;
http://www.ebudget.ca.gov/2019-20/pdf/Enacted/BudgetSummary/SummaryCharts.pdf.
Legislative Analyst's Office:
https://lao.ca.gov/reports/2018/3896/fiscal-outlook-111418.pdf;
https://lao.ca.gov/Publications/Report/3669.

Table 3: Flow Analysis: Surpluses and Deficits, 2018-19 and 2019-20
($ Millions)

	Brown Final Budget 2018-19	Newsom First Budget 2019-20
GF Reserve		
-Beginning of Year		
July 1	$11,419	$6,772
-End of Year		
June 30	6,772	2,796
-Surplus/Deficit	-4,647	-3,976
BSA		
-Beginning of Year		
July 1	11,002*	14,358
-End of Year		
June 30	14,358	16,516
-Surplus/Deficit	+3,356	+2,158
Safety Net		
-Beginning of Year		
July 1	0	900
-End of Year		
June 30	900	900
-Surplus/Deficit	+900	0
Prop 98 Reserve		
-Beginning of Year		
July 1	-	0
-End of Year		
June 30	-	377
-Surplus/Deficit	-	+377
Total Reserves		
-Beginning of Year		
July 1	22,421	22,030
-End of Year		
June 30	22,030	20,589
-Surplus/Deficit	-391	-1,441

***From LAO estimate of workload budget, November 2018:**
https://lao.ca.gov/reports/2018/3896/fiscal-outlook-111418.pdf.
Source: See tables 1 and 2.

Table 4: Seasonal Internal Borrowing, Fiscal Year 2018-19 ($ Millions)

	Internal Borrowing	Unused Borrowable Reserves
June 2018	$0	$39,925
July	0	42,269
August	0	40,849
September	4,935	43,790
October	12,067	34,718
November	12,004	34,569
December	13,661	34,327
January 2019	7,055	42,244
February	11,679	38,650
March	14,449	36,273
April	2,596	46,278
May	2,480	46,262
June 2019	0	51,108

Note: No short-term external borrowing was needed in fiscal year 2018-19.
Source: Monthly Financial Statements of state controller. Available at https://sco.ca.gov/ard_state_cash.html.

Table 5: Unused Borrowable Reserves Relative to Disbursements
($ Millions)

End of June	Unused Borrowable Reserves	Disbursements	Ratio (Percent)
Schwarzenegger budgets			
2009	$7,130	$98,231	7.2%
2010	8,758	86,669	10.1
2011	10,029	93,779	10.7
Brown budgets			
2012	11,231	89,198	12.6
2013	18,780	96,266	19.5
2014	23,762	99,610	23.9
2015	28,291	115,778	24.4
2016	35,219	123,593	28.5
2017	36,983	126,801	29.1
2018	39,925	126,352	31.6
2019	51,108	145,755	35.1

Source: June cash statements of state controller. Available at https://sco.ca.gov/ard_state_cash.html.

Table 6: Propositions on the November 2018 Ballot

Prop 1: $4 billion bond measure for housing. PASSED

Prop 2: Allows counties to use money from Proposition 63's "millionaire's tax" on permanent housing for the homeless that includes a direct connection to social services. Prop 63 was originally passed in 2004. PASSED

Prop 3: $8.9 billion bond that would fund projects aimed at improving water quality, fixing dams and protecting habitats, among other things. FAILED

Prop 4: Authorizes $1.5 billion in bonds to build, expand, renovate and equip children's hospitals. PASSED

Prop 5: Gives a property tax break to homeowners over age 55 buying a home. FAILED

Prop 6: Repeals a $5 billion-a-year gasoline tax and fee increase the Democratic-controlled Legislature and Gov. Jerry Brown approved last year to repair California's roads. FAILED

Prop 7: Overturns a 1949 voter-approved initiative called the Daylight Savings Time Act, which established Standard Pacific Time in California. If voters approve the ballot measure, the Legislature would then decide how the state's time should be set. PASSED

Prop 8: Limits how much private outpatient kidney dialysis clinics could charge patients and requires them to report financial information to the state. FAILED

Prop 9: Divides California into three states. REMOVED FROM BALLOT BY STATE SUPREME COURT.

Prop 10: Allows cities and counties to enact much more comprehensive rent control laws. FAILED

Prop 11: Requires workers at private emergency ambulance companies to remain on call during work breaks. PASSED

Prop 12: Establishes specific animal confinement/cage-free standards for egg-laying hens, breeding pigs and calves raised for veal. PASSED

Source: California Secretary of State at https://elections.cdn.sos.ca.gov/sov/2018-general/sov/2018-complete-sov.pdf. Description of propositions (with minor modifications) from Bryan Anderson, "Time to memorize the initiative numbers on your November ballot," *Sacramento Bee*, July 3, 2019. Available at https://www.sacbee.com/news/politics-government/capitol-alert/article214194519.html.

Table 7: Cumulative Actual Revenue Minus Brown Forecast of Revenue, 2018-19 ($ Billion)

Month	Total Revenue	Personal Income Tax Only
July	-0.3	+0.2
Aug.	+0.8	+0.7
Sept.	+1.4	+1.0
Oct.	+1.0	+0.5
Nov.	+2.3	+1.6
Dec.	-2.5	-1.9
Jan.	-1.3	-1.4
Feb.	-3.3	-3.5
Mar.	-4.0	-4.3
Apr.	+1.0	-0.1
May	+3.4	+2.9
June	+3.4	+3.3

Source: State Controller, monthly cash reports. Available at https://sco.ca.gov/ard_state_cash_fy1819.html.

Table 8: Newsom's First General Fund (GF) Budget, 2019-20 ($ Millions)

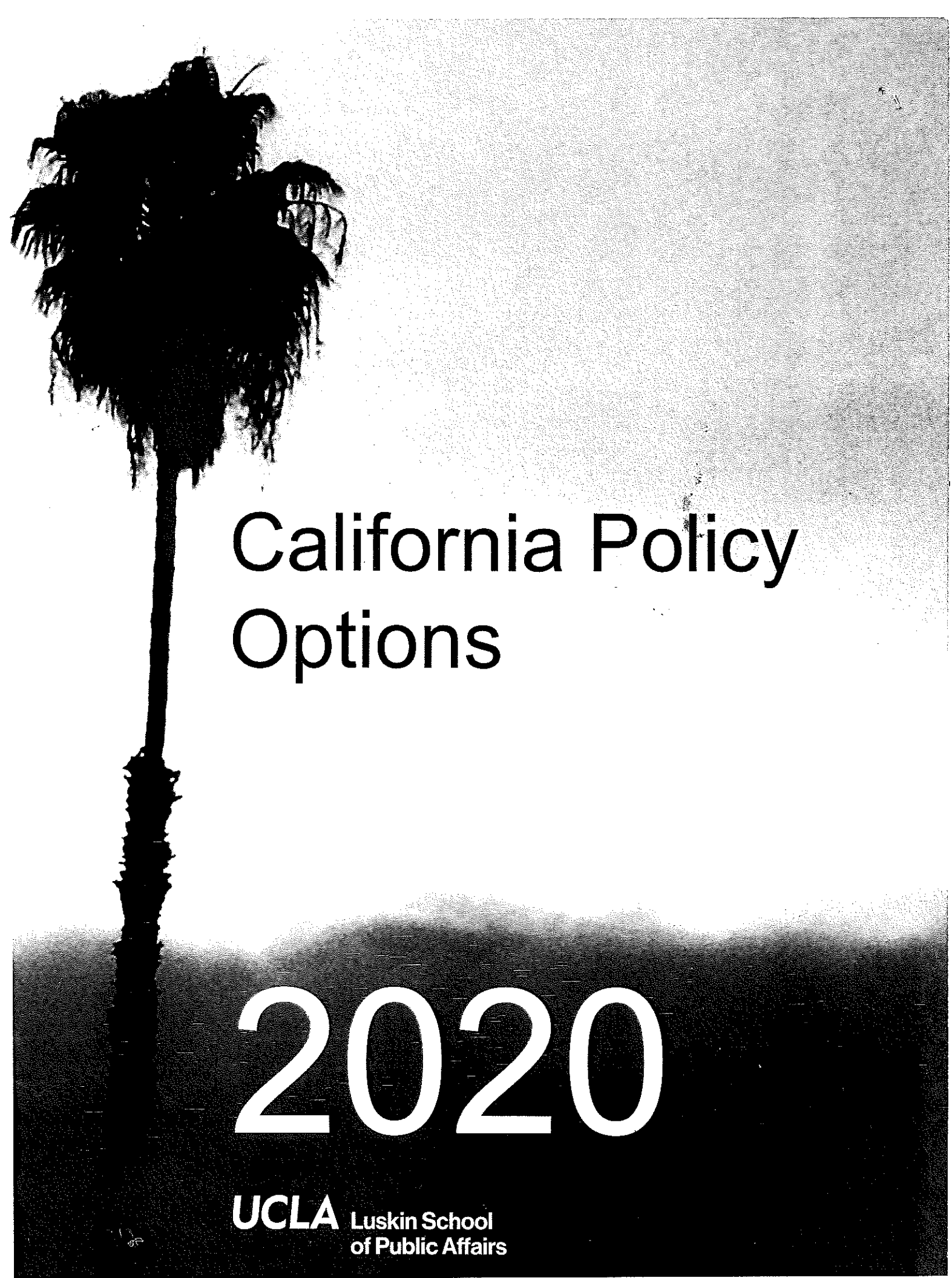
	Newsom May 2019	Senate June 2019	Assembly June 2019	Enacted June 2019
GF reserve 7-1-2019	$6,224	$9,719	$10,248	$6,772
Revenue & Transfers	143,839	141,125	142,165	143,805
Expenditures	147,033	147,781	147,379	147,781
GF Surplus/ Deficit	-3,194	-6,656	-5,214	-3,976
GF reserve 6-30-2020	3,030	3,064	5,034	2,796
BSA* 6-30-2020	16,515	16,500**	16,500**	16,516
Safety net Reserve 6-30-2020	900	1,500	900	900
Prop 98 Reserve 6-30-2020	389	100	0	377
Total Reserves***	20,834	21,200**	22,400**	20,589

*BSA = Budget Stabilization Account (rainy day fund).

**Legislative Analyst's Office rounds to nearest tenth of a billion.

***Sum of GF reserve, BSA, safety net reserve, and Prop 98 reserve.

Source: Table 2 and Legislative Analyst's Office, "Conference Committee Overview," May 2019. Available at https://lao.ca.gov/handouts/Conf_Comm/2019/Conference-Committee-Overview-053019.pdf.



California Policy Options

2020

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