California Politics: A Primer, 4th Edition

Chapter 8

Multiple Choice/Fill in the Blank

1. California's fiscal year begins _______ and ends _______.
a. January 1; December 31
b. April 1; March 31
c. July 1; June 30
d. October 1; September 30

2. On average, how long does it usually take to construct an annual budget?
a. one season, or about three to four months
b. five to six months
c. one year
d. eighteen months

3. Which state organization bears the largest responsibility for preparing the state budget?
a. the Legislative Analyst
b. the state Treasurer's Office
c. the Senate Office of Research
d. the Department of Finance

7. Approximately how large is California's annual general fund budget?
a. under $5 billion
b. $25 billion
c. $50 billion
d. over $100 billion

10. In an average year, what is the state's largest single source of revenue?
a. corporate taxes
b. personal income taxes
c. federal grants
d. excise taxes

11. The state spends most of its annual budget on:
a. education and health and human services
b. prisons and general government
c. business, transportation, and housing
d. interest on the debt

12. Rather than raising taxes currently to pay for infrastructure projects like bridge repairs, high-speed rail projects, or earthquake retrofitting for hospitals, it is common practice in California to pay for such projects through:
a. general obligation bonds
b. special, temporary fees earmarked for dedicated projects
c. federal grants that do not need to repaid
d. gifts from foreign governments

14. An “excise tax” is surcharge placed on:
a. liquor, tobacco, and fuel
b. property
c. wages/income
d. utilities

15. Revenue is another word for:
a. expenditures
b. income
c. funding levels
d. spending commitments

16. Approximately how much debt does the state carry in general obligation bonds that need to be repaid over time?
a. $1 billion
b. $45 billion
c. $75 billion
d. $500 billion

17. When expenses exceed revenues, the state has:
a. bonded debt
b. a budget deficit
c. debt
e. excess revenue

Type: F
18. The office that analyzes the budget for the legislature is the ________, whereas the organization that prepares the budget for the governor is the _________.
a. Legislative Analyst’s Office (LAO); Department of Finance (DOF)

19. Comparatively, Californians pay higher_______ than residents in other states, but lower _______ taxes.
a. excise; income and corporate taxes
b. property; sales
c. income and corporate taxes; property
d. sales; income and corporate taxes

20. The three major taxes in California that cover most of California’s expenditures are:
a. property, income, and excise taxes
b. property, sales, and excise taxes
c. personal income, sales, and corporate taxes
d. corporate taxes, property taxes, and vehicle license taxes

21. About how much of the state’s general fund budget comes from personal income taxes, or the “PIT”?

a. ten percent
b. a quarter
c. half
d. two-thirds

22. Approximately how large is California's total annual budget when federal funds, bond funds, and special funds are taken into account?
a. just under $5 billion
b. $20 billion
c. $100 billion
d. over $200 billion

23. The state's base sales tax rate is:
a. 1.5%
b. 3.5%
c. 4.5%
d. 7.5%

24. What does Governor Jerry Brown mean by the "Wall of Debt" that California faces?
a. State debt is so high that it is now impossible to write a budget without a deficit.
b. High debt has accumulated from selling bonds to close the budget gap, borrowing from accounts intended for other purposes, and unemployment insurance loans from the U.S. government.
c. California borrowed stimulus funds and now must repay billions of dollars to the federal government, because it can't account for how the money was spent.
d. Every year the state sells more general obligation bonds, and they are unlikely to be repaid.

25. The large bills that accompany the budget and contain necessary policy changes to state law reflected in the amounts budgeted are called
a. advisory statements
b. amendment bills
c. trailer bills
d. omnibus spending bills

32. Proposition 98 dictates that approximately __________ percent of the general fund budget must go to fund K-14 education every year.
a. 10 percent
b. 20 percent
c. 40 percent
d. 60 percent

33. Voters passed a new law in 2010 that reduced the majority needed to pass the budget from a supermajority to a simple majority. In 2011, the legislature passed a budget on time for the first time in five years. This is an example of:
a. how rules help shape outcomes
b. how a good economy in 2011 made legislators' decisions easy

c. successful bipartisanship and compromise between the parties
d. all of the above

34. In fiscal year 2015-16, the federal government was scheduled to transfer approximately $________ to the state government, as well as local governments.
a. $100 billion
b. $50 billion
c. $1 billion
d. $500 million

Type: F
35. Taxes in California are ________, meaning that tax rates increase as income rises, so that people at the higher end of the scale pay a greater percentage in taxes than those at the lower end.
a. progressive

38. What vote threshold must be reached for the legislature to approve new taxes or raise fees?
a. a plurality
b. a simple majority (50 percent + 1)
c. a supermajority of 55 percent
d. a supermajority of 2/3

44. How are large infrastructure projects – such as high-speed rail or school construction – usually funded in California?
a. through user fees
b. through sales taxes imposed on all consumers
c. through issuing or selling bonds that the state will repay with interest
d. through a combination of tax and fee increases, a "pay as you go" approach

46. The recent voter-approved proposition that raised the state's sales tax by 1/4 % and was endorsed by Jerry Brown as necessary to keep education funded is:
a. Prop 9
b. Prop 140
c. Prop 30
d. Prop 8

47. Which of these tools has Governor Jerry Brown used to balance the state's annual budget?
a. raising substantially the fees and penalties that drivers pay for traffic violations
b. raising the excise taxes on tobacco and alcohol
c. endorsing a proposition to temporarily raise the state sales tax by ¼ percent
d. raising taxes on those on the bottom of the income scale

48. The state spends <u>most</u> of its annual budget on__________ .
a. education and health and human services
b. prisons and general government
c. business, transportation, and housing
d. interest on the debt

49. Interest on the state’s debt obligations represents approximately how much of the state’s general fund budget?
a. close to zero percent
b. 7 percent
d. 19 percent
e. 50 percent

54. Which one of these represents the biggest source of the state’s annual revenues?
a. taxpayers in the middle income and lower income tax brackets (combined)
b. sales taxes
c. property taxes
d. the top 1 percent of taxpayers

55. It takes 2/3 vote to raise taxes and fees. What vote threshold must be reached to *reduce* taxes and fees?
a. a simple majority (50% plus 1)
b. a supermajority of 55%
c. a supermajority of 2/3 (66.6%)
c. a supermajority of ¾ (75%)

56. California taxpayers are generally opposed to higher taxes. They tend to make exceptions and to support new taxes or higher tax rates when:
a. the economy is bad and there is a budget deficit that needs to be fixed
b. the taxes are dedicated for specific purposes
c. there is a Democratic governor in charge
d. there is Republican governor in charge’

<u>Essay or Short Answer Questions</u>
Type: E
4. What are the Department of Finance’s responsibilities with respect to preparing the annual budget?
a. Varies. Professional budget analysts continuously collect data about state operations as well as vital demographic information about California’s population, and they make projections about how much money will be available at a future date, estimate baseline funding levels for major existing programs, and how much can be spent on new programs or services. The DOF prepares a budget based on the executive departments’ reports about their budget expenditures and needs, assigning dollar amounts to the state programs and services prioritized by the governor. The DOF’s projections and estimates are critical to the preparation of a budget.

Type: E
5. Outline the major steps involved in preparing and passing the annual budget.
a. The Department of Finance prepares the governor’s version of the budget, which is sent to the legislature by January 10 as a budget bill. Once introduced as a bill, it is referred to the Assembly’s and Senate’s budget committees. In the meantime, the Legislative Analyst (LAO) prepares its own analysis of the governor’s version. They examine the budget, piece by piece,

and throughout the spring months the budget committees and subcommittees call state analysts, government officials, and citizens and lobbyists working for every imaginable interest group to testify about the governor's proposed funding levels for existing and proposed programs. During May, after actual tax receipts have been accounted for (referred to as the "May Revision" or "May Revise"), the Legislative Analyst makes final recommendations to the legislature about critical revisions. After the full budget committees finalize their work in each chamber, the leaders in the two chambers will lead negotiations to resolve their differences into a comprehensive budget bill. Legislators and their staff also enter into negotiations with the governor and (his) staff to reach compromises on every major—and many minor—points within the gigantic bill. Only a simple majority is required, so with Democrats as the majority party in both houses, the two top leaders, the Assembly Speaker and the Senate President pro tem (plus their staff), negotiate terms with the governor (and his staff). Thus, these "Big Three" (Democratic) leaders negotiate final versions that must be voted on by both houses; the budget bill is supposed to be passed by June 15, and legislators (are supposed to) forfeit their pay for every day the budget is not passed after that date. The governor signs the final bill into law by June 30, and the governor can make final adjustments to the bill through the line-item veto. The new fiscal year begins July 1. It might also be noted that permutations of the process occur from year to year; in some years the leaders play a bigger role, or a conference committee might take the lead.

Type: E
9. Historically there have been large imbalances in California's annual budget. What are the causes of budget deficits in California?
a. Varies. (1) Ballot-box budgeting. Voters limit the choices lawmakers can make. One example is Proposition 13, which severely reduced the amount of money available through property taxes, and imposed a 2/3 supermajority vote to increase taxes or impose fees. (2) Majority vs. supermajority rule. Historically, such supermajority requirements have hampered the legislature's ability to reach quick compromises, because usually some minority party's votes are needed to pass such proposals. Can be seen in the 2/3 vote requirement to raise taxes and fees. (3) Unwillingness to compromise. Increasingly, the two parties have been unwilling or unable to reconcile their fundamental political differences; the most visible difference lies in the Republicans' refusal to raise taxes, and the Democrats' opposition to cutting certain social services. (4) Special interest pressure. Special interest stakeholders, or those affected by potential spending cuts, also weigh in, and put pressure on legislators not to make difficult choices, either by threatening to use the initiative process against them or not to vote for them again (or even to recall them). Lobbyist and interest group influence is felt through their "education" of legislators about proposed changes to the funding levels. Risk-averse politicians (those who are eligible for reelection or election to another office) are wary of alienating groups perceived as instrumental to their reelection. (5 and 6) The larger economic and political climate also matter greatly: the kinds of initiatives or agenda items that receive more or less funding in a given year is tied to shifts in public opinion over time about what is important (crime? education? prison spending?), and who is in power (Democrats or Republicans in the legislature and/or the governor's office). The larger economic climate also strongly affects how much money is available: in bad years, far less revenue (sales tax, property tax, corporate tax, and income tax revenues) will flow into the state, forcing politicians to either raise taxes further or make spending cuts. (7) Structural budget deficits. Historically there was a "structural" budget deficit throughout the 2000s, meaning that

deficits from previous years carried over into subsequent years, and politicians allowed the budgets to operate with deficits that were not closed with higher taxes or cuts. This structural deficit appeared because lawmakers made long-term commitments to programs that were initially paid for with temporary increases in revenues that disappeared, and necessary adjustments in spending to account for those shortfalls weren't made. It is almost impossible to make quick adjustments mid-year to a budget that was previously approved, so any gaps that appear between revenues and expenditures will result in a deficit that will carry over into the following year. Sometimes these gaps are bridged by borrowing (loans). However, as of 2013-14, the structural deficit appears to have been erased, and surpluses are projected. (8) Volatile sources of revenue. Because California relies heavily on volatile revenue sources such as the income tax, and relies on high-income individuals in particular to pay a huge percentage of all taxes collected, changes to their fortunes will also affect the state's. (9) Incorrect projections. Balancing a budget depends on knowing exactly how much is coming in, and creating a budget is a series of educated guesses about how much money the state will collect and how much it will need to spend. Those forecasts can be wrong, and sometimes they are off-base by billions of dollars (which was the case during the recent economic downturn).

Type: E
13. How does Proposition 13 affect budgeting today?
a. Prior to 1978, cities, counties, and schools relied on property taxes to finance their budgets, taxes that largely fund essential services. When Prop 13 capped property taxes at 1 percent of a home or commercial building's purchase price and limited property assessment increases to no more than 2 percent per year, local governments were forced to look for other ways to pay for services (now mainly sales taxes and fees), and state government assumed responsibility for refilling local government accounts and funding schools. In tough economic times state lawmakers "borrow" from cities and counties, leaving them short by millions of dollars that they rely on to provide services to local residents. Low property taxes affect both state and local governments, which have to look for other sources of revenue to meet their general obligations.

Type: E
26. What are "unfunded liabilities"?
a. A promise to pay an amount to someone, without adequately setting aside the necessary amounts to pay for it (in the future). In California, public employee retirement benefits in the form of pensions (mostly through CalPERS and CalSTRS) and health care form the bulk of the state's unfunded liabilities.

Type: E
27. What is the difference between budgetary borrowing and general obligation bond debt?
a. In the 2000s when huge budget deficits appeared and the state could not generate additional revenue, it borrowed billions of dollars to cover the deficits. That is budgetary borrowing. General obligation bonds allow the state to borrow money that will be spent to shape the quality of life and commerce, usually by investing in huge infrastructure projects. Therefore, budgetary borrowing does not yield long-term "payoffs," whereas general obligation bonds yield investments in infrastructure that have payoffs for people and businesses.

Type: E

28. What is a “structural deficit”?
a. Varies. When lawmakers make long-term spending commitments that are not covered by current revenues, and continue this imbalance from year to year, then a “structural” deficit exists.

Type: E
31. How did Proposition 30 help eliminate the state’s structural budget deficit?
a. For many years, lawmakers made long-term spending commitments that were not covered by revenues, and the imbalances carried over from year to year without being addressed. Proposition 30, approved by voters in 2012, raised the state’s sales tax, which has generated substantial revenues for the state to cover big-ticket items such as education.

Type: E
45. What are some of the major factors (political or otherwise) that influence the budget process?
a. Varies. (1) The larger economic climate affects how much money is available: in bad economic times, far less revenue (sales tax, property tax, corporate tax, and income tax revenues) will flow into the state, forcing politicians to either raise taxes further or make spending cuts. (2) The state’s general fund depends heavily on volatile sources of revenue such as personal income taxes, which are in turn strongly dependent on the larger economy, and relies heavily on high-income earners who are especially vulnerable to changes in larger economic tides. (2) The political climate can influence what kinds of issues get funded, and which get less or no funding. (3) Special interests and their lobbyists strongly prevail because they tend to participate heavily at every stage of the process, voicing their concerns and pressuring lawmakers to respond to them. (4) Legislators subject to term limits generally do not have enough experience to understand the process and the issues thoroughly, although this has been a bigger issue for new members (who have tended to be in the Assembly). The extension of term limits to 12 years is expected to mitigate this issue somewhat. (5) Ballot-box budgeting. Through initiatives, voters limit the choices lawmakers can make. Example: Proposition 13, which severely reduced the amount of money available through property taxes, and imposed a 2/3 supermajority vote to increase taxes. Prop 98 (minimum funding levels for education) is another example. (6) Rules: whether a simple majority is required to pass the budget, taxes, and/or fees (minority votes aren’t needed), or a supermajority is needed (compromises with the minority party will be necessary). (7) Ideological differences and partisan approaches to governing: increasingly, the two parties have been unwilling or unable to reconcile their fundamental political differences; the most visible difference lies in the Republicans’ refusal to raise taxes, and the Democrats’ opposition to cutting certain social services.

Type: E
50. What kinds of debts has California incurred through borrowing?
@ Explain the difference among general obligation bonds, budgetary borrowing, and unfunded liabilities.
a. General obligation bonds are approved by voters, and are large amounts borrowed for the purposes of funding large infrastructure projects such as road construction, improved water storage, or high-speed rail. Budgetary borrowing consists of loans taken to plug holes in the budget, funds borrowed from other special accounts (intended for specific purposes such as schools), or deferred payments (promises to pay later what is currently owed). Unfunded liabilities are promises made to retirees in the form of pensions or health care coverage.

True or False Questions

6. Despite the fact that the legislative leaders negotiate a final version of the budget, the governor can make final adjustments to it through the line-item veto.
a. True
b. False

8. Most annual spending is mandatory, meaning that legislators must spend certain amounts of the budget on items that are required by law.
a. True
b. False

29. Under Governor Jerry Brown, the state's structural deficit has been eliminated.
a. True
b. False

30. Since 2007, the state has dedicated less and less from the general fund to higher education, and has raised fees and tuition year after year.
a. True
b. False

36. Corporate taxes represent a much larger source of state revenue than income taxes.
a. True
b. False

37. Considering property, income, corporate, excise, and sales taxes, California has the highest tax burden in the nation.
a. True
b. False

39. The annual budget is a bill that must pass both houses of the legislature with a simply majority vote, and then be signed into law by the governor.
a. True
b. False

40. It is common practice for governors to veto the state budget bill.
a. True
b. False

41. It is common practice for governors to use the line-item veto with the budget bill.
a. True
b. False

42. The budget process occasionally follows the "textbook version." More often, permutations of the process occur.
a. True

b. False

43. Californians pay among the lowest property tax rates but the highest sales tax rates among the U.S. states.
a. True
b. False

51. The top 1 percent of income-earners in California paid close to half of the state's total income taxes.
a. True
b. False

52. Lobbyists don't just work for private interests; they also represent schools, special districts, cities, and counties – in other words, local governments – in the lawmaking and budgeting process.
a. True
b. False

53. Local governments are prohibited from lobbying the state legislature about budget items that affect their cities, counties, special districts, or school districts.
a. True
b. False