Chapter 8: The California Budget Process

Test Bank

Multiple Choice

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

Answer Location: California Budgeting 101

2. On average, how long does it usually take to construct an annual budget?
A. one season, or about 3–4 months
B. about 6 months, or a half year
C. 18 months, or about a year-and-a-half
D. 2 years, because the legislature only meets every other year

Answer Location: California Budgeting 101

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

Answer Location: California Budgeting 101

4. Approximately how large is California's annual general fund budget?
A. under $5 billion
B. $25 billion
C. $60 billion
D. $180 billion

Answer Location: California Budgeting 101

5. 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

Answer Location: Mechanics of Budgeting: Revenue

6. Of the 7.25 cents in sales taxes that are collected on every dollar spent on taxable goods or services in California, the state reallocates ______ to local governments.
A. zero cents
B. 1.25 cents
C. 4 cents
D. 6.25 cents

Answer Location: Mechanics of Budgeting: Revenue

7. 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

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

8. 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 be repaid
D. gifts from foreign governments

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

9. An “excise tax” is surcharge placed on ______.
A. alcohol, tobacco, and fuel
B. property
C. wages/income
D. utilities

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

10. Revenue is another word for ______.
A. expenditures
B. income
C. financial liabilities
D. spending commitments

Answer Location: Mechanics of Budgeting: Revenue

11. 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. $85 billion
D. $500 billion

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

12. When expenses exceed revenues, the state has ______.
A. bonded debt
B. a budget deficit
C. debt
E. excess revenue

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

13. 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

Answer Location: Mechanics of Budgeting: Revenue

14. About how much of the state's general fund budget comes from personal income taxes, or the "PIT?"
A. zero
B. 10%
C. a quarter
D. about half

Answer Location: Mechanics of Budgeting: Revenue

15. Approximately how large is California's total annual budget when federal funds, bond funds, and special funds are combined with the general fund?
A. just under $5 billion
B. $20 billion
C. $100 billion
D. nearly $300 billion

Answer Location: Mechanics of Budgeting: Revenue

16. The state's health exchange that was set up as part of the Affordable Care Act is called ______.
A. Medical Aid for Californians
B. California Health Care Exchange

C. Covered California
D. Affordable Care Access Plan

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

17. How large is the budget for the state's Transportation Agency, a superagency that includes Caltrans, the California Highway Patrol, the Department of Motor Vehicles, and the High-Speed Rail Authority?
A. $1 billion
B. $6 billion
C. $13 billion
D. $50 billion

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

18. The state's base sales tax rate is ______.
A. 1.50%
B. 3.15%
C. 4.50%
D. 7.25%

Answer Location: Mechanics of Budgeting: Revenue | Tax Burden: Highest in the Nation?

19. When local taxes are taken into account, the total *average* sales tax rate paid by consumers is about ______.
A. 4.5%
B. 6.5%
C. 8.5%
D. 10.5%

Answer Location: Mechanics of Budgeting: Revenue | Tax Burden: Highest in the Nation?

20. What is "budgetary borrowing?"
A. writing a budget with a large deficit, and assuming that the gap will be closed with higher revenues from an improved economy
B. borrowing money to close the difference between revenues and expenditures through selling bonds, or borrowing from state accounts intended for other purposes
C. unfunded mandates that cost the state billions a year
D. bonds that cover needed infrastructure projects

Answer Location: Table 8.1 California in Debt (as of end of FY 2016–17)

21. 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

Answer Location: California Budgeting 101 **|** Figure 8.4 The Annual Budget Process

22. Proposition 98 dictates that approximately ______ of the general fund budget must go to fund K-14 education every year.
A. 10%
B. 20%
C. 40%
D. 60%

Answer Location: Mechanics of Budgeting: Revenue

23. 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 5 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. any of these

Answer Location: Political Constraints on Budgeting

24. In fiscal year 2015–16, the federal government was scheduled to transfer approximately ______ to the State of California.
A. $100 billion
B. $50 billion
C. $1 billion
D. $500 million

Answer Location: Figure 8.1 State Revenue, Fiscal Year 2017–18

25. What vote threshold must be reached for the legislature to approve new taxes or raise fees?
A. a plurality
B. a simple majority (50% + 1)
C. a supermajority of 55%
D. a supermajority of two thirds

Answer Location: Political Constraints on Budgeting

26. It takes two-thirds vote to raise taxes and fees. What vote threshold must be reached to *reduce* taxes and fees?

A. a simple majority (50% + 1)
B. a supermajority of 55%
C. a supermajority of 2/3 (66.6%)
C. a supermajority of three fourths (75%)

Answer Location: Political Constraints on Budgeting

27. 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

Answer Location: Mechanics of Budgeting: Revenue

28. In 2016, voters extended special taxes for high-income wage earners. This is an example of ______, which means that California generally relies on economic elites for much of its revenue.
A. “soaking the rich”
B. unfunded mandates
C. conservatism
D. deficit spending

Answer Location: Mechanics of Budgeting: Revenue

29. Which of these tools have voters used to raise revenues for the state (i.e., through initiatives)?
A. raising property taxes substantially
B. raising the excise taxes on beer, wine, and hard liquor
C. temporarily raising the state sales tax
D. raising taxes on those at the *bottom* of the income scale

Answer Location: Mechanics of Budgeting: Revenue

30. 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

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt | Figure 8.1 State Revenue, Fiscal Year 2017–18

31. Interest on the state’s debt obligations represents approximately how much of the state’s general fund budget?

A. less than 1%
B. 5%
D. 19%
E. over half

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

32. 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% of taxpayers

Answer Location: Mechanics of Budgeting: Revenue

33. 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

Answer Location: Mechanics of Budgeting: Revenue

True/False

1. 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.

Answer Location: California Budgeting 101

2. Most annual spending is mandatory, meaning that legislators must spend certain amounts of the budget on items that are required by law.

Answer Location: California Budgeting 101

3. Under Governor Jerry Brown, the state’s structural deficit has been eliminated.

Answer Location: California Budgeting 101

4. Tuition at institutions of higher education has increased only marginally since 1994, such that students pay virtually the same rates in 2018 as they did in 1994 (after inflation is figured in).

Answer Location: Figure 8.3 Full-Time Undergraduate Tuition for California Residents Attending Public Universities and Colleges, 1994–2017

5. Taxes on corporations represent a much larger source of state revenue than income taxes.

Answer Location: Mechanics of Budgeting: Revenue | Figure 8.1 State Revenue, Fiscal Year 2017–18

6. Considering property, income, corporate, excise, and sales taxes, California has the highest tax burden in the nation.

Answer Location: Tax Burden: Highest in the Nation?

7. The annual budget is a bill that must pass both houses of the legislature with a simple majority vote, and then be signed into law by the governor.

Answer Location: California Budgeting 101 | Key Terms

8. Taxpayers typically use general obligation bonds to finance large infrastructure projects, or megaprojects, such as flood control projects or building schools.

Answer Location: California Budgeting 101

9. It is common practice for governors to veto the entire state budget bill.

Answer Location: California Budgeting 101

10. Generally speaking, it is common practice for governors to use the line-item veto with the budget bill, especially if the governor is of a different political party than the majority party in the legislature.

Answer Location: California Budgeting 101

11. Personal income taxes are the greatest portion of state revenues in California, as they are in most U.S. states.

Answer Location: Mechanics of Budgeting: Revenue

12. The budget process occasionally follows the “textbook version.” More often, permutations of the process occur.

Answer Location: Mechanics of Budgeting | Figure 8.4 The Annual Budget Process

13. Californians pay among the lowest property tax rates but the highest sales tax rates among the U.S. states.

Answer Location: Tax Burden: Highest in the Nation?

14. The top 1% of income-earners in California paid close to half of the state's total income taxes.

Answer Location: Political Constraints on Budgeting

15. 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.

Answer Location: Political Constraints on Budgeting

16. Local governments are prohibited from lobbying the state legislature about budget items that affect their cities, counties, special districts, or school districts.

Answer Location: Political Constraints on Budgeting

17. Only a simple majority is required to pass the state's annual budget bill.

Answer Location: Political Constraints on Budgeting

18. A supermajority vote of two thirds is required to pass the state's annual budget bill.

Answer Location: Political Constraints on Budgeting

19. The legislature's two top leaders, the assembly speaker and the senate president pro tem, negotiate with the governor over the terms of the budget as well as the language in important bills. Together, these leaders (the speaker, president pro tem, and governor) are known as the "Big Three."

Answer Location: California Budgeting 101

20. Because there is a Democrat in the governor's office and Democrats also dominate the legislature, the governor's version of the budget automatically becomes law.

Answer Location: California Budgeting 101

21. Because there is a Democrat in the governor's office and Democrats also dominate the legislature, the governor's use of the line-item veto is relatively minimal.

Answer Location: California Budgeting 101

22. The governor has virtually no ability to change the amounts of items in the state budget, which is a spending plan driven by the actual costs of agencies, past budget allocations, and mandatory spending that is already set in state law.

Answer Location: California Budgeting 101 | Conclusion: Budgeting under Variable Conditions

23. The governor and legislature know almost exactly how much money the state will collect in taxes, fees, and federal grants during the coming year.

Answer Location: Mechanics of Budgeting: Revenue

24. The annual budget is based on educated guesses and sophisticated projections about how much money the state will collect in taxes, fees, and federal grants during the coming year.

Answer Location: Mechanics of Budgeting: Revenue

25. Health and human services expenses encompass a range of essential services such as Medical, food assistance, residential care for the elderly, health care for children, and benefits for the disabled.

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

26. By law the state must set aside surplus moneys into a “rainy day” fund to cover unanticipated economic situations, such as a downturn, or emergency spending.

Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

27. California charges millionaires an extra 1% in income tax.

Answer Location: Tax Burden: Highest in the Nation?

28. The amount of taxes paid varies greatly from individual to individual and among socioeconomic classes.

Answer Location: Tax Burden: Highest in the Nation?

29. California is an equal-opportunity taxation state, meaning that the percentage of taxes paid is virtually the same across socioeconomic classes.

Answer Location: Tax Burden: Highest in the Nation?

Short Answer

1. The office that analyzes the budget for the legislature is the ______, whereas the organization that prepares the budget for the governor is the ______.
Ans: Legislative Analyst’s Office (LAO); Department of Finance (DOF)
Answer Location: California Budgeting 101

2. 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.
Ans: progressive
Answer Location: Mechanics of Budgeting: Revenue

Essay

1. What is a budget bill?
he proposed annual spending plan for the state's next fiscal year is formulated as a massive bill that must be passed by the legislature and signed into law by the governor.
Answer Location: California Budgeting 101 **|** Key Terms

2. What are the Department of Finance's responsibilities with respect to preparing the annual budget?
Ans. 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.
Answer Location: California Budgeting 101 **|** Figure 8.4 The Annual Budget Process

3. Outline the major steps involved in preparing and passing the annual budget.
he 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.
Answer Location: California Budgeting 101 **|** Figure 8.4 The Annual Budget Process

4. Historically there have been large imbalances in California's annual budget. What are the causes of budget deficits in California?
Ans: 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 two-thirds supermajority vote to increase taxes or impose fees. (2) Majority versus 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 two-thirds 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 treasury. (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).
Answer Location: Political Constraints on Budgeting

5. How does Proposition 13 affect budgeting today?
Ans: Varies. 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% of a home or commercial building's purchase price and limited property assessment increases to no more than 2% 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.
Answer Location: Political Constraints on Budgeting

6. What are "unfunded liabilities?"
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.
Answer Location: Table 8.1 California in Debt (as of end of FY 2016–17)

7. What is the difference between budgetary borrowing and general obligation bond debt?
Ans: If a budget deficit appears and the state cannot generate additional revenue, it borrows money to cover the deficits; this 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.
Answer Location: Table 8.1 California in Debt (as of end of FY 2016–17)

8. What is a "structural deficit?"
Ans: 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.
Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt

9. How did Proposition 30 help eliminate the state's structural budget deficit?

or 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.
Answer Location: Political Constraints on Budgeting

10. What are some of the major factors (political or otherwise) that influence the budget process?
Ans: 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, but newer term limits are resulting in more brand-new senators). 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 two-thirds 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.
Answer Location: Political Constraints on Budgeting

11. What kinds of debts has California incurred through borrowing? Explain the difference among general obligation bonds, budgetary borrowing, and unfunded liabilities.
Ans: 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.

Answer Location: Table 8.1 California in Debt (as of end of FY 2016–17)

12. If a deficit results, how do legislator and the governor try to close the gap between planned expenditures and expected revenues?
Ans: Varies. They can reduce benefit checks, cut state workers' salaries and/or benefits, eliminate or reduce services, change tax policies, borrow (by selling bonds to cover the difference), defer payments to schools or other government agencies, or a combination of these.
Answer Location: Mechanics of Budgeting: Expenditures, Deficits, and Debt