

LATE AGAIN: WHAT FACTORS INFLUENCE THE CALIFORNIA  
LEGISLATURE'S ABILITY TO PASS AN ON TIME BUDGET?

David M. Heitstuman  
B.A., Gonzaga University, Spokane, Washington, 2001

THESIS

Submitted in partial satisfaction of  
requirements for the degree of

MASTER OF PUBLIC POLICY AND ADMINISTRATION

at

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

SPRING 2009

LATE AGAIN: WHAT FACTORS INFLUENCE THE CALIFORNIA  
LEGISLATURE'S ABILITY TO PASS AN ON TIME BUDGET?

A Thesis

by

David M. Heitstuman

Approved by:

\_\_\_\_\_, Committee Chair  
Robert Wassmer, Ph. D.

\_\_\_\_\_, Second Reader  
Tim Hodson, Ph. D.

\_\_\_\_\_  
Date

Student: David M. Heitstuman

I certify that this student has met the requirements for format contained in the University format manual, and that this thesis is suitable for shelving in the Library and credit is to be awarded for the thesis.

\_\_\_\_\_, Graduate Coordinator  
Robert W. Wassmer

\_\_\_\_\_  
Date

Department of Public Policy and Administration

Abstract

of

LATE AGAIN: WHAT FACTORS INFLUENCE THE CALIFORNIA  
LEGISLATURE'S ABILITY TO PASS AN ON TIME BUDGET?

by

David M. Heitstuman

California has had a constitutional budget deadline of June 15 since 1933, a deadline the Legislature has not met in passing a budget in the past quarter century. Late budgets or a lack of a budget wreaks havoc on the state's most vulnerable population's survival, put in jeopardy the sustainability of small business state contractors, and cripple the state's ability to provide for the education, healthcare, and transportation needs of California residents. Media reports point to anecdotal evidence for what factors cause the Legislature's perpetual tardiness, some are supported by empirical academic research, and others are purely supposition.

This study examines the institutional factors that influence the California Legislature's ability to pass an on time budget. I use regression analysis to determine that, of the eight explanatory variables tested (*Change in Revenue, Strength of the Majority, Years Late, Post Term Limits, Legislative Drawn Districts, Proposition 13, Proposition 98, and the Party of the Governor*), there appears to be a positive relationship between *Term Limits* and the number of *Days Late* the legislature is in passing a budget. This conclusion makes sense based on what the field of research has said about the effect of term limits on other elements of policy making such as the level of state spending and the amount of oversight exercised by term limited legislatures.

\_\_\_\_\_, Committee Chair  
Robert Wassmer, Ph. D.

\_\_\_\_\_  
Date

**ACKNOWLEDGMENTS**

Rob Wassmer, Tim Hodson, Ted Lascher, and Suzi Byrd, thank you for 7.5 years of patience, understanding, and support. I could not have completed this thesis and the MPPA program without you.

Christopher, thank you for your relentless friendship, encouragement, and deep insight I could use as a sounding board to look for reassurance.

Sheila, thank you for being a good thesis partner and continuously checking up on me to ensure I stayed on track and was making progress.

Spencer, Chad, Brice, Luke, Adam and all my friends, thank you for your friendship, patience, and encouragement as I was on lockdown trying to complete this thesis.

Finally, to my parents and family, thank you for your unconditional love, support, and belief in me throughout my education and life.

## TABLE OF CONTENTS

	Page
ACKNOWLEDGMENTS .....	v
LIST OF TABLES AND FIGURES.....	vii
CHAPTER	
1. INTRODUCTION .....	1
Current Law on When a Balanced Budget is Due.....	1
History of Late Budgets in California.....	3
Popular Press and Conventional Wisdom on Late Budgets.....	5
Lateness as a Public Policy Problem.....	10
Need for Further Study.....	11
Chapters that Follow.....	12
2. LITERATURE REVIEW .....	14
Foundational Studies.....	15
Additional Study of the Supermajority Requirements.....	24
Reapportionment, Redistricting, and Term Limits.....	25
The Influence of Initiatives.....	29
Additional Research: Tax and Spending Limits, Balanced Budget and Reserve Requirements, Public Opinion, and Federal mandates.....	32
Review of Suggested Reforms.....	33

3. METHODOLOGY .....	38
Sample.....	38
Choice of Variables.....	39
Operationalizing the Variables.....	41
Multiple Regression Analysis.....	48
The Regression Equation.....	49
Descriptive Statistics & Correlation.....	50
4. FINDINGS .....	55
Uncorrected Model.....	55
Corrected Model.....	57
Additional Testing.....	59
Hypotheses Result.....	61
5. CONCLUSIONS AND IMPLICATIONS.....	66
Reaction to Results, Possible Improvements to Data, and Future Research...	66
Current Policy Issues to Consider in Future Research.....	69
Lessons for Lawmakers.....	70
References.....	74

## TABLES AND FIGURES

	Page
Figure 1.1 Days Late.....	3
Table 3.1 Description, Expected Sign, and Source of Variables .....	47
Table 3.2 Descriptive Statistics.....	50
Table 3.3 Correlation Matrix .....	52
Table 3.4 Uncorrected Variance Inflation Factor .....	53
Table 4.1 Uncorrected Regression Results .....	56
Table 4.2 Corrected Regression Results .....	59



## Chapter 1

### INTRODUCTION

California's Legislature is constitutionally required to annually pass a balanced budget by June 15<sup>th</sup>, and yet has only done so four times in the last 20 years (Assembly Chief Clerk, 2009). The consequences of consistently passing late state budgets include a halt to government spending, lower credit ratings, and an erosion of public confidence in elected officials at the state level. In a good economic climate, any or all of these consequences can be detrimental to quality of life for businesses and residents of the state, in a bad economic climate it can be devastating. It is for these reasons that passing a state budget on time is important and why it deserves consideration for study.

#### ***Current Law on When a Balanced Budget is Due***

In California, the Governor is responsible for proposing a balanced budget by January 10<sup>th</sup> of each year and the Legislature is required to pass a budget by midnight on June 15<sup>th</sup>, in time for the start of a new fiscal year July 1<sup>st</sup>. The June 15<sup>th</sup> deadline was adopted as part of a clean up of Constitutional language recommended by the Constitutional Revision Commission and passed by voters in 1972. Since 1933, the constitution has also required that the Legislature pass the budget with a two-thirds supermajority in both houses if spending was not limited to a five percent annual increase. Throughout the 1930s and into the 1960s, spending routinely grew by more than 5 percent; however, the budget continued to pass by overwhelming majorities without a problem until the last quarter century.

In 1962, a conflict occurred over education spending in the Legislature and voters were asked to eliminate obsolete language through Proposition 16, which removed the spending cap trigger, but left the two-thirds requirement (Silva. 2008). The two-thirds requirement was further solidified in 1978 during the great tax revolt and passage of Proposition 13, limiting property taxes and applying the supermajority requirement to future tax increases as well. Nine states have some sort of supermajority requirement to pass a budget under certain conditions. Only three—Arkansas, California, and Rhode Island, California being the most restrictive, currently require a two-thirds vote in all circumstances. California is the only state with a consistent history of late budgets. There is little empirical evidence that a supermajority requirement has an effect on the budget process, but anecdotal reports suggest it may cause states to miss or bump up against their budget deadlines, making it even harder to pass a budget on time (National Conference of State Legislatures (NCSL), 2008).

A flurry of propositions over the last 50 years have placed additional constitutional or statutory restrictions on taxes and spending that affect the budget process. Most notably Proposition 13 (1978) limited property tax revenue, Proposition 98 (1988) established a minimum level of spending on education, and Proposition 99 (1988) created a tobacco tax and special fund. Proposition 58 (2004) required enactment of a balanced budget where General Fund expenditures do not exceed estimated General Fund revenues, established a budget reserve, allowed the Governor to make midyear adjustments in the case of a declared fiscal emergency, and prohibited the Legislature

from taking no action on matters unrelated to the budget in such cases of fiscal emergency (Silva, 2008).

***History of Late Budgets in California***

While the June 15<sup>th</sup> budget deadline is not new, the greatest concern over budget passage comes when the budget is not passed by the start of the new fiscal year on July 1<sup>st</sup> when program funding is put at risk. As the following table indicates, California budgets have been getting later and later over the last 20 years on average--the record being the September 16<sup>th</sup> passage of the 2008-2009 Budget.

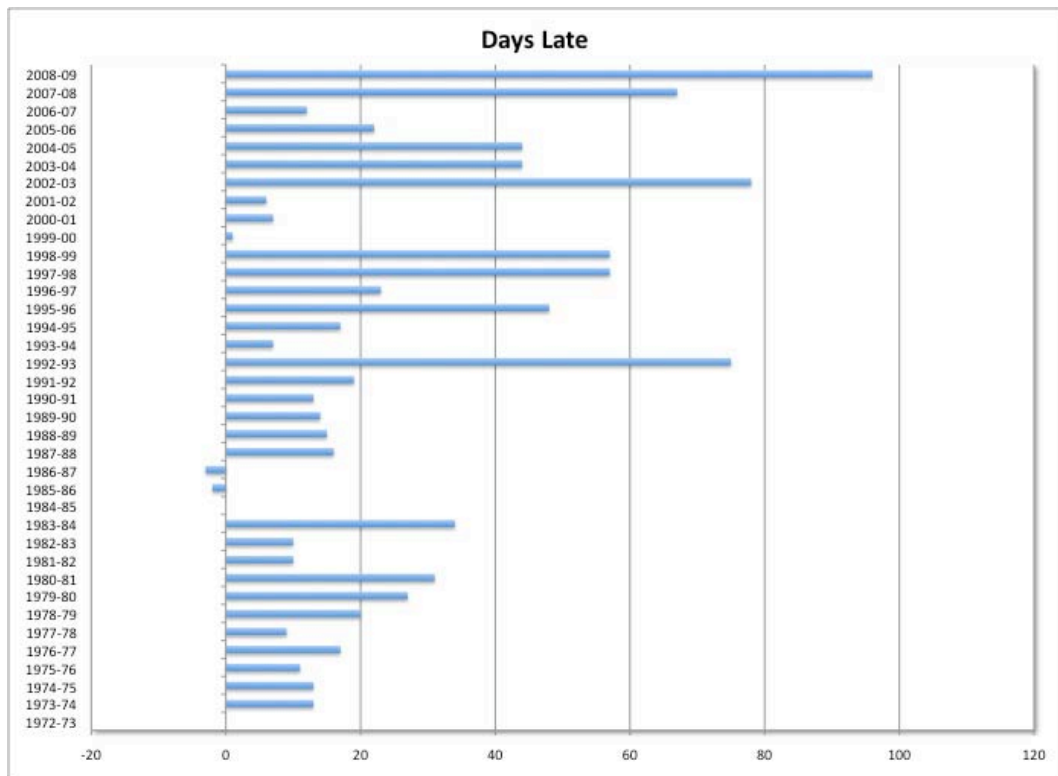


Figure 1.1 Chart indicates the number of years prior to or beyond June 15<sup>th</sup> since the deadline was imposed in 1972. Source: Assembly Chief Clerk's Office

California's Legislature is not alone in its struggle to pass an on time budget. In 1997 New York went a nationwide record 104 days after the start of a new fiscal year before passing a spending plan. It has been late in passing a budget 19 of the previous 20 years. Other comparable states have been late as well; Massachusetts has been late 17 times, Pennsylvania 9 times, but others such as Texas and New Jersey had never been late as of the 2004. It is important to note that the New York Legislature is not required to pass a balanced budget and it does not have a two-thirds majority requirement, spending caps, term limits, or initiatives constraining its legislative decision making when it comes to the budget. In New York, a panel made up primarily of partisan legislators, similarly to California's system, draws the districts. New York has also adopted budget reform measures in 2004 to give more authority to the Legislature in making budget adjustments, which has produced on time budgets for the past four years while remaining unconstrained by the aforementioned factors. Compared to New York, Pennsylvania, New Jersey, and Texas are similarly unconstrained, although Texas and New Jersey do have expenditure limits. Massachusetts is more comparable to California in its lateness; however, with no two-thirds majority requirement or term limits, but limits on revenues and initiatives—the comparison is not exact and offers no further conclusiveness about what causes the tardiness of state budgets (New York Citizens Budget Commission (NYCBC), 2003 and Cain & MacKenzie, 2008).

### *Popular Press and Conventional Wisdom on Late Budgets*

News media reports and conventional wisdom commonly identify a handful of factors that have caused these delays, which are symbolic of the gridlock that has paralyzed the California Legislature. Some of the most commonly named factors in news reports that influence the timeliness of the budget include the two-thirds majority vote of the Legislature to pass a budget or raise taxes, the size of the budget, an increase in partisanship, the state's complex web of initiatives (specifically Propositions 13 and 98), and low public opinion of lawmakers entrusted with making budget decisions. What follows are quotes from newspaper articles and editorial as well as policy leaders, past and present, from across California that illustrate where they perceive the problems in the budget process lie.

With regard to the two-thirds requirement, the *Sacramento Bee*, editorialized, "In California, the supermajority requirement has often made it harder, not easier, to eliminate dubious spending practices. In 11 of the last 16 years, California has spent more than it has taken in" (Schrag, 1995, para. 5). "The requirement for a two-thirds vote stifles the ruling party's (usually Democrats) majority will, giving the minority (usually Republicans) effective veto power" (Smith, 2008 para. 7). Wildermuth (2008), of the *San Francisco Chronicle* quoted Assembly Speaker Karen Bass as saying, "The two-thirds requirement to pass a budget, bonds, or revenues is a built-in impediment to getting things done that we should" (para. 13). "Senate Pro Tem Don Perata in the 2007-2008 budget cycle decried [of the two thirds requirement] the Republicans' tactic off holding

out in unison as “fiscal terrorism” (Diaz, 2007, para. 2). “[State Senator Joe] Smitian’s reform agenda would start with lowering the threshold for budget passage to a simple majority, modifying term limits to allow legislators to stay longer than six years in the Assembly and eight years in the Senate and reforming the redistricting process so that lawmakers can not shield themselves for competition” (Reform, 2008, 4).

“Notwithstanding the view of some conservatives that the supermajority requirement will constrain taxes and spending, the reality is that limiting government spending through a supermajority requirement is like squeezing a balloon in the hopes of reducing the overall volume of air” (Cain, 2008, p. 4). There has been no evidence in any study that this requirement alone restricts spending on its own. Supermajority requirements are only a factor when all the following are true: the majority party is smaller than the supermajority requirement or is at least seriously split within the party; the minority party believes in fiscal restraint; the majority party can not entice members of minority party to join them with district based projects; and one party controls the executive and legislative branches (Cain, 2008).

That last condition for the two-thirds requirement to be effective is especially important because California has had unified government only about 30 percent of the time over the last quarter century. Despite the lack of evidence, over the last twenty years, five organizations examining the California budget process have advocated for the elimination of the two-thirds requirement, including: The California Constitutional Revision Commission, the California Governance Consensus Project, the California

Budget Project, the California Business Roundtable and the League of Women Voters of California (Simons, 2002).

Further commentary on partisanship, redistricting, and term limits is offered by Weintraub (2008) in the *Sacramento Bee*, “Close observers of state government have been warning for years that the entire enterprise, like some debt-ridden Wall Street bank, is headed for collapse. Polarized into partisan camps, unable to bring spending into line with tax revenues, the Legislature keeps pushing the state’s problems into the future. But with each new year the problems seem to get worse, not better, and the solutions more elusive” (para. 2.). Governor Schwarzenegger said “It’s three months late because both of the parties stayed in their ideological corners and refused to come put.... Let me tell you something, last time they drew the district lines, they drew it themselves, and they created safe Democratic districts and safe Republican districts” (Yamamura, 2008, 10). Smith (2008) of the *Sacramento Bee* (2008) states “Lawmakers draw their own districts, and they’re rigged for one party or the other, resulting in a Legislature full of hard-line liberals and conservatives. That dynamic provides no motivation for finding a middle ground on spending and taxing decisions and could lead to political consequences in party primaries for those who compromise” (para. 19). “In the era of term limits, legislative leaders have little opportunity to gain crucial experiences needed to complete an increasingly complex task [the budget]” (para. 25). The resulting shorter view of term-limited legislators makes it more difficult for them to see the big picture and come to compromises.

“The process isn’t the problem; the problem is the problem—reconciling a budget billions of dollars out of whack is a monumental task in any structure—let alone doing it on time” (Smith, 2008, para. 26). “I do believe there is a disconnect in this building and there is a disconnect among the people between what we say we want and need and our willingness to pay for it” said Senate President pro Tem Darrell Steingerg (Capitol Weekly, 2008).

Walters (2008, para. 2) editorialized on public opinion of the dysfunction he observes at the capitol: “According to poll after poll, Californians are disgusted with the Legislature and only slightly less so with the Governor who was elected five years ago on a pledge to close the budget deficit and make state government work, but who has utterly failed to do so on both counts.” “More than 4 out of 5 voters also believe the state’s 17.2 billion budget gap is serious problem. Just 15 percent of the state’s voters are happy with the job being done by the Assembly and state Senate with 73 percent disapproving.... That’s not only the lowest mark the poll has ever recorded for the Legislature, it’s lower than any California Governor or senator has ever had....” quoting Mark Di Camillo, Field Poll Director (Wildermuth, 2008, para. 1-3). Voters think they can do a better job making decisions themselves.

“Part of California’s story ought to be familiar. Since 1978, California has been engaged in an orgy of constitutional reform: each time the system fails, appears to enter gridlock or generates voter frustration, we pass another initiative” (Shrag, 1995, para. 9)). “The same freewheeling initiative process that could bring about the ouster of Gov. Gray



Davis (D) has made the Governor's job virtually impossible in tough economic times, many California budget experts say. Decades of successive and often contradictory voter initiatives have mandated spending on schools, the homeless, roads, prisons, and the elderly, while severely limiting the government's ability to raise taxes to fund it" (Weisman, 2003, para. 9). Weisman quoted Mathew Mc Cubbins, a political scientist at the University of California San Diego, as saying "In California, the initiative process is unchecked and unbalanced" (para. 2). He goes on to say in 1978 voters passed Proposition 13, which lowered property taxes 60 percent and strictly limited tax increases forcing the state to rely more heavily on other volatile taxes, especially income taxes. Since then, in 1988 Proposition 98 hamstrung any efforts to cut education funding mandating a minimum level of funding based on the previous year. In 1994, Proposition 184 implemented the three-strikes-and-you're-out law mandating longer prison sentences requiring more prison space, guards, and expensive healthcare in the range of \$4.5-6.5 billion per year. Proposition 42 earmarked the state sales tax on gasoline for transportation, to the tune of \$1.4 billion plus each year (Weisman, 2003). "Various voter approved budget rules, notably the constitutional guarantee for minimum school funding, limit policymakers' choice for cuts. Other ballot measures largely protect transportation funds and local government payments" (Smith, 2008, para. 12).

Schrag (2008) editorialized that in the years since Proposition 13's passage it has compounded California's governmental and fiscal mess, not necessarily directly, but it reinforced the distrust of representative government, and bought on an onslaught of

“auto-pilot” ballot-box budget measures that’s both driven and restricted the state’s spending. As a result, “We borrow and fudge and struggle with a policy making process that’s little more than a string of ad-hoc votes driven by deep-pocket interest groups—public sector unions, railroads, insurance companies, real-estate groups, Indian casinos, oil and tobacco corporations, among others—the very groups whose influence the initiative process was once designed to check” (Schrag, 2008, para. 21).

### ***Lateness as a Public Policy Problem***

The lack of a state budget plan can delay or stop payments all together to the state’s most vulnerable populations. The poor, disabled, and elderly who rely on state assistance for their survival are put at risk. Government contractors building roads, bridges, water projects, schools, and other infrastructure and the people they employ are put at risk. Delays in payments to schools and healthcare facilities can cause teacher layoffs and cuts in the classroom or the demise of public hospitals and clinics. Delays in tax refunds are also an option for the state controller in a cash crisis, directly affecting the cash flow of individual Californians (McGreevy & Rau, 2009).

In extreme deficit years, a lack of a budget can cause a cash crisis. Such a crisis not only delays payments to contractors and state program aid recipients, it can be the cause of mass layoffs, furloughing of state workers, drastic cuts to schools, public health programs, and closure of state facilities that only worsen an already struggling economy. In January of 2009, State Controller John Chiang warned that in less than one month, the state would be out of cash to pay its bills, a full four months before the end of the fiscal

year, and he planned to delay nearly \$3.7 billion in tax refunds, grants to the poor, and college students. In 1992 the state was forced to issue promissory notes to government employees and contractors. The year 2009 required even more drastic measures, including the furloughing of state workers two days per month, slashing budgets by at least 10 percent, stopping road construction, and delaying tax refunds. Despite these draconian measures the state still nearly ran out of cash (Yi , Buchanan, & Wildermuth, 2009).

Repetitively late budgets and fiscal uncertainty lower the confidence investors have in the state. As a result the state's credit rating has plunged from AAA in the late 1980s to A by the mid 1990s where it has remained. Lower credit ratings make it more difficult to sell bonds, causing higher interest rates for the state to borrow money in the short term and greater costs to finance long term infrastructure. Finally, an erosion of public confidence in state officials makes it more difficult to build support for other important measures (Yamamura, 2008 & Yi, 2009).

### ***Need for Further Study***

This study seeks to empirically identify which factors influence the California Legislature's ability to pass an on time budget. Nearly all of the academic research done on state budgeting has focused on spending and taxation levels as outcomes of the process without regard to the success of meeting process requirements such as passage of the budget on time. The process is often targeted for reform but seldom changes without action by voters. As previously noted, newsmakers and reporters alike hypothesize that

without significant budgetary reform; the hard but necessary actions will continue to evade the grasp of policy makers. As previously illustrated, reporters, editorial boards, and think tanks believe California can no longer hope that economic growth will solve its fiscal problems. Persistent borrowing to fill structural deficits year after year will only exacerbate the problem. “California cannot make politically and fiscally difficult budget decisions in a strait jacket of constitutional and statutory constraints, antiquated procedures, inadequate information, insufficient public participation and unrestrained debt” (CCBC, 1995, p. 61). I have examined factors that influence the state budget process raised by popular media and academic research and identified which ones are the most obstructive to passing an on time budget. This identification will allow me to recommend specific reforms based on the causal factors that have been theoretically suggested and empirically supported.

### ***Chapters that Follow***

Chapter two reviews policy reports, academic and legal journals articles, empirical studies and reform commission recommendations to offer a comprehensive view of what is known about influences on the public budget processes in general and in California specifically. The body of literature identifies three areas of influence 1) institutional constraints such as the two-thirds requirement to pass a budget, tax and spending limits, and no-deficit carryover restrictions, 2) initiative processes and 3) political considerations including partisanship, public opinion, electoral issues including redistricting, term limits, and party control.

These elements form the basis for the variables under consideration in the methodology for this study, which is laid out in chapter three. Regression analysis, using the number of days that the budget was late as the dependent variable for the 37 years between fiscal year 1972 and 2008, and explanatory variables created from, Legislative Analyst data, electoral records, and legislative records. This analysis identifies which factors have exerted a non-zero influence on the lateness of the state budget measured by the numbers of days past or prior to June 15<sup>th</sup> the budget is passed, and the magnitude of the influence for each separate factor (as if the other factors were held constant).

Chapter four tests the theoretical model and presents my findings for the both the uncorrected and corrected regression models. A significant relationship was found between *Days Late* and *Term Limits* and a discussion of the magnitude of that relationship and additional model testing and analysis techniques are included to ensure that I had the best fit.

As previously stated, my analysis concludes that *Term Limits* influence the Legislature's ability to pass an on time budget. Chapter five explains this conclusion and implications for consideration by the Legislature and future researchers. Based on these findings, any effort at reform should concentrate on changing term limits or reducing their effects on the Legislature. I was unable to determine the effects of any of the other variables on the Legislature's ability to pass an on time budget in my analysis and further study of the factors beyond the scope of this study is needed.

## Chapter 2

### LITERATURE REVIEW

Previously identified news reports frequently suggest various factors that influence the lateness of the budget, but little academic research has been done examining the issue of late budgets. Significant empirical and anecdotal evidence points to constitutional or institutional constraints, however that affects budget outcomes such as spending and taxation rates. In my review, I will examine those academic studies that specifically speak to factors considered “constraints” on the process. While some mention of states other than California, and the federal processes is included, my review focuses on California’s unique process.

Most of the research in the area of the California budget is related to rules, constraints, fiscal discipline measures, or institutions, generally referred to in this review as “factors” and focus on the fiscal outcomes of the budget process not on the process deadline itself. At least four empirical studies examine multiple factors that influence spending and taxation levels. At least a dozen others study the impact of a particular factor. In addition to examining whether certain factors have an impact on the budget or not, a number of reports have recommendations for reforms of the process including those recommended by the CCBC in 1995 and the Constitutional Revision Commission (CRC) in 1996 that could be more effective at achieving the goals of previous reform efforts.

I will review each of the empirical studies that address multiple factors first and then expand the investigation of current literature organizing the information by the specific factors under consideration. These factors include the two-thirds majority requirement, partisanship and party control, term limits, open primaries, redistricting, interactions of the initiative process, the size of budget shortfalls, tax and spending limits, and public opinion. The section on the initiative process gives special attention to those initiatives given specific mention in the literature, including Propositions 98, 13, and 58. Other factors that arise from the literature include the influence of public opinion, use of the governor's line item veto power, and borrowing restrictions.

### *Foundational Studies*

In a widely cited study, Poterba (1994) explores taxes and spending in the late 1980s, when the economic recession and increased demands on the state budget led to substantial deficits. This study is important because it looked at a period of recession similar to the one California is experiencing in 2009. Regression analysis was used to examine how various factors including party control of the legislature and governor's office, no-deficit-carryover rules, tax and expenditure limits, the size of the projected deficit compared to expectations, and election year politics affect tax and spending levels.

Poterba's results indicate that political party control of the legislature, whether the governorship and the legislature are of the same party, and fiscal constraints such as no-deficit carryover and expenditure limits matter when making budget adjustments to accommodate losses in revenue. He suggests that the tighter the constraint, the more

rapidly adjustments are made in state budgets to compensate. The research findings predict that states without tax and expenditure limits raise taxes by \$1.03 in response to each \$1.00 unexpected deficit. While for states without such limitations, the predicted increase is only \$0.47. He found no evidence that spending cuts are any larger in states with tax and expenditure limits.

Poterba cautions however that his study only examined the 1980s and further study is needed to know whether these factors will affect long-run deficit dynamics. Additionally, he found the relationship between divided government and fiscal adjustment could be interpreted as a reflection of lower costs of reaching political consensus in single-party states. It could alternatively be interpreted that states where the governor and the state legislature are of different parties may reflect a more political vulnerability for both branches and that the officeholders would therefore be more reluctant to take unpopular actions such as raising taxes or cutting spending. This may indicate that political party control and whether it is an election year or not may be influential in the timeliness of a budget.

Alt and Lowry (1994) also studied the effect of party control modeling state budget outcomes under divided partisan government, drawing many of the same conclusions Poterba reached over a longer period of time and across states. Their regression analysis considered party control, federal contributions, projected surplus/deficit, unemployment, per capita income, and budget restriction variables effect on revenue and spending. Then combining structural and reduced form estimates, they



tested hypotheses about spending and the composition of responses to deficit shocks. Finally, they examined simulation results to investigate conditions under which recessions cause larger cumulative deficits. It also provided a comparable study to Poterbas's to determine if divided control affects government's ability to make hard decisions if institutional rules matter. They used data between 1968 and 1987 from the 48 continental states and concluded, as Poterba did, that divided government has fiscal consequences and that various factors influence fiscal outcomes and timing.

Their general findings were that party control matters, particularly when unexpected deficits occur under divided government. There are systematic differences between Democrats and Republicans, however the difference is not as simple as Democrats just tax and spend more. Instead, different party goals, such as Republicans' desire to limit government and Democrats' desire to protect safety net programs, cause different reactions to permanent changes in expected income as affected by federal aid and the economy, which are reflected in spending level preferences in a particular year. If Democrats have made promises to provide an extension of unemployment benefits in a recession, they may prefer to increase payroll taxes to pay for it rather than Republican's preference to incentivize workers to find work more quickly by limiting benefits and therefore limiting the expense to the state and keeping taxes low. Institutional constraints on the ability of state government to manage fiscal policy, such as no-carryover deficit laws, matter. The level of spending in a particular year therefore depends collectively on

partisan preferences, past history of spending, partisan control and other exogenous factors.

Alt and Lowry (2000), using ordinary-least squares regression, also analyzed the politics of fiscal adjustment, addressing deficits, in a bicameral system when parties prefer different scales of taxes and spending. Measuring changes in state income, their specific explanatory variables included speed of adjustment, income forecast, income forecast error, federal aid, general revenue, revenue change, surplus or deficit, and various party in control combinations. They focused on inflection points measured as when elections change partisan control of one or both chambers of the legislature or the governorship from 1952 to 1995. Using data from 33 non-southern American states, they showed how partisan conflict over the desired size of government matters.

When a new party gains or loses control of both the executive and legislative branches of government, they have the greatest opportunity to make fundamental changes in the taxing and spending ratios of the budget in their first two years in power. Similarly if one house of the legislature changes party control, but the governorship and other house remain the same, the party coming to power still has an opportunity to effect changes that fit its fiscal ideology, subject to the constraints of the process. The central point was that in transition, as long as spending and revenue react in opposite ways to the business cycle, the legislative party in control can always take advantage of changes in the economy to shift budget targets in its direction although less so, than with unified government.

Additionally, their results suggest differences in parties responding to fiscal imbalance. Republicans who gain control from Democrats act as if they would like government to shrink, Democrats want government to grow. Democrats are five percent more successful at achieving their target level of spending than Republicans. Therefore, Democrats' chances of getting changes in revenue are more likely than Republicans' are. In California this seems to have not been the case, but instead a lack of change in revenue patterns has created a persistent structural deficit. The predicted change in revenues for Democrats taking control is 10 percent greater, even when the legislature is under split control, making it an inconsistent assumption that the minority gains an advantage in negotiations by refusing to agree to a budget proposal. However, no-carryover deficit laws obscured party differences in response to fiscal imbalance and the results were even weaker when supermajority requirements were ignored in the coding.

What is important to note is that all of these factors were influential to the results and reinforce that when it comes to fiscal decision making: party control, supermajority requirements, and no-carryover laws do matter in combination. Alt and Lowry's assumptions were based on supermajority control of each chamber of the legislature existing or not, rather than the numerical size of legislative coalitions or the governor's electoral strength. Neither party in California enjoys supermajority control of either house of the legislature, so in studying the California case, the actual number of seats held or actual percentage may be important and will be considered in the study.

Most recently, Cain and MacKenzie (2008) at the Public Policy Institute of California (PPIC) examined fiscal factors outside the partisan context. They compared California's institutional constraints with those of other states and reviewed the academic evidence of the importance of those restrictions. They found "that in fact there is not much distinctive about California's revenue and spending patterns compared to other states regardless of constraints" (p. 4). The reason these constraints do not hold down spending and taxes is that the Legislature and Governor simply found loopholes in constraints and worked around them by increasing fees, financing infrastructure through bond measures, shifting spending onto local government, or increasing taxes on specific items that are less controversial than general tax increases such as taxes on cigarettes and alcohol.

News reports provide examples, "Critics and supporters agree that the Proposition [13] that has held down property taxes but not held down overall taxes nor throttled government in the way its founders had hoped" (Lochhead, 2003). When voters imposed term limits, they also mandated a reduction in legislative staff. Lawmakers worked around the provision by transferring their research analysts to the state library system and education aides to the Department of Education, effectively cutting their staff, without trimming their budget (Weisman, 2003).

Fiscal patterns in California are similar to less constrained states. Despite being a highly constrained state, California is not a low-tax state, in fact as of 2007 Californians paid 14 percent higher taxes than other states on average. Placing ceilings on the amount

of revenue generated from certain sources, such as Proposition 13 did on property taxes, constraints have created incentives to find other ways for government to raise revenues. Local governments began to compete for retail development and harness more sales tax revenue. The state has used bonds to balance budget shortfalls and finance infrastructure. In the 1965-66 budget year 42 percent of infrastructure was financed through bonds, in 2005-2006 it was 73 percent. Proposition 39 lowered the approval threshold to 55 percent for local governments to finance schools, which they have taken advantage of in abundance. Public opinion polls and passage rates of fiscal impact initiatives consistently show sufficient support for bonds and fees on specific items for specific purposes, but not general tax increases. In essence preferring to buy on credit rather than pay up front (Cain and MacKenzie, 2008).

Cain and MacKenzie also compared the mix of revenues and expenditures for the three most constrained states (California, Colorado, and Oregon) and the three least constrained states (New Jersey, New York, and Pennsylvania) using the years 1977 and 2000 for comparison. They found property taxes make up a smaller percentage of gross domestic product (GDP) in Colorado and Oregon as well as New York and New Jersey than they did in 1977, but the reduction in California was most dramatic. The percentage in income tax was greater in all the most and least constrained states. California was second only to Oregon amongst the six states for the percentage change in fees increasing from 1.5 percent to 2.4 percent amongst constrained states; however, the unconstrained states also saw increases, New York for example, as state similar in scope to California,

increased from 1.6 to 2.2 percent of GDP. Sales tax proportions stayed close to the same in all six states or decreased slightly. The biggest growth in percentage shift for all six states, more than doubling in California, was in the area of other miscellaneous revenue including fines and forfeitures, lottery revenue, interest income, rents, royalties, special assessments, and utility charges. Providing further evidence that revenue constraints put in place since 1977 [following Proposition 13] have not reduced total revenue compared to other states, but has changed where that revenue comes from.

On the expenditure side, their comparison found that for all the blame placed on initiatives being a major constraint to the budget process and distorting spending preferences, California's mix of expenditures is similar to that of other constrained and unconstrained states. The largest category of spending for all states was K-12 Education, which actually decreased as a percentage of GDP in California from 3.7 to 3.5 percent despite the minimum set by Proposition 98. A similar if not larger decrease was shown in more constrained states, but in only one state without constraints, Pennsylvania, did the percentage increase. California's higher education spending percentage also decreased, whereas all other constrained and unconstrained states showed increases. All constrained states maintained or increased spending on environmental and housing expenditures; two of the three unconstrained states decreased their spending in those areas, but only marginally. Other spending categories on social services, healthcare, transportation, public safety, and general government showed similar trends regardless of whether constraints were present or not in all states studied (Cain and MacKenzie, 2008). This

evidence suggests that constraints have not changed the total amount of taxes collected in California or the mix of how we spend those dollars.

Bailes and Tieslau (2000) examine the factors that have an effect on state and local spending across the states. They divided these factors into three categories. First, constraint mechanisms that relate directly to spending and revenue levels including budget rules such as tax and expenditure limits, line item veto powers, balanced budget requirements, and super majority requirements for tax increases. Second, administrative constraints having to do with how the budget process is carried out or on those who pass the budget including term limits, bill introduction limits, and the length of the budget cycle were studied. Finally, they focused on the direct democracy mechanisms of initiative and referendum.

Their analysis was based on a panel data regression model that incorporated both time series and cross-section data. The study included observations from forty-nine states at five-year intervals from 1969 to 1994 and was fairly comprehensive in nature. Their evidence suggests that spending decisions are influenced by certain fiscal discipline factors. States that have adopted tax or expenditure limitations, states that provide an initiative process, and states in which there are term limits generate significantly lower levels of per capita state and local spending in combination with one another.

These results are consistent with the Poterba and Alt studies. They further conclude that other factors have been inefficient at constraining growth in public sector spending including the imposition of a balanced budget requirement, tax and expenditure

limitations, and supermajority voting requirements, except when these factors are imposed in combination with one another. What follows is a summary of additional research focused on singularly specific factors that influence the budget process including the supermajority requirement, term limits, reapportionment, redistricting, initiatives, the projected size of deficits, unfunded federal mandates, certain electoral considerations, and public opinion about decision makers.

### *Additional Study of the Supermajority Requirements*

A secondary element perceived to make the two-thirds supermajority requirement a roadblock to passing a budget or raising taxes, and may be an underlying cause of gridlock, is an increase in partisanship. Knight (2000) studied the supermajority requirement's effect on tax rates. He found that among the 48 continental states included in his study, supermajority states and non-supermajority states had identical average effective tax rates of 7.13% in 1995. However, while it would appear that supermajority requirements do not reduce taxes, instead it appears that states choose to adopt supermajority requirements for different strategic reasons related to tax policy. Other than Knight's, the four most prominent studies on supermajorities are Kenyon and Benker (1984), Crain and Miller (1990), and Temple (1997). Temple is the only study that considered the endogeneity of supermajority requirements using fixed-effects and random growth models to control for selection on unobservable state level data from 1970-1994 and found that supermajority limitations do not reduce the level of taxation. Crain and Miller's regression analysis analyzed per-capita growth rates in real state



spending over two year periods between 1979 and 1986. Kenyon and Benker surveyed the various fiscal restraints including supermajority requirements to pass a tax increase. Both studies indicate that supermajority requirements have an effect, but that effect may not necessarily be fiscal. However, Kenyon and Becker found that in most cases it provides the minority party with a strong bargaining position to deal with the majority party. Crain and Miller also found that there is a slight reduction in spending growth over two year periods, however they did not control for other potential factors, which may bias results. The overall conclusion of work in this area is that in line with previous studies, the supermajority requirement does not appear to have significant fiscal affects on its own, but may have effects in conjunction with other factors or may have other effects on the budget process such as causing them to be late.

### ***Reapportionment, Redistricting, and Term Limits***

The studies previously discussed clearly indicate that party and partisan control matters when it comes to making fiscal decisions. There have been three main events over the past 50 years to blame for major changes in the make up of the Legislature and partisan majorities in California: reapportionment, redistricting, and term limits. The collective consensus is that only the apportionment of districts has had any effect on policy in the California Legislature, but not necessarily partisanship. However, an increase in partisanship does exist within the Legislature.

In 1962, many state legislatures, including California, were unrepresentative of their populations. In the landmark *Baker v. Carr* decision (1962), the court ordered

districts be re-drawn with respect to equal proportions of population. The conventional wisdom amongst reformers and political scientists was that malapportionment had a significant affect on state policy. Studies have in fact indicated that following the reapportionment of the California State Legislature there was a change in policy, specifically an increase in party cohesion, within the policy formation process by 1972 (Saffell, 2005). Since then however, the one man, one vote standard being unquestionable, the focus has shifted to where the lines are drawn through the redistricting process each decade following the census.

Despite calls by both Democrats and Republicans for redistricting reform that they allege will solve their problems, there is no evidence that suggests a partisan or policy thrust as a result of redistricting (Lowenstein, 2008). McGhee's comparative study found redistricting was not to blame for increased partisanship; partisan tides, political scandal, changing demography, and district composition are many factors that influence legislators' sense of electoral security. "Polarization of parties has been mostly a gradual process in the Assembly without sudden changes at the beginning of each decade when the new district lines are put into place" (McGhee, 2008, p. 10).

McGhee (2008) finds in a study focused on the 2001 legislatively drawn districting process that redistricting has caused an increase in partisanship and gridlock in Sacramento citing a number of other reasons including voter polarization and partisan sorting among the general public, growing activist influence in party affairs, interest group intransigence on specific issues. In 1971 and 1991, court appointed panels redrew

district boundaries without regard for incumbency or party affiliation in registration creating a large number of mixed districts, in 1981 and 2001 the Legislature's own redistricting plan was adopted preserving incumbent seats and solidifying partisan splits in the Legislature. However, he finds no evidence that this caused a change in policy outcomes. A change in redistricting methodology would not appear to be an effective tool for decreasing partisanship in the Legislature. He further noted that adding more mixed districts would not likely increase the number of moderate members of the Legislature since legislators elected from mixed districts do not necessarily represent moderate views and voting patterns now.

Third on the list of top systematic constraints in the Legislature creating greater partisanship is the imposition of term limits. Passed in 1990, Proposition 140 restricts Assemblymembers to three two-year terms and Senators to two four-year terms. The popular assumption is that term limits have polarized newly elected members of the Legislature. Cain and Kousser (2004) used a collection of qualitative and quantitative data that included voting and archival records, interviews with legislators, and informed observers and staff both inside the Legislature and executive branches and outside observers. They demonstrated that new legislators entering the capitol are no more ideologically extreme than they were before the imposition of term limits, but the longer they serve in the Legislature, the more likely they are to take strongly polarized action along party lines as they become less threatened by electoral pressures. Their final

conclusion is that while term limits may not have been the cause of increased partisanship in the Legislature their effect on the budget process has never been clearer.

With a shorter time horizon in the Legislature there is greater focus among members on their next elected office rather than formulating good policy and providing oversight for government administration. Lacking their predecessors' experience in Sacramento, members elected under term limits know less about government programs and the budget as a whole. They are therefore more likely to vote and act at the direction of partisan leadership in a partisan fashion. Relatively little work is done on budget subcommittees and the Legislature is asked to vote on budget bills largely worked out behind closed doors between the Governor and a small number of partisan legislative leaders without thorough examination and debate by the body as a whole as it pertains to individual items. Looking closely at the budgets written during comparable sessions before and after term limits, Cain and Kousser found that the Legislature made roughly 50 percent fewer amendments to the Governor's budget, and significantly fewer audit requests. Term limits have thereby sharply damaged the independent voice of the Legislature in the budget process and led to partisanship and gridlock deeply protracting the budget process, but neither of these has been caused by term limits. "...The budget process needs to be fixed as part of the structural remedy that will prevent a repeat of the deficits we have seen in recent years. The incentives to make a mark without dealing with the consequences are not good for fiscal accountability" (Cain and Kousser, 2004, p. 100).

While these studies demonstrate that reapportionment, redistricting, and term limits may not themselves have caused the Legislature to become more partisan over the last two decades, it has become more partisanly polarized. One potential cause is increased polarity among voters as they sort themselves in a more concentrated way across districts toward one party or another and producing perhaps more polarized representatives in the Legislature as a result that could explain the impact (McGhee, 2008). In which case, they should be in closer alignment with the people they represent, and yet it is puzzling that the evidence suggests the people do not trust the Legislature as a body to make decisions.

### ***The Influence of Initiatives***

In terms of passing a balanced budget, the most commonly blamed obstacle is California's perceived propensity toward ballot box budgeting, that is the practice of passing tax and spending policies, directly by voters through the initiative process. Three initiatives in particular are identified as factors that influence the Legislature's ability to pass a budget on time: Propositions 13, 98, and 58.

Matusaka (2005) directly addressed the question of whether voter initiatives have paralyzed the California budget. The hypothesis is that voter initiatives have tied legislators' hands by locking in high spending and simultaneously prohibiting tax increases. These constraints make it nearly impossible to make strategic choices necessary to efficiently balance the budget each year. Matusaka reviewed all 98 statewide initiatives approved by California voters since the process began in 1912 that

were in effect for the 2003-2004 budget cycle. Since many of the initiatives affect special non-general fund accounts, he considers all state spending, not just the general fund, and concludes that at most, 32 percent for the 2003-2004 state spending was locked in by initiative and asserts that much of that spending would have likely been dedicated to those same purposes anyway. On the revenue side, he finds that there were no significant constraints on the three most important revenue sources for the state: income, sales, and corporate tax. He does not consider, however, that because Proposition 13 severely limited property taxes, its importance in the mix of taxes were drastically lowered (Matsusaka, 2005).

Some researchers offer conflicting views on how the initiative process affects the budget process creating constitutionally mandated formulas, protected funds, and off-budget departments that have seriously eroded the comprehensiveness of the budget process, which restricts lawmakers ability to compare programs and the margins and make allocation changes for efficiency (Musso, Graddy, and Girizard, 2006). By 1990, the Legislative Analyst's Office (LAO) reported that 88 percent of all spending decisions in the budget were restricted by state or federal laws, leaving only 12 percent of the budget under the control of state budget decision makers. Other identified constraints brought the true "discretionary" decisions made by the state budget down to 8.5 percent (LAO, 1990). The LAO is however, perhaps appropriately, referring only to the General Fund budget, which makes sense because the Legislature has little control over the revenue sources and expenditures of special funds.

These figures point out that while a relatively small percentage of total state spending is locked down by initiatives as Matsusaka points out, the percentage of the budget lawmakers can actually make adjustments to is relatively small. What should actually be considered is the percentage of general fund revenues available after initiative constraints are considered. In so doing it could not be ignored that the largest problem would be Proposition 98, which locks down nearly 40 percent of general fund revenues for education alone. In addition to the consideration of expenditures, on the tax side, Proposition 13 limited property taxes to one percent of the assessed value, in effect cutting tax revenue to local government by about 50 percent. As a result, the state stepped in to make up the difference indirectly increasing expenditures (Matsusaka, 2005).

A number of initiatives that would have an effect on the budget process have been placed on the ballot over the last decade in an effort to limit spending. The recently passed Proposition 58 titled “The California Balanced Budget Act” in 2006 created a budget reserve of 2 percent in 2000, 3 percent in 2008, and increasing one percentage point every year until it reaches 5 percent of the general fund. It also requires the Legislature to pass a balanced budget, allows the Governor to make midyear adjustments by declaration of a fiscal emergency and calling of a special legislative session. If action is not taken by the Legislature within 45 days, they cannot adjourn or take up any other measures. Finally, Proposition 58 prohibited the issuance of any further general

obligation bonds and revenue bonds for long term financing of deficits (Musso *et al.*, 2006).

A few other items raised should be considered when determining what factors affect the budget process having to do with perceptions of influence. They include the size of the projected deficit, unfunded federal mandates, certain electoral considerations, and public opinion about decisions.

***Additional Research: Tax and Spending Limits, Balanced Budget and Reserve Requirements, Public Opinion, and Federal Mandates***

Musso *et al.* (2006) contend that many of the external factors blamed for deficits and delays in the budget process are not empirically justified. As such, they focused on elements internal to the legislative institution in formulating a budget: budget periodicity, tax and expenditure limitations, balanced budget and reserve requirements, and super majority requirements of the budget process. Consistent with previous findings they find there is not evidence that supermajority, balanced budget, tax and expenditure limit, and reserve requirements have an effect on their own. They assert; however, that there are other factors at play that could have an impact on passing a budget on time.

They suggest that the persistence and size of projected deficits contribute to the contentiousness of negotiations. The size of unfunded federal mandates that increase expenditures could have an effect despite the Legislature's inability to limit their effects via law making. They suggest that while biennial budgeting has been suggested as an alternative to support longer term planning and less volatility, there is scant empirical evidence that longer budgeting cycles would have any effect on the budget process. And



finally, formula driven appropriations such as Proposition 98 and earmarked tax sources such as Proposition 10, which earmarked \$0.50 per pack of cigarettes for community based parental education and family support services impede lawmakers' ability to make trade-offs. (Musso et al., 2006).

The National Conference of State Legislatures constantly monitors the cost of federal mandates to the states. Their study released in 2004 indicated that state governments in that fiscal year were confronted by at least \$29 billion in cost shifts from the federal government. Over the last four years, states were forced to deplete reserve accounts, reduce or eliminate programs, and increase fees and taxes in order to close the cumulative budget gap of more than \$130 billion. Despite the Unfunded Mandate Reform Act (1995), the federal government, which has no balanced budget requirement, has continued to increase regulation and make program shifts to the states. This has increased the gap put further pressure on already cash strapped states, including California, when attempting to balance their annual budgets (NCSL, 2008).

### ***Review of Suggested Reforms***

Finally, my review would not be complete without consideration of recommendations that have been made for reform. While not founded in empirical research, Lowenstein (2008) makes the point that ultimately the public decides major matters, whether in electing officials that make decisions directly through the initiative process, or in rating the popularity of politicians in public opinion polls. Therefore, if you want to increase spending, change tax policy, or shift fiscal focus, then what you

need to do is persuade the public that whatever you want to do is a good idea rather than trying to use gimmicks to work around the imposition of constraints they have voted in to keep politicians from doing things they do not like.

The California Citizens Budget Commission (1995) suggests that if we want citizens to understand policy decisions to a greater degree, the budget process should be simplified and include more comprehensive information for public consumption. The fact that no-deficit carryover laws have the most significant effect on governments where there the governorship and legislature are controlled by the same party suggests that in the end electoral accountability, or the threat of being unseated, is an effective mechanism of enforcement as the media and organized interest groups mobilize public opinion (Alt and Lowry, 1994).

The PPIC research recommends rather than working to change the system of constraints, a wiser approach might be to work within the existing framework of public consent, targeted taxes, mistrust of government, and sequential ballot box budgeting. Some of their suggestions include getting the public to connect more closely to the level of services it wants with a willingness to pay for them. The Legislature should also increase its scrutiny of the Governor's budget proposals and improve oversight of state agencies and programs. Achieve coherence within the fiscal framework of ballot box choices by the public. And review revenue sources for stability reflective of a changing economy adopting alterations to tax policy that make sense such a tax on services.

The Citizens Budget Commission added a recommendation that the Legislature should be required to balance the state budget on an annual basis, not just on paper using accounting gimmicks and short or long term borrowing. They also recommended the budget document be comprehensive in nature, explain public priorities for state government, list all spending and revenue decisions, and detail their impacts on local government. The Legislature should also be allowed to pass a budget bill by simple majority vote, but still be requiring a two-thirds vote to raise tax rates or override gubernatorial vetoes (CCBC, 1995).

In addition to recommendations for reforming the budget process itself, McGhee suggests that reforms to the process by which budget decision makers in the Legislature are elected could influence the process by reducing partisanship. Placing limits on campaign donations, creating open primaries, allowing for cross-filing, and holding non-partisan elections could improve the chances of bipartisan cooperation in the Legislature. Finding ways to mobilize moderate voters who sit on the sidelines through a third party, interest group coalitions, or a dynamic candidate could provide more moderate and less partisan polarized Legislatures (McGhee, 2007 and 2008).

Krohl recommends that rather than trying to limit spending or taxation directly, empirical evidence suggests reforms within the existing framework might be more effective. Limiting the ability of politicians to work around constitutional tax and expenditure limitations including restrictions borrowing and off budget spending, broadening the Governor's power by including an expenditure reduction veto rather than

a simple line item veto, and not allow deficits to be carried forward to the next fiscal year. Balanced Budget rules work best to limit spending when this constraint holds (Krol, 1997).

There is much supposition in the news media, but no empirical research on the factors that have made the Legislature increasingly unable to pass a budget on time. The two-thirds voting requirement, which is commonly supposed to be the principal factor, can not be the primary variable, since the Legislature passed on-time and early budgets for nearly four decades after that threshold was put in place. The supermajority threshold may have a significant effect on the Legislature's ability to pass a budget on time; however, but as much of the empirical research finds with regard to taxation and spending influences, it is more likely a secondary variable. The primary factors exacerbated by the two-thirds requirement being institutions, political, and fiscal factors. None of which have been empirically investigated.

As previously mentioned, the constitutionally mandated due date for passage of the budget is June 15<sup>th</sup>, a deadline almost never met by the Legislature in the past 30 years. Popular media points to passing late budgets as a failure of the process with dire consequences for the state, as a whole, and individual residents. This chapter reviewed evidence from the academic research done thus far related to the budget processes, constraints, and institutions of state legislatures—supermajority requirements, spending caps, no-deficit carryover laws, line item veto powers of the governor, party control, term

limits, redistricting, federal aid, the size of expected deficits, per capita income, initiatives, and public opinion.

From this research I gleaned an understanding of what variables affect levels of spending and taxation as well as the political and institutional constraints of policy making. In most cases factors do not act alone in influencing outcomes. And that suggested reforms by public policy advocates are not necessarily founded in research—such as the widely recommended elimination of the supermajority requirement. I concluded that some of those variables—size of expected deficits, term limits, redistricting, initiatives, partisan targeting, public opinion--may be the same factors that affect the Legislature's ability to pass an on time budget and have created a model for analyzing such variables outlined in chapter three.

## Chapter 3

### METHODOLOGY

This study's purpose was to understand what factors influence the state budget process and affect whether it is completed in time to meet the deadline for passage. This chapter describes analysis undertaken to determine the influence of these factors. It includes a description of the sample, reasons for choosing the time series selected, sample size, and the collection of data. I detail each of the variables included in the analysis, why they were chosen, how they were calculated, and the source of data. Finally this chapter discusses the method of regression analysis, the equations involved, and the descriptive statistics associated.

#### *Sample*

The unit of analysis was the California State Legislature as an institution. I conducted a time series multiple regression analysis with the dependent variable being the number of days late or early the Legislature has been in passing a budget. The sample used data measured over time between 1972 and 2008. I compiled and constructed data for the years 1972-2008, which provided 37 cases, one for each of the budget years. All variables contained data points for each case.

There are several reasons for not extending the analysis period deeper into the past. First, the Legislature was not a full time professional institution, as it is today, before 1966. Second, the *Baker v. Carr* decision in 1962 in applying the "one man, one vote principle" dramatically changed the structural make up of the Legislature. Prior to

the decision, Los Angeles County had a single senator, as did three mountain counties with only two-tenths of a percent the population. True legislative redistricting did not exist prior to *Baker v. Carr* and the subsequent *Reynolds v. Sims* (1964) decision that required both houses of a legislature to be based on population, replacing the prior system of reapportioning seats among counties. The political environment and organization operated so dramatically differently before these two events, that including data prior to them would have introduced a major discontinuity in the series. Finally, it did not make sense to study how factors affect the legislature's ability to pass an on time budget that did not exist before 1972 when the June 15 legislative deadline was put in place.

### ***Choice of Variables***

The causal or independent variables chosen to explain differences in the dependent variable of days budget late over time were: 1) percentage change in revenue from previous year, 2) strength of majority party (Democrats) as a percentage the Legislature as a whole, 3) the number of years previously in a row the budget had been late, 4) percentage elected post term limits, 5) percentage elected in legislative drawn districts vs. court drawn districts, and the dummy variables 6) pre or post Proposition 13, 7) pre or post Proposition 98, and 8) the Governor's party same or different than the majority of the Legislature. As previously stated, I chose these variables based on the factors of influence mentioned in popular media reports and a review of the empirical and theoretical research on the subject of subject matter.

I excluded the supermajority threshold as a variable because the requirement has remained constant throughout the entire study sample period. Therefore, it was unlikely that the supermajority requirement is a causal factor in passing a budget on time, even though it may intensify the effects of some other explanatory factors. Additionally, it was not practical to expand my time series to pre-1933, when the requirement was put in place, because data was unavailable and the make-up of the Legislature and political climate was so radically different than is the present case, that any result would be irrelevant.

I exclude spending caps and no-deficit carryover laws as possible variables because the Proposition 58 (2004) spending cap measure was too recent to observe any significant effect, and changes to the laws through Proposition 98 (1988) and Proposition 111 (1990) significantly detoched the previous Proposition 4 (1979) Gann Limit. I also excluded the federal aid and income in the analysis because these factors are beyond the control of the Legislature and must be accepted as given inputs in the budget process that may affect the timeliness of the budget, but are not changeable through budget process reform. In addition, existing research did not strongly support these as causes of late budgets. Finally, I excluded the Governor's line-item veto power because it is a part of the budget process beyond the Legislature's control that occurred post passage. It is likely a major contributing factor as to what is included or excluded in the budget itself, requiring near total agreement by the Governor prior to passage in order to avoid significant changes through line item veto, which likely does cause the process to take



longer. However, like the two-thirds requirement, it has been part of the process throughout the entire time series being examined and therefore cannot be a major factor in the increasing number of days the budget has been late.

### ***Operationalizing the Variables***

*Dependent Variable: Number of Days Late.* This is a positive number in the coding when late, zero for years when the budget was passed on June 15<sup>th</sup>, or a negative number for years when the budget was passed before June 15<sup>th</sup>. The source for this data was the Chief Clerk of the State Assembly who provided the Assembly and Senate budget bill passage date for each year from 1972-2008. The date on which the later house of the Legislature passed the budget bill identified the final passage date of the variable. This continuous variable was measured by calculating the number of days late or early by subtracting the date of passage from June 15.

$$\text{Days late/Early} = (\text{Passage Date} - \text{June 15})$$

*Independent Variable 1: Size of the change in revenue.* Because the Legislature is required to pass a balanced budget, it is a logical assumption that the further apart that anticipated revenues and expenditures are; the more difficult it would be to close the gap. Therefore, using the projected deficit or surplus legislators were given to bring into balance with actual revenues and expenditures would have been ideal. However, the consistency of such projection data from the Department of Finance, Legislative Analyst, and news media accounts was unreliable due to changes in calculation methods, different administrations producing estimates, and in many cases before the early 1990s such

projections were simply not made. Therefore, I substituted as a measure of volatility in budget projections, the percent change of actual revenue year over year as calculated by the Department of Finance as the source for this variable.

*Independent Variable 2: Strength of the Majority Party.* Previous research on the fiscal effects of party control examined which party was in control and whether there was unified party control among the houses of the Legislature and between the Legislature and the Governor's office. I chose to measure the strength of that majority's control for two reasons. First, as was cited in the previous chapter, different parties have different goals that influence their target spending levels, which may also have an effect on their willingness to make concessions to the minority party in contentious negotiations. Second, since data is not available pre-1933 to test the supermajority requirement, it is assumed that the two-thirds requirement is a problem only because budget votes are usually cast along party lines and neither party has supermajority control of the Legislature. Therefore, I wanted to test the effect of the strength of majority that they did hold on the ability of the Legislature to pass the budget on time.

I measure the strength of the majority party as a proportion of the Legislature as a whole. Using data from the Assembly Chief Clerk's Office, I calculated the number of legislative members holding office in the majority party during budget negotiations for each year divided by the total membership. I chose not to give special treatment to the two years when the two houses were controlled by different parties because the assumption is that even if one house had enough votes to pass the budget, compromise

and concessions would still be necessary to make it acceptable to the opposing majority of the other house and the proportion of total membership should control for this possibility. My hypothesis was that that the stronger the majority, the fewer days it would take to pass a budget.

*Independent Variable 3: Number of Consecutive Years the Budget has been Late.*

This discrete variable was selected because there may be a desensitizing effect of continuously passing late budgets, meaning that the greater the number of years a budget is passed late, the less of an impact the Legislature assumes passing it late again will have on expected problems with government functions and public opinion.

*Independent Variable 4: Percentage Elected Pre vs. Post Term Limits.* For this discrete variable, I measured the percentage of legislators voting on the budget who were first elected to office prior to term limits going into effect and the percentage first elected after term limits went into effect. I predicted that, as cited in the literature, the shorter the potential time horizon of the majority of legislators, the greater the potential there would be for conflict and self interest in the budget process and therefore the longer it may take to reach collective compromise and pass the budget. The source of this data was the Assembly Chief Clerk's Archives and measured by dividing the number of seats held by members of the Legislature first elected before 1992, for each year of the study, divided by the 120, the total number of seats in the Legislature, equaling the percentage of the Legislature elected prior to term limits as my standard measure.

*Independent Variable 5: Percentage of Legislature Elected in a Court Drawn vs. Legislature Drawn District.* While there is no empirical evidence in the literature to support the popular contention that who draws district lines has an impact on policy decisions, no study has been done on how the partisan effects of redistricting might influence the Legislature's ability to pass a budget on time. Therefore, given the amount of news media attention and ballot initiatives focused on the subject I included it in this study. I hypothesized however that whether the majority of legislators first elected to a court drawn seat rather than a Legislature drawn seat will have no significant relationship to the timeliness of budget passage, just as Cain found it had no effect on an increase in partisanship in the Legislature. The source of this data was the Assembly Chief Clerk's Archives. I measured the by calculating the percentage of seats held by members of the Legislature first elected to the body in a court ordered district vs. a Legislature drawn. I calculated the percentage by dividing the total number of members first elected to a court drawn district by 120, the total number of seats in the Legislature, equaling the percentage of the Legislature elected in a court drawn district as my standard measure.

*Independent Variable 6: Pre or post Proposition 13.* The nominal dummy variable, pre or post Proposition 13, was included in the study because it was the most widely criticized, of the initiatives, as being restrictive to the budget process on the revenue side of the balancing equation. The literature also cited it as being the most restrictive initiative on revenues in the budget process. As such, it may be a contributor to late budgets but because the literature also revealed evidence that the Legislature has

found ways to adjust with new revenue sources, I hypothesized that Proposition 13 does not serve as effectively as a roadblock and delay the budget. The data set was easily created for this variable as all budget years prior to 1978 were coded as 0 and all budget years after were coded 1.

*Independent Variable 7: Pre or post Proposition 98.* The nominal dummy variable pre or post Proposition 98 was included in the study because it was the most widely criticized of the initiatives, and cited in the literature as being restrictive to the budget process on the expenditure side of the balancing equation. As such, it may be a contributor to late budgets; however, I hypothesized that it was not a significant factor in the lateness of the budget because of the complexity of provisions in the law that allow for its suspension, which have been exercised a handful of times in addition to the fact that the Legislature has found ways to circumvent the requirement through accounting gimmicks and manipulation of the required formula which mitigate its potential effect. The data set was easily created for this variable as all budget years prior to 1988 were coded as 0 and all budget years after were coded 1.

*Independent Variable 8: Party of the Governor Same or Different from Legislature.* The literature showed that unified governments where the controlling party of the Legislature and the party of the Governor were the same had an effect on levels of spending. Departing from the guidance of the literature, I hypothesized there were two reasons in the California Legislature that the party of the Governor would have no significant effect on whether or not a budget deal could be reached and passed on time.

First, I must note that in California, Democrats have held the majority in the Legislature and there has been Republican Governor two-thirds of the period 1972-2008. Therefore, this variable is essentially the same as saying was the Governor a Republican. And second, California Republican Governors tend to be more moderate, such as Governor Schwarzenegger, who is currently more frequently in agreement over budget negotiations with Legislative Democrats, than with members of his own party. Given the references in existing research, however I included this nominal dummy variable to test this hypothesis. Data for this variable was compiled from statement of votes provided by the Secretary of State where all years in which the party of the Governor was the same as that of the controlling party in the Legislature it was coded as 0 and all budget years when the Governor was of a different party data was coded as 1.

Table 3.1 Description, Expected Sign, and Source of Variables			
Variable	Description and Coding	Expected Sign	Source
Days Late	Dependent, Continuous Variable Y= Num of Days passed June 15	NA	Assembly Chief Clerk's Office
Size of the Change in Revenue	Independent, Continuous Variable X <sub>1</sub> = Percent change in revenue from previous year	Positive	Department of Finance and LAO
Strength of Majority	Independent, Continuous Variable X <sub>2</sub> = Num of Members in Majority / 120	Negative	Assembly Chief Clerk's Office
Years in a Row Late	Independent, Discrete Variable X <sub>3</sub> = (Budget Yr -1) – Last Yr On Time	Positive	Assembly Chief Clerk's Office
Pre/Post Term Limits	Independent, Discrete Variable X <sub>5</sub> = Num of Members 1 <sup>st</sup> Elected Pre-Term Limits / 120	Positive	Assembly Chief Clerk's Office
Court/Legislature Districts	Independent, Continuous Variable X <sub>5</sub> = Num of Members in 1 <sup>st</sup> Elected in Legislative Drawn Districts / 120	Uncertain	Assembly Chief Clerk's Office
Pre/Post Prop 13	Independent, Dummy Variable X <sub>7</sub> = 0 if pre Prop 13 X <sub>7</sub> = 1 if Post Prop 13	Uncertain	Assembly Chief Clerk's Office
Pre/Post Prop 98	Independent, Dummy Variable X <sub>8</sub> = 0 if pre Prop 98 X <sub>8</sub> = 1 if Post Prop 98	Uncertain	Assembly Chief Clerk's Office
Party of Governor	Independent, Dummy Variable X <sub>9</sub> = 0 if Same as Leg X <sub>9</sub> = 1 if Diff than Leg	Uncertain	Secretary of State Archives

### ***Multiple Regression Analysis***

No quantitative studies have been done on the subject of late budgets despite a large body of anecdotal information. I wanted to test the anecdotal factors presented by media reports and policy experts in quantitative terms. My review of the literature revealed some of the factors empirically shown to have an impact on the outcomes of the state budget process, which provided a framework for further study on the process deadline itself.

Multivariate ordinary-least-squares regression was the most logical methodological choice given the multiple factors that are hypothesized to affect budget timeliness. Because some of the variables which are commonly assumed to contribute to late budgets are not widespread (in combination) across states, such as term limits, Proposition 13, Proposition 98, and time-variable changes in responsibility for redistricting, a time-series approach was chosen as opposed to a cross-sectional analysis of various states. I formulated variables based on the identified factors from anecdotal reports and the literature and I was able to access enough data on each of them, over a long enough period to create a valid sample size.

A qualitative approach may have provided significant anecdotal evidence for why the budget is frequently late, however the complexities of the issues and relation between various factors left significant room for error made a quantitative approach seem more sensible. Studying a single budget cycle on what factors are of influence would likely reveal little about the process over time and therefore a case study approach



seemed inappropriate. Examining the variables over multiple budget cycles made more sense. Additionally, conducting surveys and interviews amongst various policy leaders, legislators, and so forth; however, their participation in the process biases their experience. Moreover, their knowledge base extends only as far as their time in public life, which is frequently not inclusive of the time period before the variables I chose were in existence—term limits, redistricting, certain initiatives, and so forth. Therefore, they could not objectively evaluate the process under all conditions.

### ***The Regression Equation***

As previously stated, the dependent variable in the regression equation was Days Late and the regression equation read as follows where the number of days late ( $Y_i$ ) is function of the independent variables previously mentioned ( $X_1$ - $X_9$ ). The independent variables are listed below as well.

*Days Late = f(Size of Predicted Deficit, Strength of Majority, Years in a Row Late, Term Limits, Redistricting, Prop 13, Prop 98, Governor's Party*

*Represented in the regression equation as:*

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \epsilon_i$$

$X_1 =$  *Size of projected deficit*

$X_5 =$  *Redistricting*

$X_2 =$  *Strength of the majority*

$X_6 =$  *Proposition 13*

$X_3 =$  *Years in a row late*

$X_7 =$  *Proposition 98*

$X_4 =$  *Term Limits*

$X_8 =$  *Party of the Governor*

I used ordinary least squares regression estimation technique, performed with SPSS software, for the analysis because it is the most commonly used and straight forward application of regression that made sense for this the data set. Ordinary least squares works by minimizing the sum of the squared residuals. It is widely agreed to be the best tool to produce real-world useful estimates (Studenmund, 2006).

### *Descriptive Statistics and Correlation*

Table 3.2 provides the mean, standard deviation, minimum, and maximum values for each of the variables I used in the regression analysis. The mean measures the average value of the variable for the time series. The standard deviation measures the variance of each variable in the time series. The minimum and maximum provides the range of values for each of the variables.

Table 3.2 Descriptive Statistics				
Variable	Mean	Standard Deviation	Minimum	Maximum
Days Late	25.08	24.658	-3	96
Change In Revenue	8.058	6.580	-10.90	19.39
Strength of Majority	.592	.040	.491	.683
Years in a Row Late	7.54	6.449	0	21
Post Term Limits	.346	.409	0	.975
Legislative Drawn Districts	.487	.240	.083	1
Pre/Post Prop 13	.81	.397	0	1
Pre/Post Prop 98	.57	.502	0	1
Party of Governor	.32	.475	0	1

Table 3.3. provides the simple correlation coefficients for each of the explanatory variables. The correlation coefficients represent the strength of the relationship, positive or negative, between each variable pair. Two common issues of correlation can occur with time series multiple regression—multicollinearity and auto (serial) correlation.

A regression model where two or more of the independent explanatory variables are highly correlated with each other and move in the model together may indicate multicollinearity. Studenmund (2006) suggests that, as a rule of thumb, a correlation coefficient of .80 or higher may indicate multicollinearity. When multicollinearity is indicated, the standard error estimates increase and the variables may be too closely related for the regression to separate their individual effects on the dependent variable.

I tested for multicollinearity first by examining the simple correlation coefficients produced by SPSS, looking for correlation values of .80 or higher. As Table 3.3 displays the variables *Years Late* and *Post Term Limits* were highly correlated at .918 and *Prop 98* and *Term Limits* were close to the .80 level at .747.

Table 3.3 Correlation Matrix								
	Change in Revenue	Strength of Majority	Years Late	Post Term Limits	Legislative Drawn Districts	Prop 13	Prop 98	Party of Governor
Change in Revenue	1	.158	-.391	-.397	.203	-.477	-.465	.093
Strength of Majority	.158	1	.208	-.005	.026	-.308	-.290	.506
Years Late	-.391	.208	1	.918	-.409	.345	.623	.168
Post Term Limits	-.397	-.005	.918	1	-.513	.413	.747	.028
Leg Drawn Districts	.203	.026	-.409	-.513	1	-.656	-.429	-.413
Prop 13	-.477	-.308	.345	.413	-.656	1	.553	-.108
Prop 98	-.465	-.290	.623	.747	-.429	.553	1	-.211
Party of Governor	.093	.506	.168	.028	-.413	-.108	-.211	1

As a second check for the possibility of multicollinearity, I used the Variance Inflation Factor (VIF) method to index how much multicollinearity had increased the variance of an estimated coefficient. A high VIF >15, would indicate a high variance of the variable's estimated coefficient, and thus severe multicollinearity (Studenmund, 2006). Table 3.4 displays the results of the VIF test. In this case, the variables *Years Late* and *Term Limits* both had VIF statistics over 10, at 12.975 and 16.035 respectively. Multicollinearity is only something that needs to be dealt with if regression coefficients

are stat insignificant, otherwise can be left alone. The insignificant coefficients of the uncorrected model indicated multicollinearity that must be dealt with, the methods for which I describe in chapter four.

Change in Revenue	1.576
Strength of Majority	1.953
Years Late	12.975
Post Term Limits	16.035
Leg Drawn Districts	5.577
Prop 13	4.020
Prop 98	3.245
Party of Governor	3.131

The second problem common to time series regression is that of serial correlation. Serial or autocorrelation occurs when the current observations of the error term is a function of the previous observation in its purest form. Specification errors including omitted variables or incorrect functional forms can cause serial correlation.. The consequence of serial correlation is bias that results in unreliable testing of hypotheses. The problem of serial correlation is common with time series regression because certain variables are expected to naturally increase proportionally in size over time. The most common test for serial correlation is the Durbin-Watson *d*-test, which uses the residuals

of an estimated regression to test for the possibility of serial regression. A  $d$  statistic of  $\sim 0$  equals extreme positive serial correlation,  $\sim 2$  equals no serial correlation, and  $\sim 4$  equals extreme negative serial correlation (Studenmund, 2006). In initial regression model the  $d$  value equaled 1.97, very close to 2 and therefore serial correlation was not considered to be a problem.

I report the results of the regression models in chapter four. It also includes a discussion of the tools used to evaluate the regression results and how I corrected for the problems of multicollinearity and serial correlation. I calculate and report the magnitude of effect the variables have on the Legislature's date of passage of the budget after the corrected model was specified.

## Chapter 4

### FINDINGS

This chapter presents the results of the regression analysis.. While the regression results cannot “prove” the theoretical model’s hypotheses, the findings that follow can identify the statistical significance of relationships between the explanatory independent variables and the dependent variable. In addition, they can identify whether those relationships are positive or negative. This information draws attention to important causal factors that influence the budget process and is valuable to policy makers because to help prioritize which ones should be targeted for reform.

The first step in evaluating a regression model is to evaluate whether the theoretical model developed in chapter three makes sense. In order to draw a comparison, I present the uncorrected model that follows. With this type of time series regression the common problems of serial correlation and multicollinearity identified in the previous chapter are present in the uncorrected model. In the final model I corrected these issues in order to provide useful information. The tables that follow present the results of both the uncorrected and corrected models displaying the variable names, their coefficients, the standard error, and significance level.

#### *Uncorrected Model*

Table 4.1 presents the results of the regression for the number of days late are presented. In the uncorrected model the R-square statistic was .38, meaning that the variables included in the model explained 38 percent of the variation in the number of

days late the Legislature was in passing the budget. The higher the R-square value, the better the fit of the model (Studenmund, 2006). As previously mentioned, these are for comparison purposes only, uncorrected for the multicollinearity identified in the previous chapter exist and need to be corrected for in the final model before a discussion of significance can be of value. Because of the multicollinearity none of the explanatory variables register as having a significant impact on the number of days late.

<b>Table 4.1 Uncorrected Regression Results</b>				
	Estimated Coefficient	Standard Error	Significance Level	VIF Statistic
Constant	17.946	84.588	.834	NA
Change in Revenue	-.707	.697	.319	1.576
Strength of Majority	-12.228	127.098	.924	1.953
Years Late	2.678	2.042	.200	12.975
Post Term Limits	-15.382	35.753	.670	16.035
Leg Drawn Districts	7.998	35.948	.826	5.577
Prop 13	.853	18.46	.963	4.020
Prop 98	4.825	13.112	.716	3.245
Party of Governor	-6.540	13.630	.635	3.131

I could, do nothing, drop a variable, transform the multicollinear variables, or increase the size of the sample to deal with the problem of multicollinearity (Studenmund, 2006). Since the sample was already inclusive of every year since the budget deadline



was put in place, I could not increase its size to include more data points. Transforming the multicollinear variables by using SPSS to form a combination of the two multicollinear variables was a possibility that I tried by using SPSS to compute a combination of *Years Late* and *Term Limits*. However, the results reduced the *R-Square* value, did not improve the significance of any of the variables, and did not seem to make sense since the two variables, while correlated, were not related in the factors I was trying to analyze and ultimately I decided this was not the right solution. If I did nothing, the consequence could be that none of the independent variables would show significant effects on the number of days late the Legislature and the variance and standard errors will remain high (Studenmund, 2006).

The final option to drop one of the multicollinear variables seemed to make the most sense because they were unrelated and the *Years Late* variable was in essence a function of the dependent variable *Days Late*. After running the regression both without *Years Late* and without *Term Limits*, both series resulted in making the remaining variable significant, I ultimately decided to drop *Years Late* in the corrected model because a direct change in policy could alter the influence of *Term Limits*. A single policy shift cannot likely alter the influence of the number of years in a row the Legislature was late in passing a budget.

### ***Corrected Model***

In the corrected model, the R-square statistic was slightly lower than in the uncorrected model at .347, explaining 35 percent of the variation in *Days Late*. It is

important to note that the R-squared values for both the uncorrected (.384) and corrected (.347) models are relatively low. The reason for these low values is that there may be other factors outside this institutional effects model that could explain the remaining 65 percent.

*Term Limits* is estimated to be significant in the corrected model, holding other factors constant. The results reported in Table 4.2 indicate a positive relationship with *Days Late*. At the 90 percent confidence interval, its .096 significance level means that I can be 90 percent confident that the coefficient on *Term Limits* is positive in agreement with my hypothesis. The 26.902 estimated coefficient means that for every one percentage point increase in the proportion of the Legislature elected under term limits results in a .26 day increase in *Days Late*. The finding that a relationship exists between *Term Limits* is consistent with a pattern I observed in the data where the budget was passed before the start of a new fiscal year, on July 1<sup>st</sup>, 68 percent of the time before term limits, but only 33 percent of the time after.

<b>Table 4.2 Corrected Regression Results</b>				
	Estimated Coefficient	Standard Error	Significance Level	VIF Statistic
Constant	-39.179	73.399	.598	NA
Change in Revenue	-.722	.706	.315	1.575
Strength of Majority	56.165	117.330	.636	1.624
Years Late	Not Included	Not Included	Not Included	Not Included
Post Term Limits	26.902*	15.628	.096	2.990
Leg Drawn Districts	32.299	31.182	.309	4.095
Prop 13	10.995	16.970	.522	3.315
Prop 98	4.140	13.263	.757	3.240
Party of Governor	1.488	12.328	.905	2.499

\* Indicates estimation coefficient is significant at the 90% confidence interval

### ***Additional Testing***

The lack of significance of some of the theoretically important variables indicated a possible mismatch in the method of regression analysis. I therefore attempted to test my hypothesis through the use of additional analysis tools in SPSS including using quadratic regression, adding interaction terms to the linear regression, and running logistic regression.

In quadratic regression we are looking for the best fit of a non-linear relationship between variables that often resembles a parabola rather than a sloped line. In this type of relationship the number of days late would decrease to a certain point when interacting

with each independent variable and then increase again. In order to test this theory, I first transformed each of the continuous variables using SPSS to create new variables and adding the new variable plotted a quadratic for each new variable combination. Doing so determined whether the squared terms were significant along with the original variables. If both were significant, the quadratic form would be a better fit. None of the variations resulted in any significant relationships however.

Second I tested for an interaction of the dummy variables *Prop. 98*, *Prop. 13*, and *Party of the Governor* to see if perhaps there was a positive or negative relationship between *Term Limits* and each of these variables that might change where the Y-axis (*Days Late*) is intercepted if the condition of the dummy variable was met. Using SPSS, I multiplied each of the dummy variables by *Term Limits* to create new independent variables and the linear regression was run again for each potential interaction (Studenmund, 2006). I did not find any further significant relationships using this technique however.

I made one final attempt find significant relationships using a different kind of regression, logistic regression. Binomial logit estimation (logistic regression) is used to measure significant relationships between the dependent and independent variables when there are only two qualitative choices in the dependent variable and it is therefore a dummy variable (Studenmund, 2006) In order to do so, I converted the dependent variable (*Days Late*) to a dummy variable where 0 equaled a budget being passed 15 or fewer days late and 1 equaled a budget being passed more than 15 days late. The policy

logic in choosing these criteria being that if the budget were passed by July 1<sup>st</sup>, it could still be considered “on time” for the new fiscal year and looking at the data this would create more variability in the data set to potentially observe significant relationships. I ran the model with and without the variable *Years Late*, but neither indicated that logistic regression was a better fit or that any of the variables were significant. The Cox-Snell R-Square comparison with *Years Late* included was .183 and .144 without, neither of which was higher than the similar .347 R-Square statistic in the previously described linear regression model and the logistic analysis did not reveal any statistical relationships between whether the budget was passed on time or not and the independent variables.

### ***Hypotheses Results***

In chapter three I stated predictive hypotheses about the existence of a relationship between each of the independent variables and the dependent variable and whether that relationship was positive, negative, or uncertain. As previously stated the regression results indicate that I was correct in my hypothesis that a positive relationship exists between *Term Limits* and the number of *Days Late* the budget is.

There does not appear to be a relationship, positive or negative, between the *Change in Revenue* and *Days Late*. My hypothesis had been that the larger the percentage change in revenue, which I theorized would track with the size of the budget gap, the longer it would take to devise a solution. However, all tests yielded no significant relationship between the size of the change in revenues and the number of days the budget was late.

There also is no relationship between the *Strength of the Majority* and *Days Late*. This is an important finding because of the emphasis news media and policy leaders have put on the reducing the two-thirds requirement as the remedy to budget delays. It appears that the overall percentage of the Legislature, whether it be close to two-thirds or further away from two thirds of the Legislature does not make a difference. So, in addition to the previous assertion that because the supermajority requirement has been in place since long before budgets started being passed late and therefore it cannot be the cause of late budgets, it appears that how close the Legislature is to meeting that two-thirds threshold is not significant either. However, if partisanship were weaker and minority party legislative leaders were less successful at instilling the fear of career ending discipline to their legislative members for voting for the budget, the majority party would be able to pick off some of the minority's voting block and the distance to the two-thirds threshold might become more influential.

The variable *Years Late* was originally included in the theoretical model to provide a measure of the psychological effect of repetitive late budgets on the Legislature's ability to pass an on time budget in the current year. I hypothesized that a positive relationship existed, meaning the greater the number of years late the budget had been, the greater the number of days we could expect the budget to be late this year. Unfortunately, the data was too highly correlated with *Term Limits* to include it in the final model. I could therefore not identify any relationship beyond the initial correlation

that indicated the greater the number of years in a row the budget was late, the more likely it was that the budget would be late this year.

In agreement with my hypothesis that there would be no relationship between *Days Late* and the percentage of the Legislature in *Legislative Drawn Districts*, the final regression model produced no significant relationship between them. Despite the attention in the news media and from Governor Schwarzenegger on removing redistricting from the Legislature's grasp and placing the responsibility in the hands of an independent commission, it appears not to make a difference in passing a budget on time. This finding is in agreement with the literature concluding that while partisanship seems to be greater in the Legislature, redistricting is not to blame. Moreover, while placing the responsibility of drawing districts in the hands of an independent commission might create more competitive districts, it will not necessarily produce legislators that are more moderate or a more moderate Legislature with a propensity toward cooperation and compromise.

Finally, my three dummy variables did not produce any significant relationships either. My hypotheses for *Proposition 13* and *Proposition 98* predicted no relationship with the number of days late; however, they were proxies in a sense for the overall effect of initiatives in general. Previous research that initiatives did not have a significant effect on the level of spending or taxation overall compared with other similarly constrained or unconstrained states; and that if any effect was to be measured it would be through the two most constraining initiatives *Prop.13* and *Prop. 98*. The findings of this analysis

found no such significant relationship however. The *Party of the Governor*, essentially attempting to capture a partisan relationship in divided government vs. unified government and *Days Late* did not yield any such significant relationship. This result over the time series was consistent with my hypothesis that there would be no effect, but inconsistent with existing research that in general the party of the Governor and the party of the majority in the Legislature being unified might advance compromise on the budget more quickly. The result is however consistent with the previous research on the fiscal effects of partisan control which indicated that party typically only makes a difference during the short time period of control transitions, but over the long term, such as the 38 year time series of this study, did not lead to significant differences.

The implications of this study are important for the future success of the budget process for several reasons that are discussed in chapter five, but some notes should be made at this point as to the significance of these results overall. Despite observing a significant relationship in only one of the eight explanatory variables included in the study, remember that the supposition of news media reports formed the basis for the choice of variables. The hypotheses, which were based on previous research, correctly predicted no significance in four of those variables (*Legislative Drawn Districts*, *Prop. 13*, *Prop. 98*, *Party of the Governor*) and correctly identified a potential positive relationship between *Term Limits* and the number of *Days Late*. I dropped the *Years Late* variable from the analysis for collinearity issues, leaving only *Strength of the Majority*



and *Change in Revenue* incorrectly hypothesized. Both of those incorrectly assumed relationships could be further explored through research suggested in chapter five.

## Chapter 5

### CONCLUSIONS AND IMPLICATIONS

The focus of this study was to examine the factors that influence the California State Legislature's ability to pass an on time budget. Passing an on time budget is important because of the serious implications to the fiscal health of the state and the quality of life for residents who depend on its programs. The last two decades have seen later and later budgets with no proven solutions, only a patchwork of stopgap measures to keep the state afloat.

Chapter one explored news media and policy makers' supposition about a number of factors that became the basis for the variables studied. These variables included: *Change in Revenue, Majority Strength, Number of Years Late, Term Limits, Legislative Drawn Districts, Proposition 13, Proposition 98, and the Party of the Governor*. Chapter two expanded upon these factors and the research that has been done on state budget processes and helped identify what the expected results of these analyses might present. Chapter three recognized ordinary least squares regression as the appropriate method of analysis, operationalized the variables, and prepared a theoretical model. Chapter four made corrections to the theoretical model, presented the results of the regression analysis, and employed additional analysis techniques yielding a significant response to the research question. This chapter reviews the primary results of this study, suggests policy implications, and identifies areas future researchers should consider.

### ***Reaction to Results, Possible Improvements to Data, and Future Research***

I was surprised that more significant relationships amongst the variables were not identified, but not surprised that *Term Limits* was determined to be significant. Previous research identified that term limits reduce the time horizon of legislators and their focus shifts away from making and following up on policy implementation and instead centers on their next elected office. Partisan leadership instruction more likely controls the budget actions of legislative membership when members know less about government programs and the budget as a whole under term limits (Cain and Kousser, 2004). It makes sense then, that this lack of experience and long-term interest might make compromise more difficult and lengthen the process of passing a budget. It would seem then that as long as there is no consensus across regions, issues, or the state and general, but there is strong party unity within the legislative institution, the minority Republican party in California is able to use the two-thirds threshold as a weapon. Therefore if there was a way to measure the degree of ideological and partisan differences amongst the electorate and the legislators, that could be a factor in late budgets.

As previously described, I was not surprised that this analysis did not reveal significance amongst a number of the other independent variables. Both previous research and my own hypotheses and findings regarding the dummy variables in this study seem conclusive about the lack of significance these factors pose. However, perhaps future researchers could find alternative methods of measuring the same factors; however, that might reveal some previously unrecognized significance. For example, the

number of bills in the legislative cycle that passed strictly along partisan lines might provide a different measure of partisanship might be. As stated in chapter three, I had problems finding a consistent source for historical budget gap data as well as public opinion information. However, budget tracking and public opinion poll information has become much more consistently measured and available over the last 15 years. A longer observed time series analysis using the LAO's future projections of the structural deficit and the Public Policy Institute of California or Field Poll's regular measurement of job approval could more accurately identify those factors of influence.

As the low R-squared statistic indicated, there are likely more factors at work in the budget process that may be causing it to be late. Future researchers should consider other variables in a broader analysis of those previously studied for their fiscal effects. The percentage of federal dollars contributed to the state's budget might provide more information about the fluctuations in revenue. A variable that considers federal mandates could offer further insight on the expenditure side as well. Both of which could help more accurately identify the size of an expected deficit or surplus going into the state budget process. If another measure of public opinion or a review of news articles categorized by year, were considered for tone, a variable for external pressures could be created and included.

In addition to adding other factors of influence to the equation, the size of the sample could be examined over time as some of the budget reforms, such as Proposition 58, have time to work. The sample could also be increased to include a cross section of

states, with and without budget deadlines and constraints, that studies how many days it takes other Legislatures to pass budgets in comparison to California.

While I examined a number of analytical techniques and manipulations in this study using the existing data collected for this sample, different sources of data could inform the field. Interviews with current and former lawmakers who have participated in the process might produce additional variables to consider in future regressions. Additionally, future researchers could present policy makers with the results of this study and have their reactions and perspectives captured to further inform the policy debate and analysis of the factors that influence the budget's timeliness.

#### ***Current Policy Issues to Consider in Future Research***

California is also about to enter a new era of redistricting processes with the implementation of Proposition 11 (2008) where neither the courts nor the Legislature will draw districts following the 2010 census. Additionally, a newly created commission has been given that responsibility under the theory that removing partisan legislators from the process will create more competitive districts and greater incentive for moderate cooperation and compromise in the Legislature. While previous research does not support this idea, future observation will be necessary to determine whether it will have the desired effect that could translate into more on time budgets.

Elimination or reduction of the two-thirds requirement has been a topic of discussion for the last couple of years, especially in 2008 and 2009 as record budget deadlock and a serious cash crisis crippled the state. State Senator Loni Hancock is

pushing a constitutional amendment, SCA 5, to exempt the General Fund appropriations bill from the two-thirds supermajority requirement, a change supported by many elected officials and political pundits alike. While previous research indicates its lack of influence on its own and the fact that the supermajority has been in place through extended periods when the budget was passed on time, if efforts to eliminate or reduce the two-thirds requirement are successful, it will provide an opportunity to study how that might impact the budget process. Polls have recently shown that in crisis voters may support reducing the two-thirds requirement for passage of the budget, they still do not support altering the supermajority requirement for increasing taxes, making it less likely that such a change would aid the Legislature in passing a budget on time since inconsistencies in revenues have been the chief cause of instability in budget cycles (PPIC, 2009).

As discussed in the previous chapters, Proposition 58 (2004), which put in place a balanced budget requirement for California and other proposed budget reforms, including Propositions 1A-F currently on the ballot for May 19<sup>th</sup>, that may impact the timeliness of budgets. The passage of time will be required to measure their impact on the California Legislature and make comparisons to other states with similar requirements.

### *Lessons for Lawmakers*

Based on the finding that term limits impacts the Legislature's ability to pass an on time budget and that scant empirical or public support for changing the supermajority requirement exists, perhaps lawmakers should shift the reform debate toward making

policy choices that could reduce the impact of term limits. A policy maker's first reaction might be to eliminate or extend the term limits law. However, all attempts through the legislative and initiative processes to do so have failed thus far and public polls do not indicate a change of heart amongst Californians. Lawmakers therefore should either consider an attempt to reframe the issue in a way that ties altering term limits to reduction in legislative gridlock and an increase in the wisdom of policy decisions. This would counter the 'self interested politicians' argument of term limit protection proponents. One possible analogy could be that just as you want the most experienced surgeon in a hospital operating on your child rather than a first year resident physician, you want experienced legislators making budget decisions rather than a steady stream of wide-eyed freshmen legislators. A wiser course of action might be to reduce the impact that term limits have on the legislative body without changing the term limits law itself.

The research indicated the impact of term limits has been an increase in polarized partisan actions later in legislators' terms, a reduction in the oversight of government administration, and a lack of experience and knowledge of policy and budget processes on the part of lawmakers. Party leaders are unlikely to want to encourage more moderate candidates to run for office unless they are on board with party goals; however, partisan legislative leaders could do a better job educating caucus members on the complexities of budget negotiations and the budget itself. The Legislature could make a greater effort to retain experienced policy staff within committees and personal staff in order to increase

the level of institutional knowledge available to new Members. Caucus leadership could provide more in depth briefings and educational opportunities on the administration of government for members of the Legislature. Fiscal impact legislation could be required to include follow up mechanisms or sunset clauses that require review and reauthorization that would increase oversight and understanding of how programs work and demand examination of the costs and revenue streams associated. All of these measures aim to increase the level of knowledge policy makers have when making decisions that naturally only comes with the experience brought by a longer time in office that term limits have largely eliminated.

In addition to the effects of term limits and remedies the Legislature could undertake they should also consider that evidence from previous studies on the fiscal effects of multiple factors interacting at once and the results of this analysis that demonstrate there is no silver bullet single factor that influences the budget to be late. Remember that more than 60 percent of the variation in the number of days the budget is late was not explained in this model and therefore other factors should be examined. The Legislature has tried unsuccessfully to alter many constraints—term limits, supermajority requirements, tax policy, spending caps, campaign finance laws, initiatives, and so forth. Voters have elected to keep the system as it is rather than approve legislative sponsored “reforms.” The underlying issue seems to be a lack of public trust in the Legislative institution and government that holds institutional constraint factors in place. I agree with the public policy think tanks that members of the Legislature need to find a way to



restore confidence in the institution's ability to make responsible timely decisions before the public will support reforms that could ease perceived process roadblocks that prevent the budget from being passed on time.

## REFERENCES

- Alderete, J. C. (2007). Budget Practices and State Expenditures: Lessons for California. Public Policy Institute of California, San Francisco, CA.
- Alt, J. and Lowry, R. (1994). Divided Government, Fiscal Institutions, and Budget Deficits: Evidence from the States. *American Political Science Review*, 88 (4).
- Alt, J. and Lowry, R. (2000). A Dynamic Model of State Budget Outcomes Under Divided Partisan Government. *Journal of Politics*, 62(4), 1035-1069.
- Adams, B. and Dougan, W. (1986). The Effects of Constitutional Restraints on Governmental Spending. *Public Choice*, 49(2), 101-116.
- Bailes, D and Tieslau, M. (2000). The Impact of Fiscal Constitutions on State and Local Expenditures. *Cato Journal*, 20(2), 255-277.
- Behn, R. and Keating, E. (2005, April 25). The Fiscal Crisis of The States Recession, Structural Spending Gap, or Political Disconnect. *Traubman Center Policy Brief*. Harvard University: Kennedy School of Government.
- Bicker, W. (1971) The Effects of Malapportionment in the States: A Mistrial, in N. Polsby (ed.), *Reapportionment in the 1970's*. Berkeley: University of California Press
- Bourdeaux, Carolyn. (2006). Do Legislatures Matter in Budgetary Reform? *Public Budgeting and Finance*, 26(1), 120-142.
- Burns, R. and Lee, R. (2004). The Ups and Downs of State Budget Process Reform: Experience of Three Decades. *Public Budgeting & Finance*, 24(3), 1-19.

- Cain, B. and Kousser, T. (2004). *Term Limits in California*. Public Policy Institute of California, San Francisco, CA.
- Cain, B. and Kousser, T. (2004). *Adapting to Term Limits: Recent Experiences and New Directions*. Public Policy Institute of California, San Francisco, CA.
- Cain, B and MacKenzie, G. (2008). *Are California's Fiscal Constraints Institutional or Political?* Public Policy Institute of California, San Francisco, CA.
- California Citizens Budget Commission (CCBC). (1995). *Reforming California's Budget Process*. Center for Governmental Studies. Los Angeles, CA.
- California Constitutional Revision Commission (CCRC). (1996). *Final Report and Recommendations to the Governor and Legislature*. Retrieved from:  
<http://www.ca.gov>
- California State Auditor. (2009). *High Risk: The California State Auditor Has Designated the State Budget as a High-Risk Area*. California State Auditor Report 2008-603. Retrieved from <http://www.bsa.ca.gov>.
- Capitol Weekly. (2008, November 26). *Assume the Position: Steinberg Finally Takes the Helm of the Senate*. *Capitol Weekly*. Retrieved from:  
<http://www.capitolweekly.net>.
- Capps, S. (1995, August 6). *Why California's budget process is a mess. No consequences for legislators' missing deadline*. *The San Francisco Examiner*. Retrieved from: <http://www.sfgate.com>.

- Chief Clerk of the State Assembly. (n.d.) *Budget Bill Passage History Table*. Retrieved from <http://www.assembly.ca.gov/clerk/billslegislature/budget.htm>.
- Cox, G., Kousser, T., McCubbins, M. (2005, September 1). *What Polarizes Parties? Preferences and Agenda Control in American State Legislatures*. Paper presented at the Annual meeting of the American Political Science Association, Marriott Wardman Park, Omni Shoreham, Washington Hilton, Washington, DC. Retrieved from: <http://www.allacademic.com>.
- Crain, W. and Miller, J. (1990). Budget process and spending growth. *William and Mary Law Review*. 31, 1024-1046.
- Diaz, J. (2007, July 27). The tyranny of the two-thirds majority. *The San Francisco Chronicle*. Retrieved from: <http://www.sfgate.com>.
- Ellwood, John W., and Mary Sprague, "Options for Reforming the California State Budget Process," in Bruce E. Cain and Roger G. Noll, eds., *Constitutional Reform in California: Making State Government More Effective*, Institute of Governmental Press, University of California, Berkeley, 1995.
- Field Research Corporation. (2009, March 3). The Field Poll # 2297. San Francisco, CA. Retrieved from <http://www.field.com/fieldpollonline>.
- Ferejohn, J. and Krehbiel, K. (1987). The Budget Process and the Size of the Budget. *American Journal of Political Science*, 31, 296-320
- Furth, I., Gantwerk, H., and Rosell, S. Viewpoint Learning, Inc. (2005). *Listening to Californians: Bridging the Disconnect*. LaJolla, CA.

- Garrett, E. (2005). California's Hybrid Democracy. *USC Public Policy Research Paper No. 05-1*. Retrieved from SSRN: <http://ssrn.com/abstract=646763>.
- Initiatives 1912-2000*. 7 Feb. 2009. Initiative and Referendum Institute at the University of Southern California. Retrieved from:  
<http://www.iandrinstute.org/California.htm>
- Kenyon, D., and Benker, K. (1984). Fiscal Discipline; lessons from the state experience. *National Tax Journal*, 37, 433-446.
- Knight, B. (2000). Supermajority Voting Requirements for Tax Increases: Evidence From the States. *Journal of Public Economics*, 41-67.
- Kousser, T., McCubbins, M, and Rozga, K. (2006, February). *When Does the Ballot Box Limit the Budget? Politics and Spending Limits in California, Colorado, Utah, and Washington*. USC Gould School of Law Conference on "Fiscal Challenges: An Interdisciplinary Approach to Budget Policy. Los Angeles, CA. Retrieved from: <http://lawweb.usc.edu>.
- Krol, R. (1997). A Survey of the Impact of Budget Rules on State Taxation, Spending, and Debt. *Cato Journal*. 16(3), 295-307.
- Kurtz, K., Cain, B., Niemi, R. (2007). *Institutional Change in American Politics: The Case of Term Limits*. University of Michigan, Ann Arbor, University of Michigan Press.
- Legislative Analyst's Office (LAO). (2009). *California's Cash Flow Crisis*. Sacramento: State of California.

- Legislative Analyst Office (LAO). (1990). *The California Budget Process: Problems and Options for Change*. Sacramento: State of California.
- Lochhead, C. (2003, August 16). Prop. 13 remains controversial after a quarter of a century. *The San Francisco Chronicle*. Retrieved from: <http://www.sfgate.com>
- Lowenstein, D. (2008). Term Limits, Initiatives, and Other Gimmickry. *Northwestern University Law Review*, 102(1), 461-464.
- Masket, S., Winburn, J., and Wright, G. (2006, April). *The Limits of the Gerrymander: Examining the Impact of Redistricting on Electoral Competition and Legislative Polarization*. Conference of the Midwest Political Science Association, Chicago, IL.
- Matsusaka, J. (1995). Fiscal Effects of Voter Initiative: Evidence From the Last Thirty Years. *Journal of Political Economy*, 103(3), 587-623.
- Matsusaka, J. (2003). Have Voter Initiatives Paralyzed the California Budget? *USC Law and Public Policy Research Paper No. 03-24*. Retrieved from SSRN: <http://ssrn.com/abstract=476443>.
- Matsusaka, J. (2005). Direct Democracy and Fiscal Gridlock: Have Voter Initiatives Paralyzed the California Budget? *State Politics and Policy Quarterly*, 5(3), 248-264.

- McGreevy, P. and Rau, J. (2009, February 1). Delay of Tax Payments Adds to Californian's Struggle. *The Los Angeles Times*. Retrieved from: <http://www.latimes.com>
- McGhee, E. (2007). *At Issue: Legislative Reform*. Public Policy Institute of California. San Francisco, CA.
- McGhee, E. (2008). Research Brief. Issue 122: Redistricting Reform: Can it Reduce Partisanship? Public Policy Institute of California. San Francisco, CA.
- McGhee, E. (2008). Redistricting and Legislative Partisanship? Public Policy Institute of California. San Francisco, CA.
- Meet the Budget Deadline. (1996, May 29). *The San Francisco Chronicle*. Retrieved from: <http://www.sfgate.com>.
- Moore, S. (1991). *State Spending Splurge: The Real Story Behind the Fiscal Crisis in State Government*. Manuscript. Washington: Cato Institute.
- Musso, J., Graddy, E., and Girizard, J. (2006). State Budgetary Processes and Reforms: the California Story. *Public Budgeting & Finance*, 26(4), 1-21. Retrieved from SSRN: <http://ssrn.com>. Accessed 22 Feb. 2009.
- National Conference of State Legislatures. (2008) *Supermajority Vote Requirements To Pass the Budget: a NCSL Legisbrief* 6.48. Washington, DC: National Conference of State Legislatures. Retrieved from <http://www.ncsl.org/programs/fiscal/supmjbud.htm>, Accessed 25 February, 2009.

- National Conference of State Legislatures. (2008). *Mandate Monitor* 6(1). Retrieved from: <http://www.ncsl.org>, Accessed 14 March 2009
- National Conference of State Legislatures. (2004). *Mandate Monitor* 1. 1. Retrieved from: <http://www.ncsl.org/programs/press/mandatemonitor.pdf>, Accessed 20 December 2008.
- National Conference of State Legislatures. (2004). *50-state Update: Analysis Details State Costs of Federal Mandates*. Retrieved from: <http://www.ncsl.org/programs/press/pr040407.htm>, Accessed 4 January 2006.
- New York Citizens Budget Commission (NYCBC). (2003). *Fixing New York State's Fiscal Practices*. New York, NY.
- Poterba, J. (1994). State Responses to Fiscal Crisis: The Effects of Budgetary Institutions and Politics. *Journal of Political Economy*, 102(4)
- Poterba, J. (1996). Do Budget Rules Work?. National Bureau of Economic Research Working Paper Series. Number 5550.
- Reform California's Budget Process. (2008, September 22). *The San Francisco Chronicle*. Retrieved from: <http://www.sfgate.com>.
- Rose, H. (2003). *Learning Lesson Of Ballot-Box Budgeting*. Public Policy Institute of California. San Francisco, CA.
- Saffell, D. (2005). Reapportionment and Public Policy: State Legislators' Perspectives. *Policy Studies Journal*, 9(6), 916 – 936



- Schrag, P. (1995, February 16). When Government Goes on Autopilot. *New York Times*.  
Retrieved from <http://www.nytimes.com>.
- Schrag, P. (2008, July 4). Proposition 13 at 30: What a mess it has made. *The Sacramento Bee*. Retrieved from: <http://www.sacbee.com>.
- Sheffrin, Steven. (2004). State Budget Deficit Dynamics and the California Debacle. *Journal of Economic Perspectives*, 18(2), 205-226.
- Silva, F. (2000). Occasional Papers: The California Initiative Process: Background and Perspective. The Public Policy Institute of California. San Francisco, CA.
- Simons, Charlene. (2002). *A Summary of Recommendations for Reforms of the Budget Process*. California Research Bureau. Sacramento, California.
- Skelton, G. (2009, March 23). Capitol dysfunction is what makes special interests run. *Los Angeles Times*. Retrieved from: <http://www.latimes.com>
- Skelton, G. (2008, October 16). California leaders dither as the fiscal picture grows bleaker and bleaker. *The Los Angeles Times*. Retrieved from: <http://www.latimes.com>.
- Smith, D. (2008, May 11). Budget analysis: Almost never on time and no one can agree why. *The Sacramento Bee*. Retrieved from: <http://www.sacbee.com>.
- Stanford, K. (1992). State Budget Deliberations: Do Legislators Have a Strategy? *Public Administration Review*, 52(1), 16-26.
- Studenmund, A. H. *Using Econometrics: A Practical Guide, 5<sup>th</sup> Edition*. Pearson Education, Inc., Boston, MA, 2006.

- Temple, J. (1997). State Revenue and Supermajority Limitations, Unobserved State Effects and State Revenue Growth. North Illinois University, Chicago, Mimeo.
- Wildavsky, Aaron. (1988). *The New Politics of the Budgetary Process*. Glenview, IL: Scott, Foresman and Co.
- Walters, D. (2008, December 14). Constitutional Convention is no easy fix for California. *Sacramento Bee*. Retrieved from: <http://www.sacbee.com>.
- Weintraub, D. (2008, September 28). The Conversation: Time to tear down, rebuild government from the bottom up. *The Sacramento Bee*. Retrieved from: <http://www.sacbee.com>.
- Weisman, J. (2003, August 4). Voter Initiatives Limit California's Wiggle Room. *The Washington Post*. Retrieved from: <http://www.washingtonpost.com>
- Wildermuth, J. (2008, September 12). Legislature's approval rating at a record low. *The Sacramento Bee*. Retrieved from: <http://www.sfgate.com>.
- Yamamura, K. (2009, March 20). Fitch cuts California's bond rating, now worst in nation. *The Sacramento Bee*. Retrieved from: <http://www.sacbee.com>.
- Yamamura, K. (2008, October 2). Budget signed, Schwarzenegger sets sights on redistricting, other changes. *The Sacramento Bee*. Retrieved from: <http://www.sacbee.com>.
- Yi, M., Buchanan, W., Wildermuth, J. (2009, February 15). State lawmakers still lack votes to pass budget. *The San Francisco Chronicle*. Retrieved from: <http://www.sfgate.com>.

Yi, M. (2009, January 22). State warned of possible credit downgrade. *The San Francisco Chronicle*. Retrieved from: <http://www.sfgate.com>