

CALIFORNIA

II. Legislative Climate: Fair

Governor

Arnold Schwarzenegger (R) has governed largely from the middle as a fiscal conservative and social moderate, though he's had his moments of shifting to the left (environment, health care reform). Won an easy re-election in 2006, but is prevented from running again due to term limits.

Chamber Control

Senate is under Democrat control: 24(D) / 15(R) / 1(Vacancy)

Assembly is under Democrat control: 51(D) / 29(R)

Legislative Session

The second half of a two-year session ended on August 31, 2008. The first half of a new two-year legislative session began on January 5, 2009. Any bills that did not pass last year will not carry over into this year.

Climate

Despite Governor Arnold Schwarzenegger's ambitions early in the year to improve education and reform the state's budget system, 2008 will most likely be remembered as the year of the staggering budget crisis. The state currently faces a \$42 billion budget deficit through 2010. And with no plan in place for plugging the gap, the themes of budget shortfall and economic crisis will likely dominate most of 2009, as well.

The fiscal problems began early in the year. California started its new budget year on July 1st without a budget in place, as has become routine in the state. Negotiations between the governor and legislative leaders regarding how to balance the budget dragged on throughout the summer. Finally, a deal was struck 85 days after the start of the fiscal year, making it the longest overdue budget in California's history. Before the ink was dry on the 2008-09 budget, predictions were being made for a shortfall due to the spiraling economy and lower than expected tax revenue.

Not long after the 2008 legislative session ended on August 31, Schwarzenegger called lawmakers back to Sacramento for an emergency session to address the growing budget deficit, which by November had ballooned to at least \$10 billion as the stock market fell and the economy worsened. During the special session negotiations, Republicans stood firm against tax increases to close the gap and Democrats refused to make deeper cuts or waive environmental rules on public works projects. By early December, with the governor and legislators still unable to agree on a plan to balance the budget, Schwarzenegger declared a fiscal emergency. Negotiations continued in fits and starts through the end of the year to no avail. Three separate plans were subsequently presented, but ultimately failed for a variety of reasons.

A new year and a new legislative session began in January, yet the governor and legislators remain stalled on a plan to close the budget gap, and the state is poised to run out of cash within weeks. State Controller John Chiang has said that unless agreement is reached on a budget plan by the end of January, he will delay nearly \$3.7 billion in state payments in February. And he may begin issuing IOUs by March if California still lacks the cash to pay its bills.

Only very recently have some Republicans and Democrats begun to admit that both tax increases *and* deeper program cuts will likely be part of the final solution to the budget deficit, which is a significant step toward a final plan. The task now is to hammer out the specifics. Regardless of when a budget plan is finally approved, the plummeting economy and its ripple

effects are likely to continue to crowd out any other programs or initiatives the governor and lawmakers would have liked to introduce in 2009.

IV. Political Climate

The budget debacle that has stymied progress in the capitol throughout 2008 will likely continue to keep the governor and legislators from focusing on much else in 2009. For proof of this, look no further than the governor's State-of-the-State address, delivered on January 15. This year's address, which is typically a platform for the governor to outline his goals and priorities for the coming year, focused entirely on the immediate financial crisis facing the state. During his unusually brief speech, the governor urged lawmakers to make the tough decisions needed to close the record \$42 billion deficit, and suggested penalties for lawmakers if they were unable to reach an agreement by this year's deadline.

When looking at the political climate in California, it is important to note that some of the major players in the capitol changed in 2008 because of term limits. Democrat Fabian Nuñez stepped down as speaker of the Assembly in 2008, leaving the legislature after 18 years of service. Democratic Assembly member Karen Bass was sworn in as the new speaker in May. Bass is the first African-American woman to lead the legislative body. Democratic Senator Darrell Steinberg was selected as the successor to Senate President Pro Tem Don Perata, but did not officially take on that leadership position until the end of the session in August.

Although there are still two years left before Governor Schwarzenegger terms out, the speculation over who will take the top spot when he steps down has already begun. On the Democratic side, San Francisco Mayor Gavin Newsom, Lieutenant Governor John Garamendi, Attorney General (and former governor) Jerry Brown, Los Angeles Mayor Antonio Villaraigosa, and State Superintendent of Public Instruction Jack O'Connell have all expressed an interest in running for governor in 2010.

Another potential candidate, Dianne Feinstein, has been playing her cards close to the vest. She has been saying since July that she has yet to decide whether or not to run. Feinstein is currently the Chair of the Senate Intelligence Committee, a very influential post on the national stage that she may not want to relinquish. Also, at 75 years old, her age may be a factor in determining whether to take on the grueling gubernatorial race.

Although Feinstein has not added her name to the list of Democratic candidates gearing up for the governor's race in 2010, a private poll taken in mid-July showed that if she were to enter the race, she would crush the competition. The poll, conducted by veteran Democratic pollster Jim Moore, found that Feinstein would beat current frontrunner Jerry Brown 50 percent to 24 percent in a hypothetical Democratic primary.

On the Republican side, there has been talk of Insurance Commissioner Steve Poizner as well as former eBay CEO and billionaire Meg Whitman. Neither has officially announced their candidacy, but both have taken significant steps toward that end. According to a January 2009 poll from Rasmussen Reports, Whitman would win a face-to-face match-up with Villaraigosa and Newsom, and lose to Brown by only two percentage points. Poizner was not included in that poll.

V. Judicial Climate

California moved up one spot to number 44 in the U.S. Chamber's 2007 ranking of the states' judicial climates. Although this is a slight improvement over last year's ranking of 45, it still highlights the fact that California has one of the worst judicial climates in the nation. In addition, Los Angeles was again named the least fair and reasonable litigation environment in the country.

Once again, the entire state was placed on a "watch list" as a potential "Judicial Hellhole" by the American Tort Reform Association (ATRA). Los Angeles County was also singled out by the

watch list, in part for allowing "shakedown" lawsuits brought primarily against small businesses under the Americans with Disabilities Act, and for otherwise hosting astonishingly excessive verdicts.

Justices in California are appointed by the governor, confirmed by the Commission on Judicial Appointments, and then are confirmed by the public at the next general election following their appointment. At the end of their 12-year terms, justices face a retention election. Five of the seven current justices were appointed by Republican Governors Wilson or Deukmejian, and one by Governor Schwarzenegger. The justice appointed by Governor Davis was initially appointed to the lower courts by Republican governors. The court is moderate to conservative and generally pro-business.