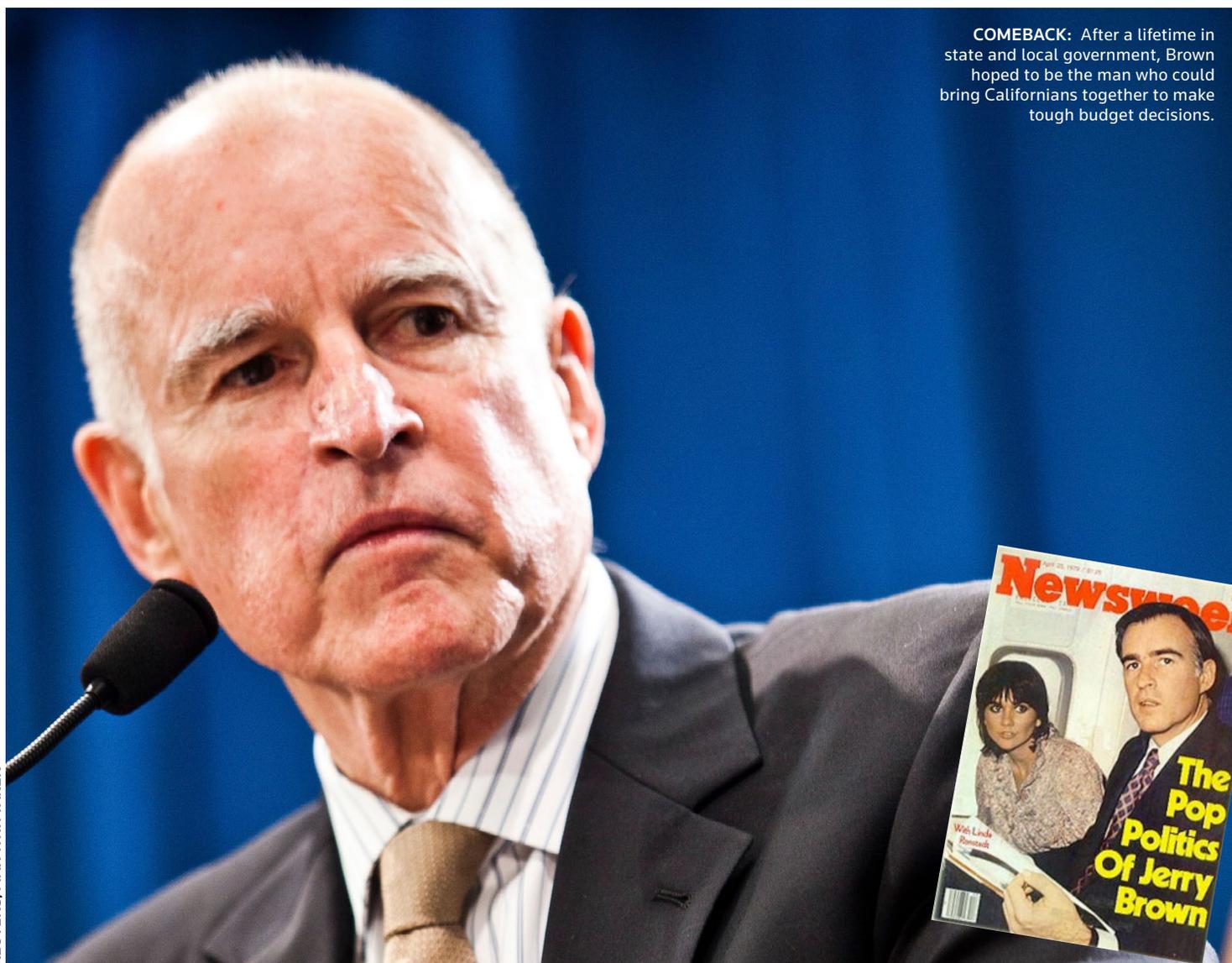


COMEBACK: After a lifetime in state and local government, Brown hoped to be the man who could bring Californians together to make tough budget decisions.

REUTERS/MAX WHITTAKER



Jerry Brown's second coming

CAN HE SAVE CALIFORNIA FROM FISCAL RUIN? AFTER A ROCKY FIRST YEAR IN OFFICE THE GOVERNOR IS TAKING HIS CASE FOR TAX INCREASES DIRECTLY TO THE VOTERS.

BY PETER HENDERSON AND
DAN LEVINE
SACRAMENTO, CALIF., JAN 12

Last summer, just days before California was required by law to pass a state budget, Republican State Senator Tom Harman got word that he'd been summoned to meet Governor Jerry Brown "right now." Harman, a veteran legislator from conservative Orange County, hurried downstairs to the Horseshoe, the governor's

suite of offices in the state capitol building.

Harman was one of five Republican senators who spent months negotiating with Brown on fiscal reforms that promised to solve the state's chronic money woes and restore the Golden State's faded glory. But no deal had been reached.

Harman found Brown alone in his office, and the governor made it clear who he thought was at fault. He laid into Harman, screaming and swearing, veins popping from his forehead and spittle spraying from his lips, insisting the senator -- and the state --

had no option but to support Brown's plan. There was no chance for Harman to speak.

"I was silently thinking to myself, 'OK, now are we going to call 911, and are they going to know how to bring the ambulance in through the basement entrance where the automobiles go?'" Harman recalled. "I thought, this guy is going to have a heart attack or a stroke. He's just going to explode right here in front of me."

Brown spokesman Gil Duran said, "There was passionate advocacy on both sides," but Harman's account was "revisionist

history," and he dismissed the five senators as "irrelevant."

Harman and the governor have not spoken since that incident. Each party accuses the other of negotiating in bad faith, and Brown, 73, is taking his proposed tax increase to the voters in a November ballot initiative. Never mind that a similar gambit arguably doomed the governorship of his predecessor, Arnold Schwarzenegger.

IT WASN'T supposed to be like this.

Like President Barack Obama, Governor Edmund Gerald Brown, Jr. came into office promising to transcend partisan divisions and solve problems. He inherited a state legislature with a dominant liberal

fixing this state I love."

But Brown's failure to persuade a single Republican legislator to join his cause might say as much about the man as it does about the state's intractable budget politics.

Even some allies describe his style as that of a strong-willed CEO rather than a consensus-builder. He listens -- but then retreats with a small group of close confidantes to make his decisions.

He's a passionate and persuasive man, equally comfortable talking with corporate executives or homeless indigents, but is stymied when others don't follow logic that is obvious to him.

Brown's spokesman Duran argued that the governor demonstrated his negotiating

fiscal year starting in July, Brown proposed about \$4 billion in cuts to programs he believes in such as welfare and child care.

End-running the legislature on political reform is risky, however, and Democratic strategists are alarmed by the possibility that competing tax initiatives could crowd the ballot and ensure the failure of all of them.

Still, the governor is personally trusted, and Brown can use the unpopular legislature as a political foil to rally voters. Surveys suggest that Californians are open to his plan for temporary tax hikes, so it's possible that Brown's extraordinary skill as a campaigner can carry the day, sweeping aside rivals with competing plans.

"Going straight to the voters is the only path forward, and polls show that voters support his approach," said Brown spokesman Duran.

THERE IS A gravitas to the gaunt, intellectual Brown of today that is at odds with Governor Moonbeam, the celebrity-dating presidential aspirant and child of the 1960s (and of revered former Governor Pat Brown) who once thought California should have its own satellite.

Once nearly the youngest California governor, at age 36, and now its oldest, Brown peers out at the world from under shaggy brows and sparse, close-cropped gray hair, a sharp contrast to the thick sideburns and a hint of 5 o'clock shadow that appeared on the cover of Time just before he won the 1974 election.

Brown faded from public view after two terms as governor and two failed runs for president. But in 1998 he resurrected his political career, transforming himself into a quirky, pragmatic mayor of Oakland, the San Francisco Bay Area's crime-ridden former industrial center.

He worked closely with developers, luring thousands to live downtown, and championed charter schools -- policies that burnished his credentials as an independent thinker who wasn't afraid to shun party orthodoxy.

"Jerry Brown is a chameleon, ok?" said longtime Oakland city council member Ignacio De La Fuente, a Brown ally who marvels at the governor's peripatetic curiosity.

De La Fuente followed Brown into an abandoned building when the mayor wanted to talk to homeless. He also remembers tagging along on a spontaneous trip to the White House, when the two were in Washington, DC on other business. Brown walked up to the White House security gate, and the guard said, "Hey, governor, how are



REUTERS/MAX WHITTAKER

GRIDLOCK: California is one of the only states that requires a two-thirds majority to approve a tax increase, which has made the state capitol a model of government dysfunction.

Democratic majority and a staunchly conservative Republican minority.

Because the state constitution requires a two-thirds majority to raise taxes, which is almost unique in the United States, California became a model of governmental dysfunction. And with the economy in the tank, solutions were more urgent than ever. Brown, seasoned by a lifetime in state politics and bursting with energy, seemed like a plausible fixer.

"We need someone with insider's knowledge, but an outsider's mind. A leader who can pull people together - Republicans and Democrats, oil companies and environmentalists, unions and businesses," Brown said in the video announcing his candidacy for governor. "At this stage of my life, I'm prepared to focus on nothing else but

skills last year, when, for example, he convinced Democrats to make multi-billion-dollar spending cuts and brought union and business interests together to support a budget plan the Republicans ultimately rejected. Likening Brown to a chief executive is a "bad comparison," Duran said.

Now, with few options in front of him, Brown will ask voters to approve a tax increase or face nearly \$5 billion in cuts focused on education. If he succeeds in getting his ballot initiative passed, Brown could yet go down as the man who saved the state from financial ruin without entirely sacrificing its compassion. But if he fails, his legacy is likely to be that of a politician who embodied the hopes and dreams of multiple generations of Californians -- and never quite delivered.

Already, in the budget submitted for the

you?" Brown remembered the guard's name, De La Fuente said.

"We walk in. I mean, how many people can do that? Not too many," De La Fuente said.

After eight years in Oakland, Brown was elected California attorney general, a traditional stepping-stone to the state house; by the time the 2010 gubernatorial election came into view, the new Jerry Brown was the only serious Democratic contender.

Then, remarkably, Brown and his advisers turned the best-known politician in California into the underdog as he squared up against Republican nominee Meg Whitman. The former chief executive of eBay, Whitman ultimately spent more than \$150 million (most of it her own money) on the campaign.

Brown presented himself as a straight-talking, no frills professional that voters could trust, while Whitman alienated many with her corporate style and a botched response to a scandal over an illegal immigrant housekeeper.

One of his key advisers on the campaign was a person who may represent the biggest single difference between the first Brown administration and the second: his wife, Anne Gust Brown, the former chief lawyer at Gap Inc. She also serves as a consigliere and political enforcer who is often dispatched to handle sensitive issues.

At a recent small meeting in Brown's Oakland Hills house to hammer out a pension reform plan, Labor and Workforce Secretary Marty Morgenstern, who has known his boss for three decades, remembers the governor endlessly pressing discussions into new avenues while Gust Brown would sometimes refuse to let the conversation move on before settling a point. "Between them they are almost perfect," he said.

Gust Brown was also present last February when a small group of Republican lawmakers, dubbed the GOP 5, gathered for wine and cheese at the governor's airy Sacramento loft to begin hashing out a budget that would tackle a \$25 billion deficit.

The politicians swapped war stories, played with Sutter, the Browns' dog, and warmed up to each other around a picnic-style table with the governor at its head. They promised to remain collegial no matter what happened.

"It couldn't have been a more lovely gathering," recalled Sam Blakeslee, one of the Republican senators, who took a picture of the crew. "He's just the kind of guy I'd love to have dinner with."

From there, things moved quickly -- in the wrong direction.

Brown's proposed mix of revenue increases and spending cuts needed a few Republican



REUTERS/DANNY MOLOSHOK

STUDENT PROTESTS: Across the state, college tuition hikes prompted demonstrations like this one at UCLA. Brown threatens to cut more of the education budget if his tax increase is not approved.

votes to put an extension of soon-to-expire tax increases in front of voters in a special election. Republican senators wanted pension reform, regulatory reform and a spending cap on the ballot as well.

Brown's camp now says the Republicans were too scared to buck the right wing of their party and that the party leadership torpedoed talks with a 53-point list of last-minute demands. The list was delivered in March by then-Republican Senate Leader Bob Dutton, who felt the governor was trying to work around him.

Dutton acknowledged he had told his "guys" to "extend the courtesy to talk to him. Just don't agree with anything unless you talk to me first."

But the GOP 5 now say that Brown knew his union allies would never go for their pension proposals. So when a March poll showed tax hikes might fail at the ballot box while pension changes would win, Brown maneuvered to blame the Republicans for the break-down in talks.

The happy dinner conversation was quickly replaced by name-calling.

"The Republicans in Sacramento are not smart enough to write reforms," Brown's spokesman, Duran, said in

a late June radio interview.

The governor "lost his nerve," responded Blakeslee. "I've spent this entire year quietly letting him cast aspersions and put blame on everyone but himself," he added. "At some point, someone has to stand up and say the emperor has no clothes."

Brown, elected as an insider, was "surprised and very disappointed" by the degree of polarization in the legislature, said an old friend, California Appeals Court Justice J. Anthony Kline. Another friend said, "He thought he'd have enough gray hair that they would listen to him. He was dead wrong." Duran said this characterization was inaccurate.

WITH HIS GRAND compromise in tatters, Brown proceeded to work with his own party in the Legislature to pass a budget that relied on massive spending cuts along with a few gimmicks.

He also pushed through plans to abolish the state's 400 redevelopment agencies, and to shift responsibility for some public safety and social service functions from the state to the counties. That made good on a campaign promise to empower local governments, and stands as one of the few clear

successes of his first year.

Then, the governor took a break. Though his office would not give reporters his plans for Thanksgiving, a Los Angeles fitness studio boasted, with pictures, that the Browns spent the that week mastering reverse push ups at the Rancho La Puerta "destination fitness resort" in Baja, Mexico.

Meanwhile, the University of California, Davis found itself in the national spotlight after university police pepper-sprayed peaceful student protestors. Brown said nothing until he reemerged more than a week after the episode.

Now he's back in the spotlight, determined to reverse his first-year struggles by avoiding his Republican adversaries altogether.

"I am going directly to the voters because I don't want to get bogged down in partisan gridlock as happened this year," Brown said in December's Open Letter to the People of California announcing a ballot initiative for temporary tax increases.

Unfortunately for Brown, some of his allies have their own ideas for tax-hiking ballot initiatives, and they are not eager to step aside. At least four groups are preparing to mount signature campaigns to get tax measures on the November ballot.

Billionaire investor Nicolas Berggruen, with support from a bipartisan group of well-known Californians, pledged \$20 million to a possible initiative that would revamp the tax code, expand the sales tax and bring billions more in revenue.

But Brown's biggest worry, one source said, is a proposal spearheaded by Molly Munger, a politically simpatico Los Angeles civil rights lawyer whose father is Warren Buffet's partner at Berkshire Hathaway. She's promoting a ballot measure to raise \$10 billion a year for the state's beleaguered education system with a sliding-scale income tax increase.

Even though Brown's plan is also billed as an education-funding mechanism, Munger said the fine print leaves some doubt about whether the money will actually make it to schools.

Shortly before Christmas, Munger said she received a blunt message from Gust Brown, delivered over the phone.

"We have this wired, get out of way," Munger recalled being told. "She didn't say

REUTERS INSIDER



California governor Jerry Brown is taking his tax hike to voters

<http://link.reuters.com/taf95s>

that, but that was the gist." Munger said she has the resources and commitment to back her plan all the way, but that she's still open to talks with Brown.

Brown spokesman Duran said Munger's account of the phone conversation was not accurate, and that the governor continued to believe that his own plan was "the best and most viable."

In the end, political reality may winnow the field of ballot measures. "The very reasonable scenario is that only one of them gets any juice," said Dean Vogel, head of California's largest teacher's union -- and a big potential source of funds for any election campaign.

Statewide tax initiatives have a dismal track record in recent years, however. The 60 percent approval for Brown's plan among voters in a recent Public Policy Institute of California poll is a good start, but hardly a guarantee of success. Anti-tax groups have vowed an all-out fight.

Yet allies say Brown himself is a valuable asset.

"People see him as an opportunity to turn things around," said Jim Wunderman, chief of the Bay Area Council, a San Francisco business group that supported Brown's revenue plans last year. "There is still a lot of goodwill toward him, and you know, he's a fairly convincing individual."

The wild card may be pension reform. Brown wants the legislature to put a measure

on the November ballot that would put new state employees on a hybrid plan partially pegged to market performance, like a 401k, with higher employee contributions.

Voters like those ideas, and so do Republicans, but Brown's union allies are not sold on the measure. "That's not a settled issue with us, and there's still work that needs to be done," said Art Pulaski of the California AFL-CIO.

With a political constellation like this, one might expect Brown to seek a coalition with Republicans solely on pension reform. One willing ally is Senator Bill Emerson -- an original member of the GOP 5.

Emmerson said Brown shouted at him, cancelled budget talks by leaving the senator a cell phone message, and then offered a pension plan of his own that looks a lot like what the GOP 5 suggested last year.

But Emmerson says he is ready to work together again. The day Brown announced his pension plan, Emmerson called to offer his congratulations. Brown didn't take the call, and more than two months later he hasn't returned it.

"I'm baffled by it, to be honest," said Emmerson. "I'm waiting for his phone call."

(Additional reporting by Sarah McBride;
Editing by Lee Aitken
and Jonathan Weber)

FOR MORE INFORMATION

LEE AITKEN
ENTERPRISE EDITOR, POLITICS
+1 646 223 6978
lee.aitken@thomsonreuters.com

PETER HENDERSON
WEST COAST ENTERPRISE EDITOR
+1 415 677 2541
peter.henderson@thomsonreuters.com

DAN LEVINE
+1 415 348 4726
dan.levine@thomsonreuters.com

© Thomson Reuters 2012. All rights reserved. 47001073 0310

Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters.

Thomson Reuters' and the Thomson Reuters logo are registered trademarks and trademarks of Thomson Reuters and its affiliated companies.