2004

# The Economic Recovery Bond Act

## PROP 57 The Economic Recovery Bond Act.

Bond Act
Put on the Ballot by the Legislature

### Summary

One time bond of up to fifteen billion dollars ($15,000,000,000) to retire deficit. Fiscal Impact: One-time increase, compared to previously authorized bond, of up to $4 billion to reduce the state's budget shortfall and annual debt-service savings over the next few years. These effects would be offset by higher annual debt-service costs in subsequent years due to this bond's longer term and larger size.

### What Your Vote Means

**Yes**

A **YES** vote on this measure means: The state would sell $15 billion in bonds to pay existing budgetary obligations.

**No**

A **NO** vote on this measure means: The state would not sell $15 billion in bonds, but could instead sell bonds previously authorized by the Legislature to pay a smaller level of existing budgetary obligations.

### Arguments

**Pro**

For three years, state government spending has exceeded revenues, creating a deficit. This measure will consolidate the deficit and allow California to get its finances in order—without raising taxes. Proposition 57 will keep the state from running out of money and prevent drastic cuts in education and health care.

**Con**

Proposition 57 doesn't end our deficit. It postpones and then increases it. It plunges us $15 billion deeper in debt—plus billions more in interest—costing more than $2,000 per family. The recall told Sacramento: NO NEW TAXES. NO on 57 will tell them: STOP BORROWING AND OVERSPENDING.

### For Additional Information

**For**

Tom Hiltachk
Join Arnold
455 Capitol Mall, Suite 801
Sacramento, CA 95814
916-442-7757
info@joinarnold.com
www.joinarnold.com

**Against**

Senator Tom McClintock
1029 K Street, Suite 44
Sacramento, CA 95814
916-448-9321
http://tommcclintock.com

## PROP 58 The California Balanced Budget Act.

Legislative Constitutional Amendment
Put on the Ballot by the Legislature

### Summary

Requires the enactment of a balanced budget, addresses fiscal emergencies, and establishes a budget reserve. Fiscal Impact: Net state fiscal effects unknown and will vary by year, depending in part on actions of future legislatures. Reserve provisions may smooth state spending, with reductions during economic expansions and increases during downturns. Provisions requiring balanced budgets and limiting deficit borrowing could result in more immediate actions to correct budgetary shortfalls.

### What Your Vote Means

**Yes**

A **YES** vote on this measure means: The State Constitution would be amended to provide for: (1) the enactment of a balanced state budget, (2) state budget reserve requirements, and (3) limits on future borrowing to finance state budget deficits.

**No**

A **NO** vote on this measure means: The State Constitution would not be amended to add new requirements on state budgetary practices.

### Arguments

**Pro**

Proposition 58 will require the Governor and the Legislature to enact a balanced budget. It will require that spending not exceed income each fiscal year and will require building at least an $8 billion reserve. It will prohibit borrowing in the future to pay off deficits.

**Con**

With the $15 billion bonds, we were SUPPOSED to get a strong spending limitation measure. But Prop 58 DOES NOT LIMIT SPENDING! It allows short-term borrowing to balance the budget, the budget reserve is largely unprotected, and the door is wide open for massive spending increases and higher taxes.

### For Additional Information

**For**

Tom Hiltachk
Join Arnold
455 Capitol Mall, Suite 801
Sacramento, CA 95814
916-442-7757
info@joinarnold.com
www.joinarnold.com

**Against**

Richard Rider
San Diego Tax Fighters
10969 Red Cedar Drive
San Diego, CA 92131
858-530-3027
rrider@san.rr.com

# PROPOSITION 57 The Economic Recovery Bond Act.

## OFFICIAL TITLE AND SUMMARY

*Prepared by the Attorney General*

### The Economic Recovery Bond Act.

- A one time Economic Recovery Bond of up to fifteen billion dollars ($15,000,000,000) to pay off the state's accumulated General Fund deficit as of June 30, 2004.
- The Economic Recovery Bond will only be issued if the California Balanced Budget Act is also approved by the voters.
- The bonds will be secured by existing tax revenues and by other revenues that could be deposited in a special fund.

### Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- One-time increase, compared to a previously authorized bond, of up to $4 billion to reduce the state's budget shortfall.
- Annual debt-service savings over the next few years.
- Above effects offset in subsequent years by higher annual debt-service costs due to this bond's larger size and the longer time period for its repayment.

### Final Votes Cast by the Legislature on ABX5 9 (Proposition 57)

| | | |
|---|---|---|
| Assembly: | Ayes 65 | Noes 13 |
| Senate: | Ayes 27 | Noes 12 |

## ANALYSIS BY THE LEGISLATIVE ANALYST

### Background

***California's Recent Budget Problems.*** California's General Fund budget supports a variety of programs, including public schools, higher education, health, social services, and prisons. The General Fund has experienced chronic shortfalls between revenues and expenditures since 2001–02, when the economic and stock market downturns caused state revenues to decline sharply. To deal with these shortfalls, policymakers have reduced program expenditures, raised revenues, and taken a variety of other measures. They have also engaged in various forms of borrowing from special funds, local governments, and private credit markets.

***Deficit-Financing Bond.*** One of the key actions taken to deal with the projected current-year (2003–04) budget shortfall was the authorization of a $10.7 billion deficit-financing bond. The purpose of this bond was to "wipe the slate clean" and eliminate the cumulative budget deficit that would have existed at the end of 2002–03. This would allow the state to avoid the more severe budget actions that would have been necessary to eliminate the deficit all at once. The repayment of the currently authorized bond would be based on a multiple-step financing process (see shaded box for details). It would result in annual General Fund costs equivalent to one-half cent of the California sales tax—or about $2.4 billion in 2004–05 and increasing moderately each year thereafter—until the bond is paid off (in about five years).

#### Repayment of Deficit Bonds

***Existing $10.7 Billion Bond.*** The previously authorized deficit-financing bond was designed to be repaid through a multiple-step process that "freed up" a revenue stream dedicated solely to repayment of the bond. This involved:

- The diversion of a one-half cent portion of the sales tax from local governments to a special fund dedicated to the bond's repayment.
- A diversion of property taxes from school districts to local governments to offset their sales tax loss.
- Added state General Fund payments to school districts to replace their diverted property taxes.

As a result of these diversions, there is no net impact on local governments or school districts. The full cost of the bond's repayment is borne by the state's General Fund.

***$15 Billion Proposition 57 Bond.*** Under this proposition, the bond repayment method described above would be the same, except that the amount of revenues diverted would be equivalent to one-quarter cent of the state sales tax instead of the one-half cent. The full cost of the bond would continue to be borne by the state's General Fund.

This deficit bond is currently being challenged in court and has not yet been issued. (In the meantime, the carryover 2002–03 deficit is being financed through short-term borrowing, which is due to be repaid in June 2004.)



For text of Proposition 57 see page 18.

## ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

***Projected Shortfall in 2004–05.*** The state is facing another large budget shortfall in 2004–05, which we estimate will be in the general range of $15 billion. This estimate assumes that the currently authorized $10.7 billion deficit-financing bond is sold and that the carryover 2002–03 deficit is thereby taken off the books. Absent the bond proceeds from this sale, the budget shortfall would be much larger.

### Proposal

This proposition puts before the voters authorization for the state to issue a bond of up to $15 billion to deal with its budget deficit. The bond authorized by this measure would be used *in place of* the deficit-financing bond authorized last year by the Legislature.

***Repayment of Proposed Bond.*** The repayment of the bond would result in annual General Fund costs equivalent to *one-quarter* cent of California's sales tax revenues, compared to costs equivalent to one-half cent of sales tax revenues for the currently authorized bond. In addition, certain funds transferred to the state's Budget Stabilization Account (created in Proposition 58 on this ballot, if approved) would be used to accelerate the repayment of the bond. The measure includes a backup guarantee that if the sales tax revenues dedicated to the bond are insufficient to pay bond principal and interest in any year, the General Fund will make up the difference.

This measure would become effective only if Proposition 58 on this ballot is also approved by the voters.

### Fiscal Effects

The fiscal effects of the proposed bond are summarized in Figure 1, and compared to the currently authorized deficit-financing bond. The proposed bond would result in near-term budgetary savings compared to the bond authorized in current law, but added annual costs over the longer term. Specifically:

***Near-Term Savings.*** The proceeds from the proposed bond would be up to $4 billion more than from the currently authorized bond. This would provide the state with up to $4 billion in additional one-time funds to address its budget shortfall. The state would also realize near-term savings related to debt service on the bond. This is because the payments would be based on one-quarter cent of annual sales taxes instead of one-half cent. As a result, annual General Fund costs would be one-half of the currently authorized bond for the next few years.

***Longer-Term Costs.*** The near-term savings would be offset by higher costs in the longer term. This is because the proposed bond would be larger ($15 billion versus $10.7 billion) and it would take longer to repay. As indicated in Figure 1, the proposed bond would likely take between 9 and 14 years to pay back, compared to a 5-year period for the currently authorized bond.

## ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

**FIGURE 1**

### Comparison of Bond Authorized in Proposition 57 With Previously Authorized Bond

| | Proposition 57 Bond | Previously Authorized Deficit-Financing Bond |
|---|---|---|
| Bond Amount | $15 billion[a] | $10.7 billion |
| Annual General Fund Costs: | | |
| • Annual costs related to sales tax diversion. | $1.2 billion[b] | $2.4 billion[b] |
| • Potential annual payments from Proposition 58 reserve.[c] | $425 million in 2006–07 | – |
| | $900 million in 2007–08 | – |
| | $1.45 billion in 2008–09[d] | – |
| Years to Pay Off Bond: | | |
| • Using only sales tax revenues. | 14 | 5 |
| • Assuming maximum $5 billion contribution from Proposition 58 reserve. | 9 | – |

[a] Net proceeds to the General Fund would likely be less, depending on reserve requirements and other factors.
[b] Costs are for 2004–05. Amounts would increase moderately annually thereafter.
[c] Based on LAO out-year revenue projections and assumes no suspensions of transfer to reserve.
[d] These amounts would increase moderately annually thereafter until cumulative total from reserve equals $5 billion.



For text of Proposition 57 see page 18.

## ARGUMENT in Favor of Proposition 57

State government spending in California is out of control. Over the past three years, state spending has significantly exceeded state revenues.

The California Economic Recovery Bond Act will consolidate the deficit and ALLOW CALIFORNIA TO GET ITS FINANCIAL HOUSE IN ORDER—WITHOUT RAISING TAXES.

The California Economic Recovery Bond Act will keep the state from running out of money and prevent drastic cuts in spending on vital programs like education and health care.

The California Economic Recovery Bond Act will not take effect unless voters approve the California Balanced Budget Act, which PROHIBITS BORROWING TO PAY DEFICITS ever again and requires enactment of a BALANCED BUDGET.

The California Balanced Budget Act also provides for a fund of up to $5 billion that can be used to PAY THESE BONDS OFF EARLY. It also provides for a RESERVE of at least $8 billion, which can be used to PREVENT FUTURE DEFICITS.

Last year, the state approved $12.9 billion in bonds to retire the accumulated budget deficit. The courts have declared one bond issuance unconstitutional and the other is subject to legal challenge because they were not approved by voters. Since then, the state has accumulated a larger budget deficit. PROPOSITION 57 WILL LEGALLY RESTRUCTURE AND REFINANCE THAT DEBT WITH THE APPROVAL OF THE VOTERS.

Without this bond, the State of California may be out of cash by June. To deal with a calamity of that magnitude in such a short time frame, the only choice will be to drastically increase taxes. The California Economic Recovery Bond will let us refinance our inherited debt and give the state time to deal with its ongoing structural deficit.

The California Recovery Bond and the California Balanced Budget Act, Proposition 58, together will give California's leaders the tools necessary to restore confidence in the financial management of the State.

Please join Superintendent of Public Instruction Jack O'Connell, the California Taxpayers' Association, State Controller Steve Westly, the California Chamber of Commerce and Governor Arnold Schwarzenegger in supporting Proposition 57. It is the only way to ensure California's financial future.

ARNOLD SCHWARZENEGGER, *Governor*
*State of California*

LARRY McCARTHY, *President*
*California Taxpayers' Association*

ALLAN ZAREMBERG, *President*
*California Chamber of Commerce*

## REBUTTAL to Argument in Favor of Proposition 57

Proponents contradict themselves. They say that spending is out of control, but at the same time say they don't want to cut it.

So their answer is to borrow an unprecedented $15 billion—plus interest—and keep right on spending. That's more than $2,000 for every family in California.

If state spending were reduced 13.4 percent from its current rate, the entire deficit would be cured in 18 months. And that's still 15 percent more than we spent when Gray Davis became governor.

Proponents say this won't raise taxes. Where do they think the money is going to come from to pay back $15 billion in loans plus billions more in interest? Ultimately, it must come from either cuts that proponents have already said they don't want to make—or from increased taxes.

Propositions 57 and 58 do nothing to reduce the state's out-of-control spending that ballooned the state budget from $57.8 billion five years ago to a projected $90.2 billion next year. They allow politics to continue as usual in Sacramento: spend, borrow and tax.

SENATOR TOM McCLINTOCK

SENATOR BILL MORROW

## ARGUMENT Against Proposition 57

California is billions of dollars in debt. Out-of-control borrowing has already cost California the lowest credit rating in the nation—on a par with many Third World countries.

Prop. 57 plunges us $15 billion DEEPER IN DEBT—plus billions more in interest. Total debt service from Prop. 57 will cost an average family more than $2,000.

What does it buy? NOTHING. This doesn't buy a single school, road or park. It doesn't put a single cop on the street or relieve any traffic congestion. It simply papers over the gigantic deficit that Sacramento's politicians created in the first place.

Instead of cutting the waste from government bureaucracy and targeting fraud for elimination, they have decided to use the biggest bond in California history to cover their spending addiction.

Since 1849, California's Constitution has forbidden bonds like this from being used to paper over deficit spending. Long-term bonds are supposed to be used for schools, parks, highways and water projects that will serve coming generations. In order to put this unprecedented borrowing on the ballot, the same politicians also propose repealing this historic constitutional amendment—and have the audacity to call it "a balanced budget amendment."

Five years ago California spent $57.8 billion from its General Fund. Next year, it will spend $90.2 billion.

Instead of adding more than a billion dollars of additional debt service to the state budget *every year* for the life of this bond, we need to suspend the state's spending mandates and restore the power that the Governor had from 1939 to 1983 to make mid-year spending reductions.

The October 7th election sent Sacramento an important message: NO NEW TAXES.

A NO vote on Prop. 57 sends them another: STOP BORROWING, STOP OVERSPENDING, and PUT OUR FINANCES BACK IN ORDER!!!

SENATOR TOM McCLINTOCK

SENATOR BILL MORROW



## REBUTTAL to Argument Against Proposition 57

The California Legislature has already approved $12.9 billion in bonds to retire the accumulated budget deficit. The California Economic Recovery Bond Act gives the voters the power to APPROVE A SOUND RESTRUCTURING PLAN for California.

Governor Arnold Schwarzenegger has proposed the California Economic Recovery Plan to ALLOW CALIFORNIA TO GET ITS FINANCIAL HOUSE IN ORDER—WITHOUT RAISING TAXES. Without the California Economic Recovery Bond Act, the state could run out of money, leaving no choice but drastic cuts in spending on vital programs like education and health care or a huge tax increase. Proposition 57 will let us refinance our inherited debt and give the state time to deal with its ongoing structural deficit.

Remember, the California Economic Recovery Bond Act will not take effect unless voters approve the California Balanced Budget Act. Don't be misled by the opposition, the California Balanced Budget Act will PROHIBIT BORROWING TO PAY DEFICITS ever again and will require enactment of a BALANCED BUDGET.

Governor Schwarzenegger needs both Propositions 57 and 58 to pass. It will give him the tools necessary to STOP BORROWING, STOP OVERSPENDING, and PUT OUR FINANCES BACK IN ORDER.

Please join Superintendent of Public Instruction Jack O'Connell, the California Taxpayers' Association, State Controller Steve Westly and the California Chamber of Commerce and VOTE "YES" on Proposition 57. It is the only way to ensure California's financial future.

ARNOLD SCHWARZENEGGER, *Governor*
*State of California*

LARRY McCARTHY, *President*
*California Taxpayers' Association*

CARL GUARDINO, *President*
*Silicon Valley Manufacturing Group*

## Proposition 57

This law proposed by Assembly Bill 9 of the 2003–2004 Fifth Extraordinary Session (Chapter 2, 2003–2004 Fifth Extraordinary Session) is submitted to the people in accordance with the provisions of Article XVI of the California Constitution.

This proposed law adds sections to the Government Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

### PROPOSED LAW

SEC. 3. Title 18 (commencing with Section 99050) is added to the Government Code, to read:

*TITLE 18. THE ECONOMIC RECOVERY BOND ACT*

*CHAPTER 1. GENERAL PROVISIONS*

*99050. (a) This title shall be known and may be cited as the Economic Recovery Bond Act.*

*(b) The Legislature finds and declares that it is essential to the public welfare that an efficient, equitable, and alternative source of funding be established in order to preserve public education and critical health and safety programs that otherwise could not be funded in light of the accumulated state budget deficit, and that securing the availability of the proceeds of the bonds proposed to be issued and sold pursuant to this title is the most efficient, equitable, and economical means available.*

*99051. As used in this title, the following terms have the following meanings:*

*(a) (1) "Accumulated state budget deficit" has the same meaning as in Section 1.3 of Article XVI of the California Constitution.*

*(2) The amount referred to in paragraph (1) shall be as certified by the Director of Finance.*

*(b) "Ancillary obligation" means an obligation of the state entered into in connection with any bonds issued under this title, including the following:*

*(1) A credit enhancement or liquidity agreement, including any credit enhancement or liquidity agreement in the form of bond insurance, letter of credit, standby bond purchase agreement, reimbursement agreement, liquidity facility, or other similar arrangement.*

*(2) A remarketing agreement.*

*(3) An auction agent agreement.*

*(4) A broker-dealer agreement or other agreement relating to the marketing of the bonds.*

*(5) An interest rate or other type of swap or hedging contract.*

*(6) An investment agreement, forward purchase agreement, or similar structured investment contract.*

*(c) "Committee" means the Economic Recovery Financing Committee created pursuant to Section 99055.*

*(d) "Fund" means the Economic Recovery Fund created pursuant to Section 99060.*

*(e) "Resolution" means any resolution, trust agreement, indenture, certificate, or other instrument authorizing the issuance of bonds pursuant to this title and providing for their security and repayment.*

*(f) "Trustee" means the Treasurer or a bank or trust company within or without the state acting as trustee for any issue of bonds under this title and, if there is more than one issue of bonds, the term means the trustee for each issue of bonds, respectively. If there are cotrustees for an issue of bonds, "trustee" means those cotrustees collectively.*

*CHAPTER 2. ECONOMIC RECOVERY FINANCING COMMITTEE*

*99055. (a) Solely for the purpose of authorizing the issuance and sale pursuant to the State General Obligation Bond Law of the bonds authorized by this title and the making of those determinations and the taking of other actions as are authorized by this title, the Economic Recovery Financing Committee is hereby created. For purposes of this title, the Economic Recovery Financing Committee is "the committee" as that term is used in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2).*

*(b) The committee consists of all of the following members:*

*(1) The Governor or his or her designee.*

*(2) The Director of Finance.*

*(3) The Treasurer.*

*(4) The Controller.*

*(5) The Secretary of Business, Transportation and Housing.*

*(6) The Director of General Services.*

*(7) The Director of Transportation.*

*(c) Notwithstanding any other provision of law, any member may designate a deputy to act as that member in his or her place and stead for all purposes, as though the member were personally present.*

*(d) The Legislature finds and declares that each member of the committee has previously acted as a member of a similar finance committee.*

*(e) A majority of the members of the committee shall constitute a quorum of the committee and may act for the committee.*

*(f) The Director of Finance shall serve as chairperson of the committee.*

*CHAPTER 3. ECONOMIC RECOVERY FUND*

*99060. (a) The proceeds of bonds issued and sold pursuant to this title shall be deposited in the Economic Recovery Fund, which is hereby established in the State Treasury.*

*(b) Moneys in the fund shall be invested in the Surplus Money Investment Fund, and any income from that investment shall be credited to the fund.*

*(c) Except for amounts necessary to pay costs of issuance, administrative costs, and any other costs payable in connection with the bonds, and to retire or refund bonds issued and sold pursuant to this title or bonds issued and sold under Title 17 (commencing with Section 99000), the remaining balance of the fund, as determined by the committee, shall be transferred to the General Fund to fund the purposes set forth in this title.*

*99062. Out of the first money realized from the sale of bonds as provided in this chapter, there shall be redeposited in the General Obligation Bond Expense Revolving Fund, established by Section 16724.5, the amount of all expenditures made for purposes specified in that section, and this money may be used for the same purpose and repaid in the same manner whenever additional bond sales are made.*

*99064. The proceeds of the bonds issued and sold pursuant to this chapter shall be available for the purpose of providing an efficient, equitable, and economical means of doing both of the following:*

*(a) Funding the accumulated state budget deficit, which may be accomplished in part by refunding or repaying bonds issued pursuant to Title 17 (commencing with Section 99000).*

*(b) Paying costs relating to the issuance of bonds under this title, including, but not limited to, providing reserves, capitalized interest, and the costs of obtaining or entering into any ancillary obligation, costs associated with the repayment or refunding of the fiscal recovery bonds issued pursuant to Title 17 (commencing with Section 99000), and administrative and other costs associated with implementing the purposes of this title.*

*CHAPTER 4. BOND PROVISIONS*

*99065. (a) Subject to subdivision (b), bonds in the total amount of fifteen billion dollars ($15,000,000,000), not including the amount of any refunding bonds issued in accordance with Section 99075, or so much thereof as is necessary, may be issued and sold to provide a fund to be used for carrying out the purposes expressed in this title and to reimburse the General Obligation Bond Expense Revolving Fund, pursuant to Section 16724.5. The bonds, when sold, shall be and constitute a valid and binding obligation of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal of, and interest on, the bonds as the principal and interest become due and payable. Additionally, the bonds, when sold, shall be secured by a pledge of revenues and any other amounts in the Fiscal Recovery Fund created pursuant to Section 99008. The bonds may be secured by different lien priorities on amounts in the Fiscal Recovery Fund.*

*(b) The amount of bonds that may be issued and sold pursuant to subdivision (a) shall be reduced by the amount of bonds issued pursuant to Title 17 (commencing with Section 99000), and by the amount of bonds issued*

## Proposition 57 *(cont.)*

*pursuant to the California Pension Obligation Financing Act (Chapter 7 (commencing with Section 16910) of Part 3 of Division 4 of Title 2), except to the extent those bonds will be retired, defeased, or redeemed with the proceeds of bonds authorized by this title.*

*(c) Pursuant to this section, the Treasurer shall sell the bonds authorized by the committee. The bonds shall be sold upon the terms and conditions specified in a resolution to be adopted by the committee pursuant to Section 16731 and Section 99070. Whenever the committee deems it necessary for an effective sale of the bonds, the committee may authorize the Treasurer to sell any issue of bonds at less than their par value. Notwithstanding Section 16754.3, the discount with respect to any issue of the bonds shall not exceed 3 percent of the par value thereof, net of any premium.*

*99066. The bonds authorized by this title shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2), and all of the provisions of that law, except subdivisions (a) and (b) of Section 16727 or any other provision in that law that is inconsistent with the terms of this title, apply to the bonds and to this title and are hereby incorporated in this title as though set forth in full in this title.*

*99067. For purposes of this title, the Department of Finance is designated the "board" as that term is used in the State General Obligation Bond Law.*

*99069. Notwithstanding any other provision of this title, or of the State General Obligation Bond Law, if the Treasurer sells bonds pursuant to this title that include a bond counsel opinion to the effect that the interest on the bonds is excluded from gross income for federal tax purposes subject to designated conditions, the Treasurer may maintain separate accounts for the bond proceeds invested and for the investment earnings on those proceeds, and may use or direct the use of those proceeds or earnings to pay any rebate, penalty, or other payment required under federal law or take any other action with respect to the investment and use of those bond proceeds that is required or desirable under federal law in order to maintain the tax-exempt status of those bonds and to obtain any other advantage under federal law on behalf of the funds of this state.*

*99070. (a) (1) The committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this title in order to carry out the purposes of this title and, if so, the amount of bonds to be issued and sold, the times at which the proceeds of the bonds authorized by this title shall be required to be available, and those other terms and conditions for the bonds authorized by this title as it shall determine necessary or desirable.*

*(2) In addition to all other powers specifically granted in this title and the State General Obligation Bond Law, the committee may do all things necessary or convenient to carry out the powers and purposes of this title, including the approval of any indenture and any ancillary obligation relating to those bonds, and the delegation of necessary duties to the chairperson, and to the Treasurer as agent for sale of the bonds.*

*(3) The committee shall determine the amount of the bonds to be issued so that the net proceeds of the bonds issued to fund the accumulated budget deficit, when added to the net proceeds of any bonds issued pursuant to Title 17 (commencing with Section 99000) for that purpose, exclusive of bonds issued pursuant to this title for the purpose of refunding bonds issued pursuant to this title or Title 17 (commencing with Section 99000), will not exceed fifteen billion dollars ($15,000,000,000) in the aggregate. Nothing in this section shall be construed to limit the ability of the committee to authorize the issuance of any amount of bonds that it shall determine necessary or appropriate to accomplish the purposes of this title, including the refunding or redemption of the bonds issued pursuant to Title 17 (commencing with Section 99000), subject to the limit on the total amount of bonds set forth in Section 99065.*

*(b) Successive issues of bonds may be authorized and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized to be issued be sold at any one time. In addition to all other powers specifically granted in this title and the State General Obligation Bond Law, the committee may do all things necessary or convenient, including the delegation of necessary duties to the chairperson and to the Treasurer as agent for sale of the bonds, to carry out the powers and purposes of this title.*

*99071. The principal of and interest on the bonds and the payment of any ancillary obligations shall be payable from and secured by a pledge of all state sales and use tax revenues in the Fiscal Recovery Fund established pursuant to Section 99008 and any earnings thereon. To the extent that moneys in the Fiscal Recovery Fund are deemed insufficient to make these payments, pursuant to an estimate certified by the Director of Finance and approved by the committee, there shall be collected each year and in the same manner and at the same time as other state revenue is collected, in addition to the ordinary revenues of the state, a sum in an amount required to pay the principal of, and interest on, the bonds and the payment of any ancillary obligations for which payment is authorized by this title and for which the full faith and credit of the state has been pledged. It is the duty of all officers charged by law with any duty in regard to the collection of the revenue to do and perform each and every act that is necessary to collect that additional sum.*

*99072. (a) Notwithstanding Section 13340, there is hereby continuously appropriated from the Fiscal Recovery Fund established pursuant to Section 99008 an amount that will equal the total of the following:*

*(1) The sum annually necessary to pay the principal of, and interest on, bonds issued and sold as described in Section 99070, as the principal and interest become due and payable, together with any amount necessary to satisfy any reserve and coverage requirements in the resolution.*

*(2) The sum necessary to pay any ancillary obligations entered into in connection with the bonds.*

*(3) Any trustee and other administrative costs incurred in connection with servicing the bonds and ancillary obligations.*

*(4) Redemption, retirement, defeasance or purchase of any bonds as authorized by the committee prior to their stated maturity dates.*

*(b) Notwithstanding Section 13340, if the funds appropriated by subdivision (a) are estimated to be insufficient to meet the requirement specified in paragraphs (1) to (4), inclusive, of subdivision (a), as approved pursuant to Section 99071, there is hereby continuously appropriated from the General Fund, for the purposes of this chapter, an amount that will provide sufficient revenues to meet whatever requirements specified in paragraphs (1) to (4), inclusive, of subdivision (a) cannot be met from revenues appropriated from the Fiscal Recovery Fund.*

*(c) The sales and use tax revenues received pursuant to Sections 6051.5 and 6201.5 of the Revenue and Taxation Code and deposited into the Fiscal Recovery Fund are hereby irrevocably pledged to the payment of principal and interest on the bonds issued pursuant to this title, to payment of any ancillary obligations, and to costs necessary for servicing and administering the bonds and ancillary obligations. The Legislature may elect to deposit additional revenues in the Fiscal Recovery Fund. The pledge of this subdivision shall vest automatically upon execution and delivery of any resolution or agreement relating to ancillary obligations, without the need for any notice or filing in any office or location.*

*99074. All money deposited in the Economic Recovery Fund that is derived from accrued interest on bonds sold shall be reserved in that fund and shall be available for transfer to the Fiscal Recovery Fund as a credit to expenditures for bond interest.*

*99075. The bonds may be refunded in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 4 of Title 2, which is a part of the State General Obligation Bond Law. Approval by the electors of the state for the issuance of the bonds described in this title shall include approval of the issuance of any bonds issued to refund any bonds originally issued under this title or any previously issued refunding bonds.*

*99076. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this title are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.*

*99077. The state hereby pledges and agrees with the holders of any bonds issued pursuant to this title that it will not reduce the rate of imposition of either of the taxes imposed pursuant to Sections 6051.5 and 6201.5 of the Revenue and Taxation Code, which generate the revenue deposited in the Fiscal Recovery Fund.*

SEC. 8. Sections 1 to 4.20, inclusive, of this act shall become operative only if both of the following occur:

(a) ACA 5 of the 2003–04 Fifth Extraordinary Session is submitted to and approved by the voters at the March 2, 2004, statewide primary election.

(b) The voters adopt the Economic Recovery Bond Act, as set forth in Section 3 of this act.