2004

The California Balanced Budget 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

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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.

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PROPOSITION 58

The California Balanced Budget Act.

OFFICIAL TITLE AND SUMMARY

Prepared by the Attorney General

The California Balanced Budget Act.

- Requires enactment of a balanced budget where General Fund expenditures do not exceed estimated General Fund revenues.
- Allows the Governor to proclaim a fiscal emergency in specified circumstances, and submit proposed legislation to address the fiscal emergency.
- Requires the Legislature to stop other action and act on legislation proposed to address the emergency.
- Establishes a budget reserve.
- Provides that the California Economic Recovery Bond Act is for a single object or work.
- Prohibits any future deficit bonds.

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

- Unknown net state fiscal effects, which will vary year by year and depend in part on actions of future Legislatures.
- Reserve provisions may smooth state spending, with reductions during economic expansions and increases during downturns.
- Balanced budget and debt limitation provisions could result in more immediate actions to correct budgetary shortfalls.

Final Votes Cast by the Legislature on ACAX5 5 (Proposition 58)

Assembly:	Ayes 80	Noes 0
Senate:	Ayes 35	Noes 5

ANALYSIS BY THE LEGISLATIVE ANALYST

Background

California's Budget Situation

California has experienced major budget difficulties in recent years. After a period of high growth in revenues and expenditures in the late 1990s, state tax revenues plunged in 2001 and the budget fell badly out of balance. Although policymakers reduced program spending and increased revenues to deal with part of the shortfalls, the state has also carried over large deficits and engaged in a significant amount of borrowing. The state budget faces another major shortfall in 2004–05 and it has a variety of other obligations—such as deferrals and loans from special funds—that are outstanding at this time.

Constitutional Provisions Relating to Budgeting and Debt

There are several budget- and debt-related provisions in California's Constitution that are affected by this proposition.

- ***Balanced Budget Requirement.*** The Constitution requires the Governor to submit by January 10 of each year a state budget proposal for the upcoming fiscal year (beginning on July 1) which is balanced—meaning that estimated revenues must meet or exceed proposed expenditures. While this balanced budget requirement applies to the Governor's January budget submission, it does *not* apply to the budget ultimately passed by the Legislature or signed by the Governor.
- ***Mid-Year Budget Adjustments.*** The Legislature has met in special session during the past three years to consider mid-year proposals to address budget shortfalls. However, there is no formal process in the Constitution to require that mid-year corrective actions be taken when the budget falls out of balance.
- ***Reserve Requirement.*** Reserve funds are typically used to cushion against unexpected budget shortfalls. The Constitution requires that the Legislature establish a prudent state reserve fund. It does not, however, specify the size of the reserve, or the conditions under which funds are placed into the reserve.
- ***Debt-Related Provisions.*** The Constitution generally requires voter approval for debt backed by the state's general taxing authority. Over the years, courts have ruled that certain types of borrowing (including short-term borrowing to cover cash shortfalls and some bonds repaid from *specific* revenue sources) can occur without voter approval. The Constitution also requires that bonds submitted to the voters for approval be for a "single object or work" as specified in the respective bond act. For example, in past years, voters have been asked to authorize bonds for such single objects as education facilities, water projects, or prison construction.

Proposal

This proposition amends the Constitution, making changes related to (1) the enactment and maintenance of a balanced state budget, (2) the establishment of specific reserve requirements, and (3) a restriction on future deficit-related borrowing. The provisions are discussed in more detail below.

Balanced Budget Provisions

This proposition requires that the state adopt a balanced budget and provides for mid-year adjustments in the event that the budget falls out of balance.

Balanced Budget. In addition to the existing requirement that the Governor *propose* a balanced budget, this measure requires that the state *enact* a budget that is balanced. Specifically, estimated revenues would have to meet or exceed estimated expenditures in each year.

Mid-Year Adjustments. Under this measure, if the Governor determines that the state is facing substantial revenue shortfalls or spending deficiencies, the Governor may declare a fiscal emergency. He or she would then be required to propose legislation to address the problem, and call the Legislature into special session for that purpose. If the Legislature fails to pass and send to the

For text of Proposition 58 see page 20.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

Governor legislation to address the budget problem within 45 days, it would be prohibited from (1) acting on any other bills or (2) adjourning in joint recess until such legislation is passed.

Reserve Requirement

The proposal requires that a special reserve—called the Budget Stabilization Account (BSA)—be established in the state's General Fund.

Annual Transfers. A portion of estimated annual General Fund revenues would be transferred by the State Controller into the account no later than September 30 of each fiscal year. The specific transfers are 1 percent (about $850 million) in 2006–07, 2 percent (about $1.8 billion) in 2007–08, and 3 percent (about $2.9 billion) in 2008–09 and thereafter. These transfers would continue until the balance in the account reaches $8 billion or 5 percent of General Fund revenues, whichever is greater. The annual transfer requirement would be in effect whenever the balance falls below the $8 billion or 5 percent target. (Given the current level of General Fund revenues—approximately $75 billion—the required reserve level would likely be $8 billion for at least the next decade.)

Suspension of Transfers. The annual transfers could be suspended or reduced for a fiscal year by an executive order issued by the Governor no later than June 1 of the preceding fiscal year.

Allocation of Funds. Each year, 50 percent of the annual transfers into the BSA would be allocated to a subaccount that is dedicated to repayment of the deficit-recovery bond authorized by Proposition 57. These transfers would be made until they reach a cumulative total of $5 billion. Funds from this subaccount would be automatically spent for debt service on that bond. The remaining funds in the BSA would be available for transfer to the General Fund.

Spending From the Account. Funds in the BSA could be transferred from this account to the General Fund through a majority vote of the Legislature and approval of the Governor. Spending of these monies from the General Fund could be made for various purposes—including to cover budget shortfalls—generally with a two-thirds vote of the Legislature (same as current law).

Related Provisions in Proposition 56. Proposition 56 on this ballot also contains new, but different, requirements related to a state reserve fund.

Prohibition Against Future Deficit Borrowing

Subsequent to the issuance of the bonds authorized in Proposition 57, this proposal would prohibit most *future* borrowing to cover budget deficits. This restriction applies to general obligation bonds, revenue bonds, and certain other forms of long-term borrowing. The restriction does *not* apply

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

to certain other types of borrowing, such as (1) short-term borrowing to cover cash shortfalls in the General Fund (including revenue anticipation notes or revenue anticipation warrants currently used by the state), or (2) borrowing between state funds.

Other Provisions

This measure also states that:

- With regard to the bond authorized by Proposition 57, the "single object or work" for which the Legislature may create debt includes—for that measure only—the one-time funding of the accumulated state budget deficit and other obligations, as determined by the Director of Finance.
- Its provisions take effect only if Proposition 57 on this ballot is also approved by the voters.

Fiscal Effects

This measure could have a variety of fiscal effects, depending on future budget circumstances and future actions taken by Governors and Legislatures. Possible fiscal effects include:

- ***Balanced Budget and Debt Provisions.*** In recent years, as well as during difficult budget periods in the past, the Governor and Legislature have at times allowed accumulated budget deficits to carry over from one year to the next. This meant that spending reductions and/or revenue increases were less than what they otherwise would have been in those years. The provisions of this measure requiring a balanced budget and restricting borrowing would limit the state's future use of this option. As a result, the state would in some cases have to take more immediate actions to correct budgetary shortfalls.
- ***Reserve Requirement.*** The $8 billion reserve target established by this proposition is much larger than the amounts included in past budget plans. This larger reserve could be used to smooth state spending over the course of an economic cycle. That is, spending could be less during economic expansions (as a portion of the annual revenues are transferred into the reserve), and more during downturns (as the funds available in the reserve are used to "cushion" spending reductions that would otherwise be necessary).
- ***Other Possible Impacts.*** The proposition could have a variety of other impacts on state finances. For example, to the extent that the measure resulted in more balanced budgets and less borrowing over time, the state would benefit financially from higher credit ratings and lower debt-service costs.

For text of Proposition 58 see page 20.

ARGUMENT in Favor of Proposition 58

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

Proposition 58 will require the Governor and the California State Legislature to ENACT a BALANCED BUDGET. Right now, the Governor is only required to propose, not enact, a balanced budget. This loophole has led to the huge budget deficits that plague California.

The California Balanced Budget Act:

WILL require a BALANCED BUDGET;

WILL require that SPENDING NOT EXCEED INCOME each fiscal year;

WILL require general funds to be put in a "Rainy Day" fund to build a RESERVE to protect California from future economic downturns. The Budget Stabilization Account will also be used to pay off the California Economic Recovery Bond early;

WILL allow the Governor to call a fiscal emergency if revenues drop below expenditures or if expenditures exceed revenues; and

WILL prohibit the Legislature from acting on other legislation or adjourning if they fail to pass legislation to address the crisis.

California faces unprecedented budget deficits. Overspending has led to serious shortfalls which threatens the state's ability to pay its bills and access financial markets. This proposition is a safeguard against this EVER HAPPENING AGAIN. Proposition 58 will prevent the Legislature from ENACTING BUDGETS THAT SPEND MORE MONEY THAN WE HAVE.

The California Balanced Budget Act will require, for the first time, the Governor and the Legislature to pass a BALANCED BUDGET. This proposition, along with the California Economic Recovery Bond Act, will give us the tools we need to resolve California's budget crisis.

As California faced unprecedented budget deficits for the last 3 years, the problem was ignored, spending exceeded revenues, and there was no process in place to address the fiscal crisis. Proposition 58 will allow the Governor to call a Special Session of the Legislature to deal with future fiscal crises. If the Legislature fails to act within 45 days, then they will not be able to recess and they will not be able to pass any other legislation. This will force the Governor and the Legislature to work together to find a solution to the problem BEFORE IT IS TOO LATE.

The California Recovery Bond, Proposition 57, 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 Governor Arnold Schwarzenegger, State Controller Steve Westly, Superintendent of Public Instruction Jack O'Connell, the California Chamber of Commerce, the California Taxpayers' Association, and all 80 members of the California State Assembly—both Republicans and Democrats—and support Proposition 58.

ARNOLD SCHWARZENEGGER, *Governor*
State of California

HERB J. WESSON, JR., *Speaker*
California State Assembly

JENNY OROPEZA, *Chairwoman*
Assembly Budget Committee

REBUTTAL to Argument in Favor of Proposition 58

Reject this ruse! Remember the original deal we were promised by Arnold? Vote for a huge $15 billion bond to pay for past mistakes, and we'll pass a solid spending limit so this mess doesn't happen again.

Prop. 57 gives us the bonds, but Prop. 58 does NOT give us ANY spending limit. The Legislature is free to continue spending like crazy, sticking us with higher taxes and more debt. All pain for no gain. If we approve this toothless "plan," then perhaps we'll owe Gray Davis an apology!

Yes, the budget will be "balanced," but by law the California budget ALREADY has to be balanced. The problem is HOW it is balanced. Prop. 58 does NOT protect us from the sleazy methods currently employed to balance the budget—*accounting tricks and short-term borrowing*.

Proponents claim that Prop. 58 requires that "spending not exceed income each fiscal year." This statement is factually incorrect, and they know it. As in the past, short-term borrowing allows spending in excess of revenues received.

Yes, the entire State Assembly voted for this measure. But we remember another bill that received such unanimous bipartisan approval—the terribly flawed electricity deregulation bill that cost us billions and billions of dollars.

Prop. 58 does nothing except justify selling bonds. The vaunted budget reserve is largely unprotected. Prop. 58 includes NO SPENDING LIMITS, leaving the door wide open to more borrowing and higher taxes.

Force Sacramento to sober up. Vote NO on Prop. 58.

RICHARD RIDER, *Chair*
San Diego Tax Fighters

BRUCE HENDERSON, *President*
Association of Concerned Taxpayers

JOE ARMENDARIZ, *Executive Director*
Santa Barbara County Taxpayers Association

ARGUMENT Against Proposition 58

The same legislature that created the biggest budget deficit in California's history now wants to paper over that deficit by borrowing $15 billion, at a total cost of over $2,000 per California family.

Our California Constitution prohibits them from doing so. Since 1849, the "single object or work" provision of the Constitution has limited long-term borrowing to projects like schools, parks, or water projects that will serve coming generations. Prop. 58 sweeps that provision aside, and allows them to do what no generation in California's history has ever done—*steal from the future*.

At a time when our state has the lowest credit rating in the nation—challenging Singapore and Malaysia—they want to borrow $15 billion more to pay for their own mistakes—*AND STICK YOU WITH THE BILL*. Our Constitution won't let them. But Prop. 58 shreds that provision, making it possible for them to plunge us $15 billion deeper into debt. That is the *real* purpose of Prop. 58.

They have the *audacity* to call it a "Balanced Budget Act." How can they do that? Simple. They suspended the law that guarantees you an unbiased ballot title and summary—instead literally writing it themselves. Daniel Weintraub, perhaps the most respected newspaper columnist in California, writes that *"the balanced-budget requirement doesn't actually require that lawmakers approve a balanced budget."*

Don't be fooled. California's Constitution already prohibits long-term borrowing from being used to balance the budget. That's the part they're suspending! We've gotten into this mess because of short-term borrowing—and *short-term borrowing is exempt from Prop. 58.* As Weintraub says, Prop. 58 *"does not outlaw borrowing to paper over a deficit."*

California already has a prudent reserve requirement in current law—legislatures and governors have ignored it. Prop. 58 allows them to continue to ignore it. Weintraub: *"The governor could suspend transfers into the reserve at any time. And the Legislature could transfer money out of the reserve . . . at any time."* It is no protection at all!

The Governor ALREADY has the power to call the Legislature into session to address a developing budget shortfall. This initiative requires the Legislature to take action before it can move on to other business. But it is LOOPHOLE-RIDDEN. Weintraub writes: *"As long as they passed any bill to address the shortfall, they could continue as usual, even if the governor vetoed their approach. In practice, such a provision is unlikely to yield anything very different from the stalemates we see today."*

If they were serious about a balanced budget, they'd restore the Governor's power to make mid-year spending reductions to keep the budget in balance. If they were serious about spending restraint, they'd restore the Gann Spending Limit that produced a decade of balanced budgets and prudent reserves from 1979 until 1990.

But they're only serious about one thing—*they want to borrow more money, and this amendment gives them the power to do so.*

RICHARD RIDER, *Chair*
San Diego Tax Fighters

BRUCE HENDERSON, *President*
Association of Concerned Taxpayers

JOE ARMENDARIZ, *Executive Director*
Santa Barbara County Taxpayers Association

REBUTTAL to Argument Against Proposition 58

Don't be fooled by the opponents. The California Taxpayers Association supports the California Balanced Budget Act.

Proposition 58 WILL REQUIRE A BALANCED BUDGET for the first time. State government spending in California is out of control. Over the past three years, state spending has significantly exceeded state revenues.

Under Proposition 58, the Governor and the California State Legislature must ENACT a BALANCED BUDGET. It will CLOSE A LOOPHOLE that was used to create the huge deficit.

Governor Schwarzenegger's California Economic Recovery Plan includes both Propositions 57 and 58. Combined, the two measures will allow California to refinance its debt and prevent such a situation from EVER HAPPENING AGAIN. We should not be allowed to SPEND MORE MONEY THAN WE HAVE.

Proposition 58 requires the Legislature to enact a balanced budget and if circumstances change after they pass the budget, the Governor is required to call them into special session to make mid-year changes to the budget, so that we end the year with A BALANCED BUDGET. And Proposition 58 prohibits the Legislature from acting on any new legislation until the budget is balanced again.

Proposition 58 does not change the Gann Spending Limit. It is still the law, the BALANCED BUDGET ACT provides a new tool in the fight against overspending.

Proposition 58 prohibits borrowing for future deficits. Proposition 58 requires building a reserve of at least $8 billion. Please support the California Recovery Plan and vote YES ON PROPOSITIONS 57 and 58.

ARNOLD SCHWARZENEGGER, *Governor*
State of California

BILL HAUCK, *Chairman*
California Constitution Revision Commission

ALLAN ZAREMBERG, *Chairman*
California Chamber of Commerce

Proposition 58

This amendment proposed by Assembly Constitutional Amendment 5 of the 2003–2004 Fifth Extraordinary Session (Resolution Chapter 1, 2003–2004 Fifth Extraordinary Session) expressly amends the California Constitution by adding sections thereto and amending sections thereof; therefore, existing provisions proposed to be deleted are printed in ~~strike-out type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENTS TO ARTICLES IV AND XVI

First—That Section 10 of Article IV is amended to read:

SEC. 10. (a) Each bill passed by the Legislature shall be presented to the Governor. It becomes a statute if it is signed by the Governor. The Governor may veto it by returning it with any objections to the house of origin, which shall enter the objections in the journal and proceed to reconsider it. If each house then passes the bill by rollcall vote entered in the journal, ~~two thirds~~ *two-thirds* of the membership concurring, it becomes a statute.

(b) (1) Any bill, other than a bill which would establish or change boundaries of any legislative, congressional, or other election district, passed by the Legislature on or before the date the Legislature adjourns for a joint recess to reconvene in the second calendar year of the biennium of the legislative session, and in the possession of the Governor after that date, that is not returned within 30 days after that date becomes a statute.

(2) Any bill passed by the Legislature before September 1 of the second calendar year of the biennium of the legislative session and in the possession of the Governor on or after September 1 that is not returned on or before September 30 of that year becomes a statute.

(3) Any other bill presented to the Governor that is not returned within 12 days becomes a statute.

(4) If the Legislature by adjournment of a special session prevents the return of a bill with the veto message, the bill becomes a statute unless the Governor vetoes the bill within 12 days after it is presented by depositing it and the veto message in the office of the Secretary of State.

(5) If the 12th day of the period within which the Governor is required to perform an act pursuant to paragraph (3) or (4) of this subdivision is a Saturday, Sunday, or holiday, the period is extended to the next day that is not a Saturday, Sunday, or holiday.

(c) Any bill introduced during the first year of the biennium of the legislative session that has not been passed by the house of origin by January 31 of the second calendar year of the biennium may no longer be acted on by the house. No bill may be passed by either house on or after September 1 of an even-numbered year except statutes calling elections, statutes providing for tax levies or appropriations for the usual current expenses of the State, and urgency statutes, and bills passed after being vetoed by the Governor.

(d) The Legislature may not present any bill to the Governor after November 15 of the second calendar year of the biennium of the legislative session.

(e) The Governor may reduce or eliminate one or more items of appropriation while approving other portions of a bill. The Governor shall append to the bill a statement of the items reduced or eliminated with the reasons for the action. The Governor shall transmit to the house originating the bill a copy of the statement and reasons. Items reduced or eliminated shall be separately reconsidered and may be passed over the Governor's veto in the same manner as bills.

(f) (1) If, following the enactment of the budget bill for the 2004–05 fiscal year or any subsequent fiscal year, the Governor determines that, for that fiscal year, General Fund revenues will decline substantially below the estimate of General Fund revenues upon which the budget bill for that fiscal year, as enacted, was based, or General Fund expenditures will increase substantially above that estimate of General Fund revenues, or both, the Governor may issue a proclamation declaring a fiscal emergency and shall thereupon cause the Legislature to assemble in special session for this purpose. The proclamation shall identify the nature of the fiscal emergency and shall be submitted by the Governor to the Legislature, accompanied by proposed legislation to address the fiscal emergency.

(2) If the Legislature fails to pass and send to the Governor a bill or bills to address the fiscal emergency by the 45th day following the issuance of the proclamation, the Legislature may not act on any other bill, nor may the Legislature adjourn for a joint recess, until that bill or those bills have been passed and sent to the Governor.

(3) A bill addressing the fiscal emergency declared pursuant to this section shall contain a statement to that effect.

Second—That Section 12 of Article IV is amended to read:

SEC. 12. (a) Within the first 10 days of each calendar year, the Governor shall submit to the Legislature, with an explanatory message, a budget for the ensuing fiscal year containing itemized statements for recommended state expenditures and estimated state revenues. If recommended expenditures exceed estimated revenues, the Governor shall recommend the sources from which the additional revenues should be provided.

(b) The Governor and the Governor-elect may require a state agency, officer, or employee to furnish whatever information is deemed necessary to prepare the budget.

(c) *(1)* The budget shall be accompanied by a budget bill itemizing recommended expenditures. ~~The~~

(2) The budget bill shall be introduced immediately in each house by the persons chairing the committees that consider ~~appropriations. The~~ *the budget.*

(3) The Legislature shall pass the budget bill by midnight on June 15 of each year. ~~Until~~

(4) Until the budget bill has been enacted, the Legislature shall not send to the Governor for consideration any bill appropriating funds for expenditure during the fiscal year for which the budget bill is to be enacted, except emergency bills recommended by the Governor or appropriations for the salaries and expenses of the Legislature.

(d) No bill except the budget bill may contain more than one item of appropriation, and that for one certain, expressed purpose. Appropriations from the General Fund of the State, except appropriations for the public schools, are void unless passed in each house by rollcall vote entered in the journal, ~~two thirds~~ *two-thirds* of the membership concurring.

(e) The Legislature may control the submission, approval, and enforcement of budgets and the filing of claims for all state agencies.

(f) For the 2004–05 fiscal year, or any subsequent fiscal year, the Legislature may not send to the Governor for consideration, nor may the Governor sign into law, a budget bill that would appropriate from the General Fund, for that fiscal year, a total amount that, when combined with all appropriations from the General Fund for that fiscal year made as of the date of the budget bill's passage, and the amount of any General Fund moneys transferred to the Budget Stabilization Account for that fiscal year pursuant to Section 20 of Article XVI, exceeds General Fund revenues for that fiscal year estimated as of the date of the budget bill's passage. That estimate of General Fund revenues shall be set forth in the budget bill passed by the Legislature.

Third—That Section 1.3 is added to Article XVI thereof, to read:

SEC. 1.3. (a) For the purposes of Section 1, a "single object or work," for which the Legislature may create a debt or liability in excess of three hundred thousand dollars ($300,000) subject to the requirements set forth in Section 1, includes the funding of an accumulated state budget deficit to the extent, and in the amount, that funding is authorized in a measure submitted to the voters at the March 2, 2004, statewide primary election.

(b) As used in subdivision (a), "accumulated state budget deficit" means the aggregate of both of the following, as certified by the Director of Finance:

(1) The estimated negative balance of the Special Fund for Economic Uncertainties arising on or before June 30, 2004, not including the effect of the estimated amount of net proceeds of any bonds issued or to be issued pursuant to the California Fiscal Recovery Financing Act (Title 17 (commencing with Section 99000) of the Government Code) and any bonds issued or to be issued pursuant to the measure submitted to the voters at the March 2, 2004, statewide primary election as described in subdivision (a).

(2) Other General Fund obligations incurred by the State prior to June 30, 2004, to the extent not included in that negative balance.

(c) Subsequent to the issuance of any state bonds described in subdivision (a), the State may not obtain moneys to fund a year-end state budget deficit, as may be defined by statute, pursuant to any of the following: (1) indebtedness incurred pursuant to Section 1 of this article, (2) a debt obligation under which funds to repay that obligation are derived solely from a des-

Proposition 58 *(cont.)*

ignated source of revenue, or (3) a bond or similar instrument for the borrowing of moneys for which there is no legal obligation of repayment. This subdivision does not apply to funding obtained through a short-term obligation incurred in anticipation of the receipt of tax proceeds or other revenues that may be applied to the payment of that obligation, for the purposes and not exceeding the amounts of existing appropriations to which the resulting proceeds are to be applied. For purposes of this subdivision, "year-end state budget deficit" does not include an obligation within the accumulated state budget deficit as defined by subdivision (b).

Fourth—That Section 20 is added to Article XVI thereof, to read:

SECTION 20. (a) The Budget Stabilization Account is hereby created in the General Fund.

(b) In each fiscal year as specified in paragraphs (1) to (3), inclusive, the Controller shall transfer from the General Fund to the Budget Stabilization Account the following amounts:

(1) No later than September 30, 2006, a sum equal to 1 percent of the estimated amount of General Fund revenues for the 2006–07 fiscal year.

(2) No later than September 30, 2007, a sum equal to 2 percent of the estimated amount of General Fund revenues for the 2007–08 fiscal year.

(3) No later than September 30, 2008, and annually thereafter, a sum equal to 3 percent of the estimated amount of General Fund revenues for the current fiscal year.

(c) The transfer of moneys shall not be required by subdivision (b) in any fiscal year to the extent that the resulting balance in the account would exceed 5 percent of the General Fund revenues estimate set forth in the budget bill for that fiscal year, as enacted, or eight billion dollars ($8,000,000,000), whichever is greater. The Legislature may, by statute, direct the Controller, for one or more fiscal years, to transfer into the account amounts in excess of the levels prescribed by this subdivision.

(d) Subject to any restriction imposed by this section, funds transferred to the Budget Stabilization Account shall be deemed to be General Fund revenues for all purposes of this Constitution.

(e) The transfer of moneys from the General Fund to the Budget Stabilization Account may be suspended or reduced for a fiscal year as specified by an executive order issued by the Governor no later than June 1 of the preceding fiscal year.

(f) (1) Of the moneys transferred to the account in each fiscal year, 50 percent, up to the aggregate amount of five billion dollars ($5,000,000,000) for all fiscal years, shall be deposited in the Deficit Recovery Bond Retirement Sinking Fund Subaccount, which is hereby created in the account for the purpose of retiring deficit recovery bonds authorized and issued as described in Section 1.3, in addition to any other payments provided for by law for the purpose of retiring those bonds. The moneys in the sinking fund subaccount are continuously appropriated to the Treasurer to be expended for that purpose in the amounts, at the times, and in the manner deemed appropriate by the Treasurer. Any funds remaining in the sinking fund subaccount after all of the deficit recovery bonds are retired shall be transferred to the account, and may be transferred to the General Fund pursuant to paragraph (2).

(2) All other funds transferred to the account in a fiscal year shall not be deposited in the sinking fund subaccount and may, by statute, be transferred to the General Fund.

Fifth—That this measure shall become operative only if the bond measure described in Section 1.3 of Article XVI of the Constitution, as added by this measure, is submitted to and approved by the voters at the March 2, 2004, statewide primary election.

Sixth—That this measure shall be submitted to the voters at the March 2, 2004, statewide primary election.