2005

State Spending and School Funding Limits.

PROPOSITION 75 — Public Employee Union Dues. Restrictions on Political Contributions. Employee Consent Requirement. Initiative Statute.

SUMMARY

Prohibits using public employee union dues for political contributions without individual employees' prior consent. Excludes contributions benefitting charities or employees. Requires unions to maintain and, upon request, report member political contributions to Fair Political Practices Commission. Fiscal Impact: Probably minor state and local government implementation costs, potentially offset in part by revenues from fines and/or fees.

WHAT YOUR VOTE MEANS

YES

A YES vote on this measure means: Public employee unions would be required to get annual, written consent from government employee union members and nonmembers to charge and use any dues or fees for political purposes.

NO

A NO vote on this measure means: Public employee unions could charge and use dues or fees for political purposes without annual, written consent. Fees from a nonmember of a union could not be spent on political purposes if the nonmember objects.

ARGUMENTS

PRO

Proposition 75 protects public employee union members from having political contributions made from their dues without their annual permission. Currently public employee union members are *forced to contribute* their hard earned money to political candidates or issues they may oppose. Yes on Proposition 75 will make those contributions clearly voluntary.

CON

Prop. 75 is unfair to teachers, nurses, police, and firefighters. It makes their labor unions play by different rules than big corporations. It's unnecessary. The U.S. Supreme Court says no public employee can be forced to join a union and contribute to politics. It's sponsored by corporations who oppose unions.

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PROPOSITION 76 — State Spending and School Funding Limits. Initiative Constitutional Amendment.

SUMMARY

Limits state spending to prior year's level plus three previous years' average revenue growth. Changes minimum school funding requirements (Proposition 98). Permits Governor, under specified circumstances, to reduce budget appropriations of Governor's choosing. Fiscal Impact: State spending likely reduced relative to current law, due to additional spending limit and new powers granted to Governor. Reductions could apply to schools and shift costs to other local governments.

WHAT YOUR VOTE MEANS

YES

A YES vote on this measure means: State expenditures would be subject to an additional spending limit based on an average of recent revenue growth. The Governor would be granted new authority to unilaterally reduce state spending during certain fiscal situations. School and community college spending would be more subject to annual budget decisions and less affected by a constitutional funding guarantee.

NO

A NO vote on this measure means: The state would not adopt an additional spending limit, the Governor would not be granted new powers to reduce state spending during certain fiscal situations, and existing constitutional provisions relating to schools and community college funding would not be changed.

ARGUMENTS

PRO

PROPOSITION 76 CONTROLS STATE SPENDING AND FIXES CALIFORNIA'S BROKEN BUDGET SYSTEM. Yes on 76 protects against future deficits and eliminates wasteful spending, making more money available for roads, healthcare, and law enforcement without raising taxes. It establishes "checks and balances," encouraging bipartisan budget solutions —YES on Prop. 76.

CON

Prop. 76 cuts school funding by $4 billion, overturns voter-approved school funding guarantees, and gives the governor unchecked power over state budget, destroying our system of checks and balances. Does nothing to prevent new taxes. Endangers local funding for police, fire and health care, including trauma centers and child immunization.

FOR ADDITIONAL INFORMATION

FOR

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PROPOSITION 76

STATE SPENDING AND SCHOOL FUNDING LIMITS. INITIATIVE CONSTITUTIONAL AMENDMENT.

Official Title and Summary

Prepared by the Attorney General

STATE SPENDING AND SCHOOL FUNDING LIMITS. INITIATIVE CONSTITUTIONAL AMENDMENT.

- Limits state spending to prior year's level plus three previous years' average revenue growth.
- Changes state minimum school funding requirements (Proposition 98); eliminates repayment requirement when minimum funding suspended.
- Excludes appropriations above the minimum from schools' funding base.
- Directs excess General Fund revenues, currently directed to schools/tax relief, to budget reserve, specified construction, debt repayment.
- Permits Governor, under specified circumstances, to reduce appropriations of Governor's choosing, including employee compensation/state contracts.
- Continues prior year appropriations if state budget delayed.
- Prohibits state special funds borrowing.
- Requires payment of local government mandates.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT:

- The provisions creating an additional state spending limit and granting the Governor new power to reduce spending in most program areas would likely reduce expenditures relative to current law. These reductions also could apply to schools and shift costs to other local governments.
- The new spending limit could result in a smoother pattern of state expenditures over time, especially to the extent that reserves are set aside in good times and available in bad times.
- The provisions changing school funding formulas would make school and community college funding more subject to annual decisions of state policymakers and less affected by a constitutional funding guarantee.
- Relative to current law, the measure could result in a change in the mix of state spending—that is, some programs could receive a larger share and others a smaller share of the total budget.

ANALYSIS BY THE LEGISLATIVE ANALYST

SUMMARY

This measure makes major changes to California's Constitution relating to the state budget. As shown in Figure 1, the measure creates an additional state spending limit, grants the Governor substantial new power to unilaterally reduce state spending, and revises key provisions in the California Constitution relating to school and community college funding.

The combined effects of these provisions on state spending are shown in Figure 2. The main impact is a likely reduction in spending over time relative to current law. In addition, the measure could result in a smoother pattern of state spending and a different mix of state expenditures.

Each of the measure's key provisions is discussed in more detail below.

FIGURE 1

PROPOSITION 76: MAIN PROVISIONS

✓ **An Additional State Spending Limit**
- Places a second limit on state expenditures, which would be based on an average of revenue growth in the three prior years.

✓ **Expanded Powers for Governor**
- Grants the Governor substantial new authority to unilaterally reduce state spending during certain fiscal situations.

✓ **School Funding Changes**
- Changes several key provisions in the State Constitution relating to the minimum funding guarantee for K–12 schools and community colleges.

✓ **Other Changes**
- Makes a number of other changes relating to transportation funding; loans between state funds; and payments to schools, local governments, and special funds.

BACKGROUND

CALIFORNIA'S STATE BUDGET

California will spend about $113 billion to provide public services through its state budget this year.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONTINUED)

Figure 2

Proposition 76: Key Fiscal Effects

✓ **Effects on Spending**

- The additional spending limit and new powers granted to the Governor would likely reduce state spending over time relative to current law. These reductions also could shift costs to local governments (primarily counties).
- The new limit could also "smooth out" state spending over time, especially to the extent reserves set aside in good times are available in bad times.
- The new spending-reduction authority given to the Governor and other provisions of the measure could result in a different mix of state spending. That is, some programs' share of total spending would rise and others would fall relative to current law.

✓ **Effects on Schools**

- The provisions changing school funding formulas would make school funding more subject to annual decisions of state policymakers and less affected by a constitutional funding guarantee.
- Budget reductions resulting from the spending limit or Governor's new authority could apply to schools.

About four-fifths of this total—around $90 billion—will come from the state's General Fund for such major programs as elementary and secondary (K–12) education, higher education, health and social services, and criminal justice. The money to support General Fund spending is raised largely from the state's three major taxes—personal income tax, sales and use tax, and corporation tax.

The remaining one-fifth of total state spending is from hundreds of special funds—that is, funds in which specific revenues (such as excise taxes on gasoline or cigarettes) are dedicated to specific purposes (such as transportation or health care).

State and local government finances are closely related to one another in California. For example, most state spending for K–12 education, health, and social services is allocated to programs that are administered by local agencies. In some cases, program costs are shared between the state and local governments.

State's Fiscal Situation

California has faced large annual shortfalls in its General Fund state budget since 2001–02. These shortfalls developed following the stock market plunge and the economic downturn that took place in 2001, which caused state revenues to fall sharply below the level needed to fund all of the state's spending commitments. Although revenues are growing again and the state has made progress toward resolving its budget problems, policymakers will need to take additional actions to address a likely state budget shortfall in 2006–07.

An Additional State Spending Limit

Current Law

Since 1979, California has imposed annual spending limits on the state and its thousands of individual local governments. The annual limit for each jurisdiction is based on its spending in 1978–79 (the base year), adjusted each year for growth in population and the economy. State government spending is currently about $11 billion below its spending limit, meaning that the present limit is not currently constraining spending. The large gap between the limit and actual expenditures opened up in 2001–02 following the steep revenue downturn in that year.

Proposal

This measure adds a *second* limit on the annual growth in *state* expenditures. Beginning in 2006–07, combined expenditures from the state's General Fund and special funds would be limited to the prior-year level of expenditures, adjusted by the *average* of the growth rates in combined General Fund and special fund revenues over the prior three years.

In years in which actual spending falls below the limit, the spending limit for the subsequent year would be based on the reduced level of actual expenditures. Spending could temporarily exceed the limit in the event of a natural disaster (for example, fire, floods, or earthquakes) or an attack by an enemy of the United States.

What Happens If Revenues Exceed the Limit? If revenues exceed the limit, the excess amount would be divided proportionally among the General Fund and each of the state's special funds. The exact way in

For text of Proposition 76 see page 60.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONTINUED)

which this allocation would occur is not specified in the measure. The portion of the excess revenues that is allocated to special funds would be held in reserve for expenditure in a subsequent year. In the case of the General Fund, its share of the excess revenues would be allocated as follows:

- ***25 percent***—the state's reserve fund.
- ***50 percent***—allocated through annual budget acts to repay any of the following: (1) the Proposition 98 maintenance factor outstanding (see below) at a rate of no more than one-fifteenth of the amount per year; (2) state-issued deficit-financing bonds; and (3) loans made from the Transportation Investment Fund in 2003–04 through 2006–07, with annual amounts not to exceed one-fifteenth of the amount outstanding as of June 30, 2007.
- ***25 percent***—for road, highway, and school construction projects.

Funds allocated for the above purposes would not be counted as expenditures for purposes of calculating the following year's spending limit.

Fiscal Effect

Based on budget actions taken in 2005 and the recent strong revenue growth trend, the new spending limit is unlikely to constrain state expenditures in 2006–07—its first year of implementation. This is because the limit would likely exceed projected revenues and expenditures under current law.

Over the longer term, however, we believe that the spending limit could have significant impacts on annual state spending. This is because of the way in which the new spending limit would interact with changes in the economy and state revenues over time. California's revenues are highly sensitive to economic changes. That is, they tend to grow fast during the upside of business cycles when the economy is expanding, and slow—or fall—when the economy is on the downside of business cycles. As a result, the new spending limit—which is based on a rolling average of past revenue growth—would grow more *slowly* than actual revenues when the economy is accelerating, and grow *faster* than actual revenues when the economy is in recession. This is illustrated in Figure 3, which shows the relationship between annual revenues and the proposed spending limit during periods of strong and weak revenues.

The *net* impact of this measure on expenditures over time would depend on whether the state were able to "set aside" enough reserve funds during revenue expansions to maintain spending during periods of revenue softness.

- If it *were* able to set aside sufficient funds, the main impact of the spending limit would be to *smooth out* spending over time—restraining spending during economic expansions and permitting additional spending (supported from its reserves) during revenue downturns. In terms of Figure 3, this means that enough reserves would need to be set aside during the "excess revenues" period to maintain spending at the limit during the "low revenues" period.
- However, if the state *were not* able to accumulate large reserves, the limit would likely result in *less* spending over time. This is because the state would not have enough reserves available to cushion the decline in revenues during bad times. When this occurred, the reduced level of actual spending during periods of low revenues would then become the new, lower, "starting point" from which the next year's spending limit is calculated. This could cause the spending limit to ratchet down over time.

Effects on Ability to Raise Taxes. The impact of the limit on the state's ability to raise taxes to fund spending would depend on the specific situation:

- The state *would* be able to raise taxes or fees and immediately use the proceeds during periods of revenue weakness, when total receipts would likely be below the spending limit.
- The state *would not*, however, be able to raise revenues and *immediately* use the proceeds if spending was already at the limit. It would, however, *eventually* be able to use new tax proceeds as the impact of the tax increase worked its way into the new spending limit's adjustment factors over several years.

The latter situation would be relevant if the state were considering tax or fee increases either (1) to support new or expanded services or (2) when the state was attempting to eliminate an *ongoing* budget shortfall.

Over time, we believe the operation of this limit would likely reduce state expenditures relative to current law.

Expanded Powers for Governor

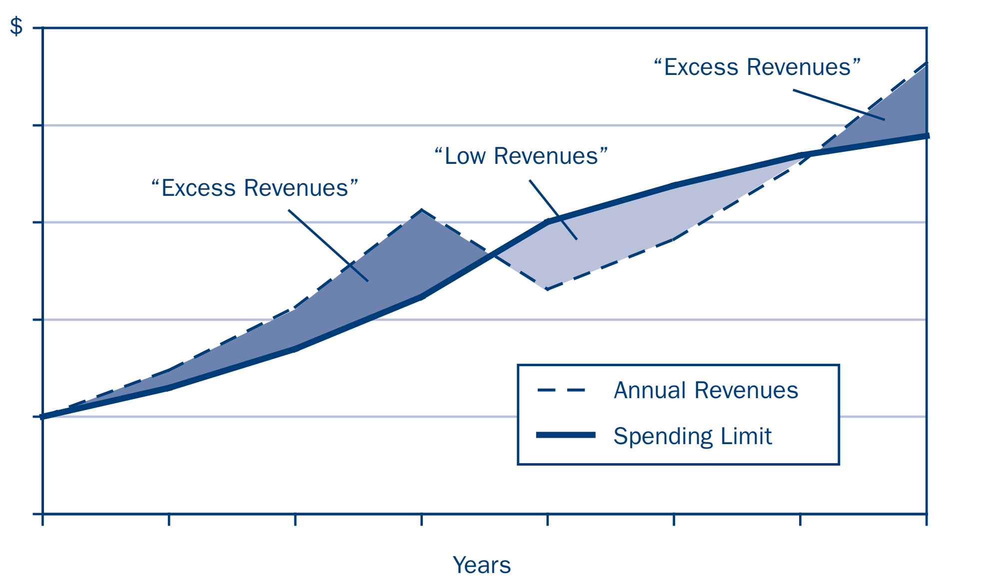
Current Law

Basic Provisions. The State Constitution requires that the Governor propose a budget by January 10 for the next fiscal year (which begins each July 1), and that the

ANALYSIS BY THE LEGISLATIVE ANALYST (CONTINUED)

Figure 3

Illustration of Proposed Spending Limit's Impact



Legislature pass a budget by June 15. The Governor may then either sign or veto the resulting budget bill. The Governor may also reduce spending in most areas of the budget before signing the measure. However, this line item veto authority cannot be applied to programs where expenditures are governed by separate laws. The vetoes can also be overridden by a two-thirds vote of each house of the Legislature. Once the budget is signed, the Governor may not unilaterally reduce program funding.

Balanced Budget Requirements. Proposition 58 (approved by the voters in March 2004) requires that budgets passed by the Legislature and ultimately signed into law be balanced. This means that expenditures cannot exceed available revenues.

Late Budgets. When a fiscal year begins without a state budget, most expenses do not have authorization to continue. However, a number of court decisions and legal interpretations of the Constitution have identified certain types of payments that may continue to be made when a state budget has not been enacted. Thus, when there is not a state budget, payments continue for: a portion of state employees' pay; principal and interest payments on bonds; and various other expenditures (such as general purpose funds for K–12 schools) specifically authorized by state law or federal requirements.

Midyear Adjustments. Under Proposition 58, after a budget is signed into law but falls out of balance, the Governor may declare a fiscal emergency and call the Legislature into special session to consider proposals to deal with the fiscal imbalance. If the Legislature fails to pass and send to the Governor legislation to address the budget problem within 45 days after being called into special session, it is prohibited from acting on other bills or adjourning in joint recess.

Proposal

This measure makes changes relating to late budgets and grants expanded powers to the Governor.

Late Budgets. If a budget is not enacted prior to the beginning of a new fiscal year, this measure requires that the spending levels authorized in the prior-year's budget act remain in effect until a new budget is enacted. Thus, funding would continue for all state programs that had received budget act appropriations in the prior year.

Fiscal Emergency. The measure grants the Governor new powers to (1) declare a fiscal emergency based on his or her administration's fiscal estimates, and (2) unilaterally reduce spending when an agreement cannot be reached on how to address the emergency.

For text of Proposition 76 see page 60.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONTINUED)

Specifically, the measure permits the Governor to issue a proclamation of a fiscal emergency when his or her administration finds either of the following two conditions:

- General Fund revenues have fallen by at least 1.5 percent below the administration's estimates.
- The balance of the state's reserve fund will decline by more than one-half between the beginning and the end of the fiscal year.

Once the emergency is declared by the Governor, the Legislature would be called into special session and then have 45 days (30 days in the case of a late budget) to enact legislation which addresses the shortfall. If such legislation is not enacted, the measure grants the Governor new powers to reduce state spending (with the exception of the items discussed below)—at his or her discretion—to eliminate the shortfall. The Legislature could not override these reductions.

Application of Reductions. The reductions may apply to *all* General Fund spending except for (1) expenditures necessary to comply with federal laws and regulations, (2) appropriations where the reduction would violate contracts to which the state is already a party, and (3) payment of principal and interest that is due on outstanding debt. Any General Fund spending related to contracts, collective bargaining agreements, or entitlements for which payment obligations arise after the effective date of this measure would be subject to these reductions.

Impact on Entitlement Spending. A significant portion of state General Fund spending is for entitlements. These are programs where individuals who meet specific eligibility criteria—involving, for example, age, income levels, or certain disabilities—have a right to receive the service. Major entitlements include, for example, various health and social services programs for low-income individuals. Most of these programs are administered by local agencies.

This measure gives the Governor the authority to reduce the amount of money available to fund an entitlement program. However, it does not give the Governor authority to modify specific laws that govern, for example, who is eligible to receive the service, the amount of a grant, or the scope of services provided under the program. Absent changes to these underlying laws by the Legislature, it would appear that the entitlement programs would continue to be administered in accordance with the laws that were in effect at the time of the Governor's reductions. When the funding remaining after the reductions was exhausted, the state would no longer have the obligation to fund the entitlement for the remainder of the fiscal year.

Fiscal Effect

This measure would grant new authority to the Governor to make reductions in almost all state spending. The fiscal effect of this change in individual years would depend on budget-related priorities of Governors and Legislatures. Over time, however, this grant of authority to the Governor to reduce spending would likely result in less state spending relative to current law. It could also result in a different mix of expenditures. That is, some programs' share of total spending would rise and others would fall relative to current law.

Effect on Local Governments. California counties administer most state health and social services entitlement programs. Also, counties fund other health and social services programs for low-income people who do not qualify for such state services. If the Governor reduced state funding for entitlement programs, some costs to pay for certain programs could shift to counties and there could be increased demand for locally funded health care and social services programs. The Governor also could reduce other state funding provided to local governments.

School Funding Changes

Current Law

Proposition 98 is a measure passed by the voters in 1988 which established in the State Constitution a "minimum funding guarantee" for K–12 schools and community colleges (K–14 education). The intent of Proposition 98 is for K–14 funding to grow with student attendance and the state economy. California currently devotes about $50 billion in Proposition 98 funds to K–14 education annually. Of this total, about $37 billion is from the state's General Fund, and the other $13 billion is from local property tax revenues. Each year, the minimum guarantee is calculated based on a set of funding formulas. Under the main funding formula (referred to as "Test 2"), the guarantee increases each year roughly in line with school attendance and the state's economy. Figure 4 summarizes how Proposition 98 works and how this measure would change it.

Proposition 98 also has an alternative—and less generous—funding formula (called "Test 3") that generally takes effect when the state is experiencing slow growth or declines in its revenues. Funding

ANALYSIS BY THE LEGISLATIVE ANALYST (CONTINUED)

FIGURE 4

HOW THE MEASURE WOULD CHANGE SCHOOL SPENDING GUARANTEE FOR K–12 AND COMMUNITY COLLEGES

How Current Guarantee Works

- ✓ ***Proposition 98 Minimum Guarantee.*** Is based on the operation of three formulas ("tests"). The operative test depends on how the economy and General Fund revenues grow from year to year.
  - ***Test 1—Share of General Fund.*** Provides 39 percent of General Fund revenues. This test has not been operative since 1988–89.
  - ***Test 2—Growth in Per Capita Personal Income.*** Increases prior-year funding by growth in attendance and per capita personal income. This test is generally operative in years with normal-to-strong General Fund revenue growth.
  - ***Test 3—Growth in General Fund Revenues.*** Increases prior-year funding by growth in attendance and per capita General Fund revenues. Generally, this test is operative when General Fund revenues fall or grow slowly.
- ✓ ***Suspension of Proposition 98.*** This can occur through the enactment of legislation passed with a two-thirds vote of each house of the Legislature, and funding can be set at any level.
- ✓ ***Long-Term Target Funding Level.*** This would be the K–14 education funding level if it were always funded according to the provisions of Test 2. Whenever Proposition 98 funding falls below that year's Test 2 level, either because of suspension of the guarantee or the operation of Test 3, the Test 2 level is "tracked" and serves as a target level to which K–14 education funding will be restored when revenues improve.
- ✓ ***Maintenance Factor.*** This is created whenever actual funding falls below the Test 2 level. The maintenance factor is equal to the difference between actual funding and the long-term target amount. Currently, the K–14 funding level is $3.8 billion less than the long-term target funding level—that is, the current outstanding maintenance factor is $3.8 billion.
- ✓ ***Restoration of Maintenance Factor.*** This occurs when school funding rises back up toward the long-term target funding level. Restoration can occur either through a formula that requires higher K–14 education funding in years with strong General Fund revenue growth, or through legislative appropriations above the minimum guarantee.

What This Measure Does

- ✓ ***Eliminates Future Operation of Test 3.*** In low-revenue years, the Proposition 98 minimum guarantee would no longer automatically fall below the Test 2 level.
- ✓ ***Eliminates Future Creation of Maintenance Factor.*** If in any given year K–14 education was funded at a level less than that required by Test 2 (through suspension or Governor's reductions), there would no longer be a future obligation to restore that funding shortfall to the long-term target. These reductions would permanently "ratchet down" the Proposition 98 minimum guarantee.
- ✓ ***Converts Outstanding Maintenance Factor to One-Time Obligation.*** The measure converts the outstanding maintenance factor (estimated to be $3.8 billion) to a *one-time* obligation. Payments to fulfill this obligation would be made over the next 15 years. These payments would *not* raise the future Proposition 98 minimum guarantee (in contrast to existing law).
- ✓ ***Counts Future Appropriations Above the Minimum Guarantee as One-Time Payments.*** Spending above the minimum guarantee would not raise the base from which future guarantees are calculated.

for schools also can be reduced directly through a two-thirds vote of the Legislature. This is referred to as "suspension" of the guarantee. When Test 3 or suspension occurs, the state generally provides *less* in K–14 funding. The state is required to keep track of this funding gap, which is referred to as the "maintenance factor." Under current law, the state would end the 2005–06 fiscal year with a $3.8 billion maintenance factor created in prior years.

As state revenues improve, Proposition 98 requires the state to spend more on schools to catch up with its long-term target funding level by making

For text of Proposition 76 see page 60.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONTINUED)

maintenance factor payments. When this occurs, the maintenance factor is said to be "restored." These restorations become part of the base for the next year's Proposition 98 calculation.

The formulas allowing for less generous K–14 funding during weak revenue periods (Test 3) and more generous funding during subsequent strong revenue periods (maintenance factor restoration) were added by Proposition 111, which was approved by the voters in 1990. These modifications to the original version of Proposition 98 were made to allow the guarantee to automatically slow down during "bad" economic times and rise again during "good" economic times.

Proposal

Test 3 and Maintenance Factor Eliminated. This measure eliminates Test 3 and maintenance factor, undoing the changes made by Proposition 111. Thus, the Constitution would no longer allow for automatic reductions in the minimum funding guarantee in difficult times nor would it automatically restore funding in good times. The Legislature would retain the authority to suspend Proposition 98; however, the nature of suspension would change. Since the maintenance factor would no longer exist, a suspension would result in a permanent downward adjustment to the minimum guarantee. Similarly, if the Governor unilaterally reduced Proposition 98 funding during a fiscal emergency, these reductions would also permanently lower the minimum guarantee.

Outstanding Maintenance Factor Converted to One-Time Obligation. The measure also converts the outstanding maintenance factor (estimated to be $3.8 billion) to a *one-time* obligation. Payments to fulfill this obligation would be made over the next 15 years. These payments would not raise the future Proposition 98 minimum guarantee (in contrast to existing law).

Future Spending Above the Minimum Guarantee Would Not Permanently Raise the Guarantee. Under current law, if the Governor and Legislature spend more money on K–14 education than is required by the minimum guarantee in a given year, the higher spending level generally becomes the "base" from which the next year's minimum funding guarantee is calculated. In this regard, a higher-than-required appropriation in one year typically raises the K–14 education minimum funding levels in subsequent years. Under this measure, future spending above the guarantee would be counted as *one-time* funding and would no longer raise future Proposition 98 minimum guarantee amounts.

Outstanding Settle-Up Obligations Would Be Paid Within 15 Years. The estimate of the minimum Proposition 98 funding guarantee for a particular fiscal year will usually change after the budget's enactment. If these changes result in a higher guarantee calculation, the difference between the guarantee and the actual level of appropriations becomes an additional K–14 education expense. This is referred to as "settle up." Existing settle-up obligations for past fiscal years currently total over $1 billion. Under current statutes, these will be paid at roughly $150 million per year beginning in 2006–07. This measure would require that these settle-up obligations be fully paid within 15 years.

Fiscal Effect

Given the uncertainty about future economic growth and budgetary circumstances, it is not possible to predict how the measure's changes would affect actual state spending for K–14 education and other programs. In general, the elimination of Test 3 and future maintenance factors means that year-to-year changes in the minimum guarantee would be less volatile than in the past—absent a suspension or a reduction by the Governor.

Decreases Minimum Guarantee Over Long Term. Over time, however, the net impact of the Proposition 98 changes and related changes in the measure would be to *lower* the minimum guarantee for K–14 education, as discussed below:

- Since K–14 education accounts for almost 45 percent of the state's General Fund budget, it is likely that policymakers would need to consider reductions in this area whenever the budget fell significantly out of balance. Whenever such spending was reduced—either through suspension or through Governor's reductions—the state would no longer be required to restore that reduction in the minimum funding guarantee in subsequent years.
- The provision making future appropriations over the minimum guarantee one-time in nature would also hold down the minimum guarantee relative to current law. For example, if this provision applied to 2005–06, it would convert an estimated $740 million in appropriations above the guarantee in the 2005–06 budget to one-time spending. This would lower the minimum guarantee for 2006–07 by a similar amount compared to current law.
- By converting the $3.8 billion outstanding maintenance factor to a one-time obligation, the measure eliminates the requirement for $3.8 billion to be restored into the annual base funding over time.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONTINUED)

Combined, these changes would result in a lower minimum guarantee over time compared to current law.

Unknown Impact on K–14 Spending. A lower guarantee, however, *does not* mean that *actual* spending for schools would necessarily be lower. Policymakers would still be free to spend more than required by the minimum guarantee in any given year. Since spending above the guarantee for K–14 education would no longer permanently ratchet up the guarantee, future Legislatures and Governors might be more likely to spend above the minimum guarantee in a given year. Overall, the measure's Proposition 98-related changes would result in the annual budgets for K–14 education being more subject to annual funding decisions by state policymakers and less affected by the minimum guarantee.

Interactions with Other Provisions of the Measure. While the Proposition 98-related changes, by themselves, would not necessarily reduce K–14 education spending, other provisions of the measure might have that effect. To the extent, for example, that the measure constrains overall spending, budget reductions resulting from the spending limit or Governor's new authority could apply to schools.

OTHER CHANGES

PROPOSITION 42 TRANSFERS

Current Law. In 2002, the voters approved Proposition 42. This measure requires that sales taxes on motor vehicle fuel be transferred from the General Fund to a special fund for transportation. This special fund, called the Transportation Investment Fund (TIF), supports capital improvements and repairs of highways, roads, and public transit.

Proposition 42 includes a provision allowing for its suspension when the Governor finds (and the Legislature concurs) that the transfer will have a significant negative fiscal effect on General Fund programs. To help address the state's major budget shortfalls, the Governor and Legislature partially suspended the Proposition 42 transfer in 2003–04 ($868 million) and fully suspended the transfer in 2004–05 ($1.2 billion). Legislation passed with the 2003–04 and 2004–05 budgets designated the suspensions as "loans" from the TIF, to be repaid by the General Fund in 2007–08 and 2008–09.

Proposal. This measure prohibits the suspension of Proposition 42 transfers after 2006–07. The total amount of transfers that were suspended through June 30, 2007, would be paid within 15 years, at an annual rate of no less than one-fifteenth of the cumulative amount owed. The measure also permits the Legislature to authorize the issuance of bonds by the state or local agencies that are secured by the anticipated repayments of suspended Proposition 42 transfers.

Fiscal Effect. The inability to suspend Proposition 42 would result in a more stable funding stream for transportation.

LOANS FROM SPECIAL FUNDS

Current Law. In addition to the Proposition 42 loans discussed above, the Governor and Legislature have borrowed available balances from other special funds in the past to cover General Fund shortfalls. The amount of these loans outstanding at the conclusion of 2005–06 is expected to be roughly $1 billion. Some of the loans have specified repayment dates. In other cases, budget language requires that the loans be repaid when the funds are needed to carry out the operations of the particular special fund.

Proposal. Under this measure, such loans would be prohibited beginning in 2006–07 (except for short-term cash-flow borrowing purposes). Outstanding loans from special funds as of July 1, 2006, would be repaid within 15 years.

Fiscal Effect. Taken together, these provisions would result in more stable funding for some special fund programs.

PAYMENT OF MANDATE CLAIMS

The State Constitution requires the state to pay local governments for new or expanded programs which it imposes on local governments. In past years, the Governor and Legislature have deferred payments for mandate claims filed by school and community college districts and noneducation local governments (counties, cities, and special districts). Current law requires the state to pay within fifteen years any unpaid noneducation mandate claims incurred before 2004–05. There is no specific time frame for payment of unpaid education claims. This measure (1) shortens to five years the period in which the state must pay overdue noneducation mandate claims and (2) sets a 15-year deadline on payment of overdue education mandate claims. The measure also states that Proposition 98 funds allocated to schools "shall first be expended . . . to pay the costs for state mandates incurred during that year." This would change the state's current practice of providing specific funding to reimburse each school and community college district for its state-mandated activities.

Fiscal Effect. These provisions would have the effect of increasing state costs over the next five years with a comparable reduction over the subsequent ten years.

For text of Proposition 76 see page 60.

PROPOSITION 76

State Spending and School Funding Limits. Initiative Constitutional Amendment.

Argument in Favor of Proposition 76

PROPOSITION 76 IS ONE OF THE CRITICAL REFORMS WE NEED TO CLEAN UP THE MESS IN SACRAMENTO!

YES on Prop. 76: Control State Spending

California's budget system is broken. We have record deficits, unbalanced budgets, and out-of-control spending.

The politicians can't say "no" to more spending. Since 1999–2000, the state has increased spending by twice as much as it has increased its revenue.

> *"California faces a budget crisis that needs to be resolved this year. The Governor's reforms . . . can go a long way toward establishing and maintaining fiscal responsibility in the state."*
>
> *Contra Costa Times, April 3, 2005*

Budget experts project next year's budget deficit at $6 billion and annual deficits after that of $4–$5 billion. At that pace, the State will accumulate $22 to $26 billion in deficits over the next five fiscal years.

The choice is simple: *Pass Prop. 76 or face higher taxes such as the car tax, income tax, sales tax, and even property taxes.*

PROP. 76 IS THE BIPARTISAN SOLUTION THAT FORCES THE STATE TO LIVE WITHIN ITS MEANS:

- *Limits spending* to the average rate of tax growth of the past three years, so we don't overspend in good times followed by huge deficits in bad times.
- *Establishes "checks and balances"* to encourage the Governor and Legislature to work together.

  When tax revenue slows, the Legislature can cut wasteful spending to balance the budget. If the Legislature doesn't act, the Governor can then cut wasteful spending, while protecting funding for education, public safety, and roads.
- *Stabilizes K–14 education spending. By cutting wasteful spending and balancing the budget, we'll have more funds to spend on what the state needs, without raising taxes.*
- *Stops the autopilot spending* binge and *holds the politicians accountable.*
- Guarantees that taxes dedicated for highways and roads are spent on those projects and never again raided to balance the budget.

Unfortunately, Opponents of Prop. 76 Don't Want Reform:

- They think deficits and gridlock are just fine in Sacramento.
- They will stop at nothing to defeat Prop. 76 and have spent millions for television ads to confuse voters.
- They use scare tactics, inaccurate statements, and outright deceit, like their claims that it will cut funds for law enforcement. It's not true.

> *"Prop. 76 requires repayment of previously borrowed funds so we can build new roads and repair existing roads and it doesn't reduce dedicated tax spending on local law enforcement."*
>
> *Alan Autry, Mayor of Fresno*

"YES" on Prop. 76:

- Balance our budget without raising taxes.
- Promote bipartisan cooperation between the Legislature and the Governor.
- Eliminate wasteful spending and provide more money for roads, health care, law enforcement, and other important programs without raising taxes.

PLEASE VOTE "YES ON PROP. 76"—TO CLEAN UP THE BUDGET MESS IN SACRAMENTO.

GOVERNOR ARNOLD SCHWARZENEGGER

TOM CAMPBELL, Director
California Department of Finance

SANDRA L. McBRAYER
Former National Teacher of the Year

Rebuttal to Argument in Favor of Proposition 76

According to an analysis by two recent California Finance Directors: "Proposition 76 makes a mess of the state's budget process and destroys our system of checks and balances. It slashes school funding, could force deep cuts in local services like health care and public safety, and gives the governor unchecked power over the budget—with no oversight or accountability."

Prop. 76 wasn't written by budget experts or taxpayer advocates. It was written by the president of a big business group that lobbies for tobacco, oil, insurance, and other special interests.

PROP. 76 DOESN'T "STABILIZE" SCHOOL FUNDING. It will cut school funding by over $4 billion a year and eliminate voter-approved school funding guarantees.

PROP. 76 DOESN'T STOP NEW TAXES. Even the president of the California Republican Assembly says Prop. 76 "actually encourages tax increases."

PROP. 76 DOESN'T HOLD POLITICIANS ACCOUNTABLE OR ENCOURAGE BIPARTISAN COOPERATION. It destroys our system of checks and balances by giving the Governor unlimited power over budget decisions. He will be accountable to no one.

PROP. 76 DOESN'T END WASTEFUL SPENDING. The *Orange County Register* calls its spending controls "phony." While forcing cuts in education and public safety, Prop. 76 actually prevents cuts in programs like the California Dried Plum Board.

"PROPOSITION 76's IMPACT ON PUBLIC SAFETY WILL BE DEVASTATING," warns Ron Cottingham, president of the Peace Officers Research Association of California. "It strips local government of the funding needed for police and fire, health care, and other essential services."

PROPOSITION 76 IS "PHONY" AND A "BAD IDEA." VOTE NO.

BARBARA KERR, President
California Teachers Association

DEBORAH BURGER, President
California Nurses Association

LOU PAULSON, President
California Professional Firefighters

 Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

PROPOSITION 76

State Spending and School Funding Limits. Initiative Constitutional Amendment.

Argument Against Proposition 76

PROPOSITION 76 WILL CUT FUNDING FOR SCHOOLS, HEALTH CARE, POLICE, AND FIRE. It undermines our democratic system of checks and balances by giving the governor awesome new powers without any oversight. And it opens the door to higher taxes.

PROPOSITION 76 OVERTURNS THE MINIMUM SCHOOL FUNDING PROTECTIONS APPROVED BY CALIFORNIA VOTERS WHEN THEY PASSED PROPOSITION 98. Proposition 76 allows the Governor to permanently reduce school funding without a vote of the people.

Our students and schools lost three billion dollars when Governor Schwarzenegger broke his promise to repay the money he took from education. Proposition 76 "terminates the repayment requirement," meaning the Governor will never have to return this money to our schools' minimum guarantee.

Proposition 76 will permanently reduce the money schools will get by over $4 billion—$600 per student. That means teacher layoffs, larger classes, fewer textbooks, less classroom materials, poorly paid teachers, and overcrowded schools. Proposition 76 keeps California behind states like West Virginia and Kentucky in per pupil education funding.

PROPOSITION 76 DEPRIVES CITIES AND COUNTIES OF HUNDREDS OF MILLIONS OF DOLLARS IN STATE FUNDING NEEDED FOR POLICE, FIRE, AND HEALTH CARE. Incredibly, if a "fiscal emergency" is declared, this initiative requires funding be cut for vital services like education, health care, fire, and police, but actually prevents cutting "pork barrel" road projects.

PROPOSITION 76 ATTACKS CALIFORNIA'S SYSTEM OF CHECKS AND BALANCES BY PLACING TOO MUCH POWER IN THE HANDS OF ONE PERSON—THE GOVERNOR. Even if you trust this Governor, who knows what future Governors might do with this unlimited new power.

Under Proposition 76, any Governor could declare a "fiscal emergency" simply by having his own staff overestimate state revenues. Once a fiscal emergency is declared, the Governor would be free to cut vital programs without voter approval and without oversight.

Under Proposition 76, "The Governor could exercise any whim or impose any political vendetta," warns the *Los Angeles Times*, which calls Proposition 76 "a really bad idea."

THIS INITIATIVE ALSO GIVES STATE LEGISLATORS NEW POWER TO MAKE MISCHIEF. Just 14 of 120 legislators could block passage of the budget indefinitely, putting government spending on autopilot. This could allow the Governor to declare a "fiscal emergency," giving the Governor sweeping new powers to make state spending and budget decisions "at his discretion," with absolutely no oversight or accountability.

CLAIMS THAT PROPOSITION 76 PREVENTS NEW TAXES ARE ABSOLUTELY UNTRUE. This initiative does nothing to prevent higher taxes. If it passes, the Governor and Legislature can raise car taxes, income taxes, or sales taxes without voter approval. Even the President of the California Republican Assembly says that Proposition 76 "actually encourages tax increases."

CALIFORNIANS CAN'T AFFORD PROPOSITION 76. It will cut education, health care, fire, and police. It attacks our system of checks and balances. And it opens the door to higher taxes. Vote NO.

BRENDA J. DAVIS, President
California State PTA

HENRY L. "HANK" LACAYO, State President
Congress of California Seniors

WAYNE QUINT, JR., President
California Coalition of Law Enforcement Associations

Rebuttal to Argument Against Proposition 76

Opponents of Prop. 76—The Live Within Our Means Act—have a solution to California's budget crisis:

Spend wildly, incur huge debt, and raise taxes to cover the deficits!

That's how California ended up $22 billion in debt. California doesn't have a revenue problem—it has a spending problem. We need *Prop. 76 to fix our broken budget system.*

Don't be misled by outrageous claims that Prop. 76 will gut education spending or harm police and fire protection.

Education funding increased by a record $3 billion this year and now accounts for more than 50% of our general fund spending! Prop. 76 upholds existing state law that mandates education is the state's #1 funding priority.

Prop. 76 will protect dedicated funds for highway and road construction.

"Prop. 76 will permanently protect law enforcement special funds so politicians cannot cut police and emergency services."

David W. Paulson, Solano County District Attorney

Proposition 76 is real reform *to ensure our state lives by the basic rule California families live by: Don't spend more money than you bring in:*

- *Controls state budget growth* by limiting annual state spending increases to average growth in revenue for the past 3 fiscal years.
- *Stops autopilot spending* that threatens our economic health.
- *Establishes "checks and balances"* for budget decisions. If the Legislature doesn't cut wasteful spending when revenues drop, the Governor can—a similar provision to what previous California governors had for decades.

"YES on 76"—Balance the Budget Responsibly.

www.JoinArnold.com

SEBASTIAN EDWARDS, Ph.D., Professor of Economics
University of California, Los Angeles

ALAN BERSIN, Secretary of Education
State of California

JON COUPAL, President
Howard Jarvis Taxpayers Association

PROPOSITION 76

This initiative measure is submitted to the people in accordance with the provisions of Article II, Section 8 of the California Constitution.

This initiative measure expressly amends the California Constitution by amending and repealing sections thereof; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Title

This measure shall be known as the "California Live Within Our Means Act."

SECTION 2. Findings and Declarations

(a) For the last four years, California has enacted budgets that have spent billions of dollars more than the state received in revenues.

(b) The Legislature is chronically late in passing budgets and seems institutionally incapable of passing balanced budgets.

(c) Spending will continue to rise faster than revenues because of laws guaranteeing annual increases in spending for a host of public services and granting entitlements to growing caseloads of qualified recipients. When combined with the refusal of the Legislature to change these laws, this auto-pilot spending is a recipe for California's bankruptcy.

(d) In March 2004, the people overwhelmingly enacted Proposition 58, the California Balanced Budget Act. The California Live Within Our Means Act is needed to strengthen that law to deal with budget emergencies when the Legislature fails to act.

(e) The Governor's current authority to veto or "blue pencil" excessive appropriations from budget bills cannot deal with spending mandates built into current law or with mid-year revenue losses or unexpected spending demands.

(f) The Governor needs the authority, when the Legislature fails to act in budget emergencies, to make spending reductions to keep the state from spending more than it is taking in and either running farther into debt or forcing massive tax increases.

(g) To meet the financial mandates of auto-pilot spending formulas enacted by the Legislature, the state has borrowed billions of dollars from schools, transportation funds, and local governments. The Constitution should prohibit such budgetary gimmickry and require the borrowed money be repaid without making current deficits worse.

SECTION 3. Purpose and Intent

In enacting this measure, it is the intent of the people of the State of California to enact comprehensive budget reform which will:

(a) Supply the tools that will help the state enact budgets that are balanced and on time so that the pressure for tax increases will be reduced; and

(b) Provide that if the Legislature fails to act in fiscal emergencies, the budget can be balanced by reductions in spending.

SECTION 4. Section 10 of Article IV of the California Constitution 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 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) *Commencing with the 2006–07 fiscal year and each fiscal year thereafter, the maximum amount of total expenditures allowable for the current fiscal year shall be computed by multiplying the prior year total expenditures by one plus the average annual growth in General Fund revenues and special fund revenues as defined in paragraph (3) for the three previous fiscal years.*

(2) For computing the average annual growth in revenues under paragraph (1), the amount of actual revenue for the fiscal year is to be used if available. If the actual amount of revenue is unknown, then the revenue shall be estimated by the Department of Finance through a regular and transparent process.

(3) "General Fund revenues and special fund revenues" means all taxes, any other charges or exactions imposed by the State and all other sources of revenue which were considered "General Fund" or "special fund" sources of revenue for the 2004–05 fiscal year. "General Fund revenues and special fund revenues" does not include revenues to Nongovernmental Cost Funds, including federal funds, trust and agency funds, enterprise funds or selected bond funds.

(4) The expenditure limit imposed by paragraph (1) may be exceeded for a fiscal year in an emergency. "Emergency" means the existence, as declared by the Governor, of conditions of disaster or of extreme peril to the safety of persons and property within the State, or parts thereof, caused by an attack or probable or imminent attack by an enemy of the United States, epidemic, fire, flood, drought, storm, civil disorder, earthquake, tsunami, or volcanic eruption. Expenditures in excess of the limit pursuant to this paragraph shall not become part of the expenditure base for purposes of determining the amount of allowable expenditures for the next fiscal year.

(5) If total General Fund revenue and special fund revenues exceed the amount which may be expended for the current fiscal year due to the expenditure limit imposed by paragraph (1), the amount of such excess shall be proportionately attributed to the General Fund and each special fund. The amount of such excess attributed to each special fund shall be held as a reserve in that special fund for expenditure in a subsequent fiscal year. The amount of such excess attributed to the General Fund shall be allocated from the General Fund as follows:

(A) Twenty-five percent to the Budget Stabilization Account.

(B) Fifty percent to be allocated among the following according to the budget act: (1) to any outstanding maintenance factor pursuant to Section 8 of Article XVI in existence as of June 30, 2005, until allocated in full, but the amount so allocated in any fiscal year shall not exceed one-fifteenth of the amount in existence as of June 30, 2005;
(2) to the Deficit Recovery Bond Retirement Sinking Fund Subaccount,

so long as any bonds issued pursuant to the Economic Recovery Bond Act remain outstanding, and (3) to the Transportation Investment Fund, until such amount as was loaned to the General Fund during the 2003–04, 2004–05, 2005–06, and 2006–07 fiscal years has been repaid in full, but the amount so allocated in any fiscal year shall not exceed one-fifteenth of the amount in existence as of June 30, 2007. The deposit of funds pursuant to this subparagraph shall supplement, but not supplant, the transfers to the Deficit Recovery Bond Retirement Sinking Fund Subaccount required by paragraph (1) of subdivision (f) of Section 20 of Article XVI.

(C) Twenty-five percent to the School, Roads, and Highways Construction Fund, which is hereby created in the Treasury as a trust fund, which shall be available for road and highway construction projects and for school construction and modernization projects, upon appropriation by the Legislature. Any funds allocated to school districts pursuant to this provision are not subject to Section 8 of Article XVI.

(D) No funds expended pursuant to subparagraph (B) or (C) are part of the expenditure base for the purposes of determining the amount of allowable expenditures pursuant to paragraph (1) for subsequent fiscal years.

(g) (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.~~ *at the end of any quarter determines that, for that fiscal year, General Fund revenues have fallen by a rate of at least one and one-half percent on an annualized basis below revenues as estimated by the Department of Finance or if, following the enactment of the budget bill for the 2006–07 fiscal year or any subsequent fiscal year, the Governor determines that, for that fiscal year, the balance of the Budget Stabilization Account will decline to below one-half of the balance in the account available at the beginning of the fiscal year, the Governor may issue a proclamation declaring a fiscal emergency and shall thereupon cause the Legislature to assemble in special session solely for that purpose. The proclamation shall identify the nature of the proposed legislation to remedy the fiscal emergency.*

(2) *Notwithstanding any other provisions of this Constitution, if a bill or bills have not been enacted to remedy the fiscal emergency by the 45th day following the issuance of the proclamation, or the 30th day if appropriation authority is currently provided pursuant to subdivision (g) of Section 12 of Article IV, the Governor shall reduce items of appropriation as necessary to remedy the fiscal emergency. The Governor may reduce items of appropriation on an equally proportionate basis, or disproportionately, at his or her discretion.*

No reduction may be made in appropriations for debt service, appropriations necessary to comply with federal laws and regulations, or appropriations where the result of a reduction would be in violation of contracts to which the State is a party.

(3) Notwithstanding any other provision of this Constitution, the Governor's authority to reduce appropriations shall apply to any General Fund payment made with respect to any contract, collective bargaining agreement, or other entitlement under law for which liability of the State to pay arises on or after the effective date of the measure that added this paragraph.

(4) The reduction authority set forth in paragraph (2) applies until the effective date, no later than the end of that fiscal year, of a proclamation issued by the Governor declaring the end of the fiscal emergency or the budget and any legislation necessary to implement it has been enacted.

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

(h) If, following the enactment of the budget bill for the 2006–07 fiscal year or any subsequent fiscal year, the Governor determines that, for that fiscal year, total expenditures are expected to exceed the limit imposed by paragraph (1) of subdivision (f), for that fiscal year, the Governor shall propose to the Legislature or implement to the extent practicable by executive order measures to reduce or eliminate the excess expenditures. If after the conclusion of that fiscal year it is determined by the Director of the Department of Finance that actual expenditures for that fiscal year have exceeded the maximum amount allowable for that year, then the maximum amount of allowable expenditures as determined under subdivision (f) for the fiscal year following the fiscal year in which such determination is made shall be reduced by the amount of the excess.

SECTION 5. Section 12 of Article IV of the California Constitution 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) *(1)* 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.

(2) The Director of Finance shall advise the Governor on the current status of state revenues and expenditures at least quarterly, and at the beginning of any fiscal year for which a budget bill has not been enacted.

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

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

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

(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 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.

(g) For the fiscal year of the effective date of the measure that added this subdivision, or any subsequent fiscal year, if the budget bill is not enacted prior to July 1, as of that date, and notwithstanding any other provision of this Constitution, amounts equal to the amounts appropriated by each of the items of appropriation in the budget act and any amendments to the budget act for the immediately preceding fiscal year are hereby appropriated for the current fiscal year, adjusted for debt service, in the same proportions, for the same purposes, from the same funding sources, and under the same conditions that apply to those items under that budget act or amendment to the budget act.

The appropriation authority set forth in this subdivision applies until the effective date of the budget act enacted for that fiscal year.

(h) (1) On and after July 1, 2006, funds may not be transferred from a special fund to the General Fund as a loan. Any funds transferred prior to that date from a special fund to the General Fund for the purpose of making a loan to the General Fund and not repaid to that special fund by July 1, 2006, shall be repaid to that special fund no later than July 1, 2021.

(2) The prohibition contained in this subdivision does not apply to loans made for the purpose of meeting the short-term cash flow needs of the State if any amount owed is to be repaid in full to the fund from which it was borrowed during the same fiscal year in which the loan was made, or if repayment is to be made no later than a date not more than 30 days after the date of enactment of the budget bill for the subsequent fiscal year.

SECTION 6. Section 8 of Article XVI of the California Constitution is amended to read:

SEC. 8. (a) From all state revenues there shall first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education.

(b) Commencing with the 1990–91 fiscal year, the moneys to be applied by the State for the support of school districts and community college districts shall be not less than the greater of *either of* the following amounts:

(1) The amount ~~which~~ *that,* as a percentage of General Fund revenues ~~which~~ *that* may be appropriated pursuant to Article XIII B, equals the percentage of General Fund revenues appropriated for school districts and community college districts, respectively, in *the 1986–87* fiscal year ~~1986–87~~.

(2) The amount required to ensure that the total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B and allocated local proceeds of taxes ~~shall~~ *are* not ~~be~~ less than the total amount from these sources in the prior fiscal year, excluding any revenues allocated pursuant to subdivision (a) of Section 8.5, adjusted for changes in enrollment and adjusted for the change in the cost of living pursuant to paragraph (1) of subdivision (e) of Section 8 of Article XIII B. ~~This paragraph shall be operative only in a fiscal year in which the percentage growth in California per capita personal income is less than or equal to the percentage growth in per capita General Fund revenues plus one half of one percent.~~

(3) (A) The amount required to ensure that the total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B and allocated local proceeds of taxes shall equal the total amount from these sources in the prior fiscal year, excluding any revenues allocated pursuant to subdivision (a) of Section 8.5, adjusted for changes in enrollment and adjusted for the change in per capita General Fund revenues.

(B) In addition, an amount equal to one-half of one percent times the prior year total allocations to school districts and community colleges from General Fund proceeds of taxes appropriated pursuant to Article XI1 B and allocated local proceeds of taxes, excluding any revenues allocated pursuant to subdivision (a) of Section 8.5, adjusted for changes in enrollment.

(C) This paragraph ~~(3)~~ shall be operative only in a fiscal year in which the percentage growth in California per capita personal income in a fiscal year is greater than the percentage growth in per capita General Fund revenues plus ~~one half~~ *one-half* of one percent.

(D) This paragraph is not operative in any fiscal year succeeding the fiscal year in which the measure that added this subparagraph became effective.

(c) In any fiscal year, if the amount computed pursuant to paragraph (1) of subdivision (b) exceeds the amount computed pursuant to paragraph (2) of subdivision (b) by a difference that exceeds one and one-half percent of General Fund revenues, the amount in excess of one and one-half percent of General Fund revenues shall not be considered allocations to school districts and community colleges for purposes of computing the amount of state aid pursuant to paragraph (2) ~~or 3~~ of subdivision (b) in the subsequent fiscal year.

~~(d) In any fiscal year in which school districts and community college districts are allocated funding pursuant to paragraph (3) of subdivision (b) or pursuant to subdivision (h), they shall be entitled to a maintenance factor, equal to the difference between (1) the amount of General Fund moneys which would have been appropriated pursuant to paragraph (2) of subdivision (b) if that paragraph had been operative or the amount of General Fund moneys which would have been appropriated pursuant to subdivision (b) had subdivision (b) not been suspended, and (2) the amount of General Fund moneys actually appropriated to school districts and community college districts in that fiscal year.~~

~~(e) The maintenance factor for school districts and community college districts determined pursuant to subdivision (d) shall be adjusted annually for changes in enrollment, and adjusted for the change in the cost of living pursuant to paragraph (1) of subdivision (e) of Section 8 of Article XIII B, until it has been allocated in full. The maintenance factor shall be allocated in a manner determined by the Legislature in each fiscal year in which the percentage growth in per capita General Fund revenues exceeds the percentage growth in California per capita personal income. The maintenance factor shall be reduced each year by the amount allocated by the Legislature in that fiscal year. The minimum maintenance factor amount to be allocated in a fiscal year shall be equal to the product of General Fund revenues from proceeds of taxes and one-half of the difference between the percentage growth in per capita General Fund revenues from proceeds of taxes and in California per capita personal income, not to exceed the total dollar amount of the maintenance factor.~~

~~(f)~~

(d) If, for any fiscal year, an amount is appropriated for the support of school districts and community college districts in excess of the minimum amount required to be appropriated for that fiscal year pursuant to subdivision (b), the excess amount so appropriated shall not be deemed an allocation to school districts and community college districts for purposes of calculating the moneys to be applied by the State for the support of those entities for any subsequent fiscal year pursuant to paragraph (2) of subdivision (b).

(e) (1) The total amount of any maintenance factors, arising pursuant to former subdivision (d) for one or more fiscal years preceding the fiscal year that commences subsequent to the effective date of the measure that added this subdivision, shall be repaid no later than July 1, 2021. The repayment of any maintenance factor pursuant to this paragraph for any fiscal year shall be divided between school districts and community college districts in the same proportion that allocations for that fiscal year that were made prior to the effective date of the measure that added this subdivision were apportioned to school districts and community college districts. The payment of a maintenance factor amount in any fiscal year shall not be deemed an allocation to school districts and community college districts for purposes of calculating the moneys to be applied by the State for the support of those entities for any subsequent fiscal year pursuant to paragraph (2) of subdivision (b).

(2) The balance of any amounts that were required by this section to be allocated to school districts and community college districts for the 2003–04 fiscal year, or any preceding fiscal year, but were not allocated as of the effective date of the measure that added this subdivision, shall be allocated no later than 15 years following that date. The total amount of augmentations allocated pursuant to this paragraph for any fiscal year shall be divided between school districts and community college districts in the same proportion that allocations for that fiscal year that were made prior to the effective date of the measure that added this subdivision were apportioned to school districts and community college districts.

(3) (A) The balance of any amounts that are required by this section to be allocated to school districts and community college districts, for the 2004–05 fiscal year, or any subsequent fiscal year, but are not allocated as of the end of that fiscal year, are continuously appropriated to the Controller from the General Fund of the State for allocation to school districts and community college districts upon the certification by the Department of Finance and the Superintendent of Public Instruction of the final data necessary to perform the calculations required pursuant to subdivision (b). That certification shall be completed within 24 months subsequent to the end of the fiscal year. The amount appropriated pursuant to this paragraph shall be

divided between school districts and community college districts in the same proportion that allocations were made during that fiscal year to school districts and community college districts.

(B) The Legislature may require, in the budget act or any other statute, that a school district or community college district use funds allocated pursuant to this paragraph for a specified purpose.

(f) (1) Payable claims for state-mandated costs incurred prior to the 2004–05 fiscal year by a school district or community college district that have not been paid prior to the 2005–06 fiscal year shall be paid no later than the 2020–21 fiscal year.

(2) Amounts allocated to a school district or community college district for a fiscal year pursuant to subdivision (b) shall first be expended by the district to pay the costs for state mandates incurred during that fiscal year.

(g) (1) For purposes of this section, "changes in enrollment" shall be measured by the percentage change in average daily attendance. However, in any fiscal year, there shall be no adjustment for decreases in enrollment between the prior fiscal year and the current fiscal year unless there have been decreases in enrollment between the second prior fiscal year and the prior fiscal year and between the third prior fiscal year and the second prior fiscal year.

(2) For purposes of this section, "maintenance factor" means the difference between: (A) the amount of General Fund moneys that would have been appropriated for a fiscal year pursuant to paragraph (2) of subdivision (b) if that paragraph, rather than former paragraph (3) of that subdivision, had been operative or, as applicable, the amount of General Fund moneys that would have been appropriated for a fiscal year pursuant to subdivision (b) had subdivision (b) not been suspended pursuant to a statute enacted prior to January 1, 2005, and (B) the amount of General Fund moneys actually appropriated to school districts and community college districts for that fiscal year.

(h) Subparagraph (B) of paragraph (3) of subdivision (b) may be suspended for one year only when made part of or included within any bill enacted pursuant to Section 12 of Article IV. All other provisions of subdivision (b) may be suspended for one year by the enactment of an urgency statute pursuant to Section 8 of Article IV, provided that the urgency statute may not be made part of or included within any bill enacted pursuant to Section 12 of Article IV.

SECTION 7. Section 6 of Article XIX of the California Constitution is amended to read:

SEC. 6. ~~The tax revenues designated under this article may be loaned to the General Fund only if one of the following conditions is imposed:~~

~~(a) That any amount loaned is to be repaid in full to the fund from which it was borrowed during the same fiscal year in which the loan was made, except that repayment may be delayed until a date not more than 30 days after the date of enactment of the budget bill for the subsequent fiscal year.~~

~~(b) That any amount loaned is to be repaid in full to the fund from which it was borrowed within three fiscal years from the date on which the loan was made and one of the following has occurred:~~

~~(1) The Governor has proclaimed a state of emergency and declares that the emergency will result in a significant negative fiscal impact to the General Fund.~~

~~(2) The aggregate amount of General Fund revenues for the current fiscal year, as projected by the Governor in a report to the Legislature in May of the current fiscal year, is less than the aggregate amount of General Fund revenues for the previous fiscal year, adjusted for the change in the cost of living and the change in population, as specified in the budget submitted by the Governor pursuant to Section 12 of Article IV in the current fiscal year.~~

~~(c) Nothing in this section prohibits the Legislature from authorizing~~ *Nothing in subdivision (h) of Section 12 of Article IV prohibits the Legislature from authorizing* , by statute, loans to local transportation agencies, cities, counties, or cities and counties, from funds that are subject to this article, for the purposes authorized under this article. Any loan authorized as described by this ~~subdivision~~ *section* shall be repaid, with interest at the rate paid on money in the Pooled Money Investment Account, or any successor to that account, during the period of time that the money is loaned, to the fund from which it was borrowed, not later than four years after the date on which the loan was made.

SECTION 8. Section 1 of Article XIX A of the California Constitution is repealed.

~~SECTION 1. The funds in the Public Transportation Account in the State Transportation Fund, or any successor to that account, may be loaned to the General Fund only if one of the following conditions is imposed:~~

~~(a) That any amount loaned is to be repaid in full to the account during the same fiscal year in which the loan was made, except that repayment may be delayed until a date not more than 30 days after the date of enactment of the budget bill for the subsequent fiscal year.~~

~~(b) That any amount loaned is to be repaid in full to the account within three fiscal years from the date on which the loan was made and one of the following has occurred:~~

~~(1) The Governor has proclaimed a state of emergency and declares that the emergency will result in a significant negative fiscal impact to the General Fund.~~

~~(2) The aggregate amount of General Fund revenues for the current fiscal year, as projected by the Governor in a report to the Legislature in May of the current fiscal year, is less than the aggregate amount of General Fund revenues for the previous fiscal year, as specified in the budget submitted by the Governor pursuant to Section 12 of Article IV in the current fiscal year.~~

SECTION 9. Section 1 of Article XIX B of the California Constitution is amended to read:

SEC. 1. (a) For the 2003–04 fiscal year and each fiscal year thereafter, all moneys that are collected during the fiscal year from taxes under the Sales and Use Tax Law (Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code), or any successor to that law, upon the sale, storage, use, or other consumption in this State of motor vehicle fuel, and that are deposited in the General Fund of the State pursuant to that law, shall be transferred to the Transportation Investment Fund, which is hereby created in the State Treasury *as a special fund* .

(b) (1) For the 2003–04 to 2007–08 fiscal years, inclusive, moneys in the Transportation Investment Fund shall be allocated, upon appropriation by the Legislature, in accordance with Section 7104 of the Revenue and Taxation Code as that section read on ~~the operative date of this article~~ *March 6, 2002* .

(2) For the 2008–09 fiscal year and each fiscal year thereafter, moneys in the Transportation Investment Fund shall be allocated solely for the following purposes:

(A) Public transit and mass transportation.

(B) Transportation capital improvement projects, subject to the laws governing the State Transportation Improvement Program, or any successor to that program.

(C) Street and highway maintenance, rehabilitation, reconstruction, or storm damage repair conducted by cities, including a city and county.

(D) Street and highway maintenance, rehabilitation, reconstruction, or storm damage repair conducted by counties, including a city and county.

(c) For the 2008–09 fiscal year and each fiscal year thereafter, moneys in the Transportation Investment Fund shall be allocated, upon appropriation by the Legislature, as follows:

~~(A)~~

(1) Twenty percent of the moneys for the purposes set forth in subparagraph (A) of paragraph (2) of subdivision (b).

~~(B)~~

(2) Forty percent of the moneys for the purposes set forth in subparagraph (B) of paragraph (2) of subdivision (b).

~~(C)~~

(3) Twenty percent of the moneys for the purposes set forth in subparagraph (C) of paragraph (2) of subdivision (b).

~~(D)~~

(4) Twenty percent of the moneys for the purpose set forth in subparagraph (D) of paragraph (2) of subdivision (b).

(d) *(1)* The transfer of revenues from the General Fund of the State to the Transportation Investment Fund pursuant to subdivision (a) may be suspended, in whole or in part, for ~~a~~ *any fiscal year preceding the 2007–08* fiscal year if both of the following conditions are met:

~~(1)~~
(A) The Governor has issued a proclamation that declares that the transfer of revenues pursuant to subdivision (a) will result in a significant negative fiscal impact on the range of functions of government funded by the General Fund of the State.
~~(2)~~
(B) The Legislature enacts by statute, pursuant to a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring, a suspension for that fiscal year of the transfer of revenues pursuant to subdivision (a), provided that the bill does not contain any other unrelated provision.

(2) (A) The total amount, as of July 1, 2007, of revenues that were not transferred from the General Fund of the State to the Transportation Investment Fund because of a suspension pursuant to this subdivision shall be repaid to the Transportation Investment Fund no later than June 30, 2022. Until that total amount has been repaid, the amount of that repayment to be made in each fiscal year shall not be less than one-fifteenth of the total amount due.

(B) The Legislature may provide by statute for the issuance of bonds by the State or local agencies, as applicable, that are secured by the payments required by this paragraph. Proceeds of the sale of the bonds shall be applied for purposes consistent with this article, and for costs associated with the issuance and sale of the bonds.

(e) The Legislature may enact a statute that modifies the percentage shares set forth in subdivision (c) by a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring, provided that the bill does not contain any other unrelated provision and that the moneys described in subdivision (a) are expended solely for the purposes set forth in paragraph (2) of subdivision (b).

SECTION 10. Section 6 of Article XIII B of the California Constitution is amended to read:

SEC. 6. (a) Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the State shall provide a subvention of funds to reimburse that local government for the costs of the program or increased level of service, except that the Legislature may, but need not, provide a subvention of funds for the following mandates:

(1) Legislative mandates requested by the local agency affected.

(2) Legislation defining a new crime or changing an existing definition of a crime.

(3) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing legislation enacted prior to January 1, 1975.

(b) (1) Except as provided in paragraph (2), for the 2005–06 fiscal year and every subsequent fiscal year, for a mandate for which the costs of a local government claimant have been determined in a preceding fiscal year to be payable by the State pursuant to law, the Legislature shall either appropriate, in the annual Budget Act, the full payable amount that has not been previously paid, or suspend the operation of the mandate for the fiscal year for which the annual Budget Act is applicable in a manner prescribed by law. *In the event payment of a mandate is suspended in whole or in part by the Governor pursuant to paragraph (2) of subdivision (g) of Section 10 of Article IV, the operation of the mandate is suspended for the fiscal year in which payment is suspended.*

(2) Payable claims for costs incurred prior to the 2004–05 fiscal year that have not been paid prior to the 2005–06 fiscal year ~~may~~ *shall* be paid over a term of *not more than 5* years, as prescribed by law.

(3) Ad valorem property tax revenues shall not be used to reimburse a local government for the costs of a new program or higher level of service.

(4) This subdivision applies to a mandate only as it affects a city, county, city and county, or special district.

(5) This subdivision shall not apply to a requirement to provide or recognize any procedural or substantive protection, right, benefit, or employment status of any local government employee or retiree, or of any local government employee organization, that arises from, affects, or directly relates to future, current, or past local government employment and that constitutes a mandate subject to this section.

(c) A mandated new program or higher level of service includes a transfer by the Legislature from the State to cities, counties, cities and counties, or special districts of complete or partial financial responsibility for a required program for which the State previously had complete or partial financial responsibility.

SECTION 11. Conflicting Ballot Measures

In the event that this measure and another measure or measures relating to the appropriation, allocation, classification, and expenditure of state revenues for support of state government and education shall appear on the same statewide election ballot, the provisions of the other measures shall be deemed to be in conflict with this measure. In the event that this measure shall receive a greater number of affirmative votes, the provisions of this measure shall prevail in their entirety, and the provisions of the other measures shall be null and void.

SECTION 12. Severability

If any provisions of this act, or part thereof, are for any reason held to be invalid or unconstitutional, the remaining provisions shall not be affected, but shall remain in full force and effect, and to this end the provisions are severable.

PROPOSITION 77

This initiative measure is submitted to the people in accordance with the provisions of Article II, Section 8 of the California Constitution.

This initiative measure expressly amends the California Constitution by amending sections thereof; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

REDISTRICTING REFORM: THE VOTER EMPOWERMENT ACT

SECTION 1. Findings and Declarations of Purpose

The People of the State of California find and declare that:

(a) Our Legislature should be responsive to the demands of the citizens of the State of California, and not the self-interest of individual legislators or the partisan interests of political parties.

(b) Self-interest and partisan gerrymandering have resulted in uncompetitive districts, ideological polarization in our institutions of representative democracy, and a disconnect between the interests of the People of California and their elected representatives.

(c) The redistricting plans adopted by the California Legislature in 2001 serve incumbents, not the People, are repugnant to the People, and are in direct opposition to the People's interest in fair and competitive elections. They should not be used again.

(d) We demand that our representative system of government be fair to all, open to public scrutiny, free of conflicts of interest, and dedicated to the principle that government derives its power from the consent of the governed. Therefore, the People of the State of California hereby adopt the "Redistricting Reform: The Voter Empowerment Act."

SECTION 2. Fair Redistricting

Article XXI of the California Constitution is amended to read:

SECTION 1. *(a) Except as provided in subdivision (b), in the year following the year in which the national census is taken under the direction of Congress at the beginning of each decade, a panel of Special Masters composed of retired judges shall adjust the boundary lines of the Senatorial, Assembly, Congressional, and Board of Equalization districts in accordance with the standards and provisions of this article.*

(b) Within 20 days following the effective date of this section, the Legislature shall appoint, pursuant to the provisions of paragraph (2) of subdivision (c), a panel of Special Masters to adopt a plan of redistricting adjusting the boundary lines of the Senatorial, Assembly, Congressional, and Board of Equalization districts for use in the next set of statewide primary and general elections and until the next adjustment of boundary lines is required pursuant to subdivisions (a) or (i). The panel shall establish a schedule and deadlines to ensure timely adoption of the plan. Except for paragraph (1) of subdivision (c), all provisions of this article shall apply to the adoption of the plan required by this subdivision.

(c) (1) Except as provided in subdivision (b), on or before January 15 of the year following the year in which the national census