2009

STATE BUDGET. CHANGES CALIFORNIA BUDGET PROCESS. LIMITS STATE SPENDING. INCREASES "RAINY DAY" BUDGET STABILIZATION FUND.

QUICK-REFERENCE GUIDE

PROP 1A STATE BUDGET. CHANGES CALIFORNIA BUDGET PROCESS. LIMITS STATE SPENDING. INCREASES "RAINY DAY" BUDGET STABILIZATION FUND.

SUMMARY

Put on the Ballot by the Legislature

Changes the budget process. Could limit future deficits and spending by increasing the size of the state "rainy day" fund and requiring above-average revenues to be deposited into it, for use during economic downturns and other purposes. Fiscal Impact: Higher state tax revenues of roughly $16 billion from 2010–11 through 2012–13. Over time, increased amounts of money in state rainy day reserve and potentially less ups and downs in state spending.

WHAT YOUR VOTE MEANS

YES A YES vote on this measure means: Various state budgeting practices would be changed. In some cases, the state would set aside more money in one of its "rainy day" reserve funds. Higher state taxes recently passed would be extended for up to two years.

NO A NO vote on this measure means: No changes would be made to state's current budgeting practices or its rainy day reserve funds. Higher state taxes recently passed would end by 2010–11.

ARGUMENTS

PRO Yes 1A: REFORM OUR BROKEN BUDGET SYSTEM. 1A forces budget stability and accountability. It strictly limits state spending and mandates a bigger rainy day fund—forcing politicians to save more in good years to prevent tax increases and cuts to schools, public safety and other vital services in bad years.

CON 1A is not what its supporters promise. Why? Because 1A: Treats the "Rainy Day Fund" as a *slush fund for Pork Barrel spending*; Could *force service cuts even in good times;* Encourages *unlimited tax increases—doesn't stop them*; Gives *unchecked power* to Governor. Vote No on 1A.

FOR ADDITIONAL INFORMATION

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PROP 1B EDUCATION FUNDING. PAYMENT PLAN.

SUMMARY

Put on the Ballot by the Legislature

Requires supplemental payments to local school districts and community colleges to address recent budget cuts. Fiscal Impact: Potential state savings of up to several billion dollars in 2009–10 and 2010–11. Potential state costs of billions of dollars annually thereafter.

WHAT YOUR VOTE MEANS

YES A YES vote on this measure means: The state would make supplemental payments to schools and community colleges beginning in 2011–12. These payments would replace other payments the state might otherwise be required to make in earlier years.

NO A NO vote on this measure means: The state would not make supplemental payments to schools and community colleges, and instead make other payments as required under current law.

ARGUMENTS

PRO The budget crisis has cut $12 billion from our schools. Over 5,000 teachers have been laid off, thousands more are threatened. Prop. 1B starts the process of paying our schools and community colleges back as economic conditions improve. Our future depends on the investment we make in educating our children.

CON No argument against Proposition 1B was submitted.

FOR ADDITIONAL INFORMATION

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AGAINST
No contact information was provided.

PROPOSITION

1A STATE BUDGET. CHANGES CALIFORNIA BUDGET PROCESS. LIMITS STATE SPENDING. INCREASES "RAINY DAY" BUDGET STABILIZATION FUND.

OFFICIAL TITLE AND SUMMARY

STATE BUDGET. CHANGES CALIFORNIA BUDGET PROCESS. LIMITS STATE SPENDING. INCREASES "RAINY DAY" BUDGET STABILIZATION FUND.

- Increases size of state "rainy day" fund from 5% to 12.5% of the General Fund.
- A portion of the annual deposits into that fund would be dedicated to savings for future economic downturns, and the remainder would be available to fund education, infrastructure, and debt repayment, or for use in a declared emergency.
- Requires additional revenue above historic trends to be deposited into state "rainy day" fund, limiting spending.

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

- Higher state tax revenues of roughly $16 billion from 2010–11 through 2012–13 to help balance the state budget.
- In many years, increased amounts of money in state "rainy day" reserve fund.
- Potentially less ups and downs in state spending over time.
- Possible greater state spending on repaying budgetary borrowing and debt, infrastructure projects, and temporary tax relief. In some cases, this would mean less money available for ongoing spending.

FINAL VOTES CAST BY THE LEGISLATURE ON ACA 1 (PROPOSITION 1A)

Senate:	Ayes 30	Noes 8
Assembly:	Ayes 74	Noes 6

FINAL VOTES CAST BY THE LEGISLATURE ON SCA 13 (PROPOSITION 1A)

Senate:	Ayes 39	Noes 0
Assembly:	Ayes 64	Noes 6

ANALYSIS BY THE LEGISLATIVE ANALYST

OVERVIEW OF THE PROPOSAL

Measure Changes the State's Budgeting. This measure would make major changes to the way in which the state sets aside money in one of its "rainy day" reserve accounts and how this money is spent. As a result, Proposition 1A could have significant impacts on the state's budgeting practices in the future. The measure would tend to increase the amount of money set aside in the state's rainy day account by increasing how much money is put into this account and restricting the withdrawal of these funds.

Measure Results in Tax Increases. If this measure is approved, several tax increases passed as part of the February 2009 budget package would be extended by one to two years. State tax revenues would increase by about $16 billion from 2010–11 through 2012–13.

BACKGROUND

Restrictions on Annual State Budget

Currently, the State Constitution has two main provisions related to the state's overall level of spending:

- ***Spending Limit.*** There is a limit on the amount of tax revenues that the state can spend each year. In recent years, however, the limit has been well above the state's level of spending and has not been a factor in budgeting decisions.
- ***Balanced Budget.*** In March 2004, the state's voters passed Proposition 58. Among other changes, the measure requires that the Legislature pass a balanced budget each year.

Outside of these requirements, the Legislature and Governor are generally able to decide how much General Fund money to spend in a given year.

Rainy Day Reserve Funds

When the state passes its annual budget, it estimates the amount of revenues that it expects to receive in the upcoming year. Typically, the state sets aside a portion of these revenues into one of two rainy day reserve funds. Money in these reserves is set aside to pay for unexpected expenses, cover any drops in tax receipts, or save for future years. The two funds are described below.

- ***Special Fund for Economic Uncertainties (SFEU).*** The SFEU is the state's traditional reserve fund. Funds can be spent for any purpose with approval by the Legislature. Any unexpected monies received during a year are automatically deposited into the SFEU.
- ***Budget Stabilization Account/Budget Stabilization Fund (BSA/BSF).*** The state's voters created the BSA/BSF through the passage of Proposition 58 in 2004. (Under current law, this reserve is known as the BSA. Proposition 1A would rename it the BSF. For simplicity, we refer to the reserve as the BSF throughout this analysis.) Each year, 3 percent of estimated General Fund state revenues are transferred into the BSF. The Governor, however, can stop the transfer in any year by issuing an executive order. For instance, the transfer this year was stopped due to the state's budget problems. Similarly, it is expected that the transfers will be suspended over the next few years as the state continues to face budget problems. In addition, the annual transfers are not made once the balance of the BSF reaches a specified "target"—the higher amount of $8 billion or 5 percent of revenues (currently about $5 billion). By passing a law, the state can transfer funds out of the BSF and use the funds for any purpose. (Currently, this is accomplished through the annual budget act, which allows transfers out of the BSF each year.)

Economic Recovery Bonds (ERBs). In 2004, the state's voters passed Proposition 57, which allowed the state to issue $15 billion in ERBs. These bonds were used to pay off budgetary debt that had accumulated in the early part of this decade. A portion of the sales and use tax (SUT) is the primary mechanism to pay off the ERBs. However, one-half of the funds deposited into the BSF—up to a total of $5 billion—are used to make extra payments on the ERBs to pay them off faster. To date, $1.5 billion in BSF funds have been used in this manner.

Authority to Reduce Spending

Once the annual budget has been approved by the Legislature and the Governor, the Governor has only limited authority to reduce spending during the year without legislative approval.

Recent Tax Increases

As discussed in the "Overview of the State Budget" section of this guide, the Legislature and Governor passed a plan in February 2009 to balance the state's 2008–09 and 2009–10 budgets. The plan included a number of tax increases that are scheduled to remain in effect for about two years (unless the voters approve this measure). Specifically:

- ***Sales and Use Tax.*** The SUT is charged on the purchase of goods. The budget package raised the tax by one cent for every dollar of goods purchased. This raised the average SUT rate in the state from about 8 percent to 9 percent through 2010–11.

- ***Vehicle License Fee (VLF).*** The VLF is based on the value of a vehicle and is paid annually as part of an owner's registration. The budget package raised the tax rate from 0.65 percent to 1.15 percent of a vehicle's value through 2010–11.
- ***Personal Income Tax (PIT).*** The PIT is based on an individual's income. Tax rates range from 1 percent to 10.3 percent depending on a taxpayer's income. Higher tax rates are charged as income increases. Numerous exemptions and credits may be applied to an individual's income to lower the amount of the tax owed. The budget package raises each tax rate by a 0.25 percentage point. (This rate increase will be reduced by one-half if it is determined by April 1, 2009 that the state will receive a certain level of federal funds to help balance the state budget.) For instance, the 9.3 percent tax rate was raised to 9.55 percent. The package also reduces the value of the credit for having a dependent (such as a child) by about $210. These changes would affect the 2009 and 2010 tax years.

PROPOSAL

This measure amends the Constitution to change the state's budgeting practices. Based on other components of the 2009–10 budget package, passage of this measure would also give the Governor more authority to cut spending and would extend recent tax increases by up to two years.

Use of Extra Revenues in Certain Years

Proposition 1A establishes a process to determine which revenues are "unanticipated." The measure generally defines unanticipated revenues to mean those that exceed the amount expected based on the revenues received by the state over the past ten years. The ten-year trend would be adjusted to exclude the impact of shorter-term tax changes. (In other cases, unanticipated revenues could be defined as any revenues above the amount needed to pay for spending equal to the prior year's level of spending grown for changes in population and inflation.) Beginning in 2010–11, any extra revenues would be directed to the following purposes (in priority order):

- Meet funding obligations under the Constitution for K–14 education not already paid. (An existing formula established by Proposition 98 determines how much of higher revenues go to education.)
- Transfer to the BSF to fill the reserve up to its target.
- Pay off any budgetary borrowing and debt, such as certain loans and ERBs.

Once all of these types of payments were made, any other extra revenues could be spent on a variety of purposes, including further building up of the BSF, paying for infrastructure (such as constructing roads, schools, or state buildings), providing one-time tax relief, or paying off unfunded health care liabilities for state employees.

Revenues Into the BSF

Increased Reserve Target. This measure increases the amount of the BSF reserve target to 12.5 percent of state revenues. This percentage is currently equal to about $12 billion, but would grow over time. This compares to the existing target of the higher of $8 billion or 5 percent of revenues.

Suspension of Transfers More Restricted. Under the measure, the circumstances in which the Governor may stop a transfer to the BSF would be limited. Beginning in the 2011–12 fiscal year, the Governor could only stop the BSF transfer in years when the state did not have enough revenues to pay for state spending equal to the prior year's level of spending grown for changes in population and inflation.

Extra Revenues to Reserve in Certain Years. As noted above, one of the priorities for extra revenues would be to build up the BSF.

Spending Out of the BSF

New Spending Requirements. As described above, funds in the BSF currently can be transferred out of the fund to the General Fund for spending for any purpose through the passage of a law. Under this measure, some revenues in the BSF would be spent on particular purposes:

- ***Increased Education Spending, if Proposition 1B Passes.*** If both Proposition 1A and Proposition 1B on this ballot pass, the state would be required to pay K–12 schools and community colleges $9.3 billion in supplemental funds to address recent funding reductions. This measure establishes the way in which these payments would be made. Each year beginning in 2011–12, 1.5 percent of state revenues (currently about $1.5 billion) would be taken from the BSF and paid to schools and colleges until the entire $9.3 billion was paid. Regardless of the state's financial situation, these payments could not be suspended by the Governor. As a result, at least 1.5 percent of General Fund revenues would be transferred into the BSF every year until the entire amount was paid.

- ***Spending on Infrastructure and State Bond Debt.*** After the $9.3 billion in educational payments were made (or if Proposition 1B does not pass), 1.5 percent of state revenues each year would be dedicated to paying for infrastructure or state bond debt. These payments could be used to reduce obligations that would otherwise fall on the General Fund.

Smaller Payments to Pay Off ERBs. Under current law, one-half of transfers into the BSF—up to $5 billion total—is used to make extra ERB payments. This measure excludes the supplemental education funding transfers from this calculation. In years when transfers are made into the BSF (assuming Proposition 1B passes), therefore, the extra ERB payments would be smaller than otherwise.

Limits on Other Withdrawals. The ability of the state to transfer funds out of the BSF for other purposes would be significantly limited under the measure. Specifically, transfers out of the BSF would be limited to the following two situations:

- Funds in the BSF could be used to cover any costs associated with an emergency, such as a fire, earthquake, or flood.
- If revenues were not high enough to cover state spending equal to the prior year's level of expenses (grown for population and inflation), then BSF funds could be used to meet that level of spending.

Governor's Authority to Reduce Spending

If Proposition 1A passes, the Governor would be given new authority to reduce certain types of spending during a fiscal year without additional legislative approval. (This authority is included in a part of a new law that will only go into effect if Proposition 1A passes.) Specifically, the Governor could reduce:

- Many types of spending for general state operations (such as equipment purchases) or capital outlay by up to 7 percent.
- Cost-of-living adjustments (COLAs)—provided to account for inflation—for any programs specified in the annual budget. This would not apply to any increases for most state employees' salaries.

Tax Increases Extended

If Proposition 1A passes, the tax increases included in the February 2009 budget package would be extended for one or two additional years. (The extensions of the tax increases are included in a part of a law that will only go into effect if Proposition 1A passes.) The SUT increase of 1 cent would be extended for one year through 2011–12. The VLF tax increase would be extended for two years through 2012–13. The PIT-related tax increases would also be extended for two more years, through the 2012 tax year.

FISCAL EFFECTS

Uncertainty About the Effect of the Measure

The fiscal effects of Proposition 1A are particularly difficult to assess. This is because the measure's effects would depend on a variety of factors that will change over time and cannot be accurately predicted. Consequently, the measure's effects may be very different from one year to the next. The key factors determining the impact of Proposition 1A in any given year are:

- ***Future Budget Decisions by the Legislature and Governor.*** Key decisions made on the annual budget include the total level of spending and the mix of spending between one-time and ongoing purposes. These decisions would affect the state's fiscal condition and how much money is deposited or withdrawn from the BSF in a given year.

- ***Revenue Trends and Volatility.*** The level of revenues available for spending in a given year would depend on the previous ten years of revenue growth. The state's revenues are very volatile and can have big swings from year to year. Using the trend from ten years of revenues would reduce—but not eliminate—year-to-year changes.

Despite this uncertainty, we describe the more likely outcomes of the measure below—focusing first on nearer-term effects and then on a longer-term outlook.

Nearer-Term Budgets

Proposition 1A would have major effects on the state budget over the next few years. Although Proposition 1A was passed as part of the package to balance the 2009–10 budget, it would not significantly affect this year's budget. Most of its provisions go into effect starting with the 2010–11 budget or later, as described below.

Increased Tax Revenues. If Proposition 1A is approved, tax increases adopted as part of the 2009–10 budget package would be extended by one to two years. In total, this extension of higher taxes is projected to increase revenues by a total of roughly $16 billion from 2010–11 through 2012–13. (This total would be about $2.5 billion lower if a certain level of federal stimulus funds is available to the state.)

Governor's Ability to Reduce Some Spending. Effective upon passage of this measure, the Governor would have new authority to unilaterally reduce some spending for state operations and capital outlay and eliminate some COLAs. This authority could potentially be used to reduce spending within a fiscal year if the budget goes out of balance after it is passed.

Higher Payments to Education. If Proposition 1B also passes, the state would divert 1.5 percent of annual General Fund revenues beginning in 2011–12 to make supplemental payments for education. These payments would be made until a total of $9.3 billion had been spent, likely in five or six years. These payments could not be suspended. The fiscal effect of these payments is discussed in more detail in the analysis of Proposition 1B.

Altered Pay Off of ERBs. As described above, this measure could alter the speed at which the state pays off its outstanding ERBs (bonds related to prior budgetary debt). In years when the only transfers made into the BSF were the base 3 percent of revenues (and assuming Proposition 1B also passes), the measure would reduce the amount of the extra ERB payments made from the BSF by one-half (reducing state costs in that year by more than $700 million). On the other hand, to the extent that additional transfers to the BSF were made related to unanticipated revenues, extra BSF payments to ERBs could be made compared to current law. These changes would affect the timing of the final payoff of the ERBs. Once the ERBs are paid off, the state would experience reduced General Fund costs on an annual basis.

Limited Ability to Suspend BSF Transfers. Under current law, the Governor may suspend BSF transfers in any year and, therefore, allow 3 percent of revenues to be available to help balance a budget immediately. In contrast, beginning in 2011–12 (if Proposition 1B also passes), this measure would eliminate the ability to suspend one-half of the transfer related to supplemental educational payments. For the remaining amount of the transfer, the transfer could only be suspended in more restricted cases.

Transfer of Extra Revenues to BSF. Beginning in 2010–11, this measure would require transfers of General Fund revenues into the BSF of amounts that exceed the ten-year revenue trend. It is difficult to predict what this calculation would require in future years. It is possible, however, that this provision would require billions of dollars in the next few years to be transferred to the BSF.

Net Result of These Factors. Some of these factors—such as the higher tax revenues—would make it easier to balance the state budget in the coming years. Other factors—such as the limited ability to suspend the annual transfers to the BSF—could make it more difficult. The net result of these factors is difficult to determine in any particular year. In 2011–12, the size of the tax increases connected to this measure would likely make that year's budget easier to balance. In other years, however, the effect of the measure on the ability of the state to balance the budget is unknown.

Longer-Term Outlook

As described above, this measure has a number of effects that would last for less than a decade—including higher taxes, supplemental payments to education, and altered payoff of the ERBs. Once these effects have run their course, Proposition 1A could continue to have a substantial effect on the state's budgeting practices. In this section, we describe the possible long-term effects of this measure.

Restrictions on Revenues and Spending. In any given year, Proposition 1A does not strictly limit the amount of revenues that could be collected by the state or the amount of spending that could occur. The measure does not restrict the ability of the Legislature and the Governor to approve tax increases to collect on top of existing revenues. Regarding spending, while the measure could make it harder to approve spending increases in some years by restricting the access to revenues, it would not cap the total level of spending that could be authorized in any year if alternative revenues were approved.

More Money in the BSF. In some years, the measure could lower the amount of money in the BSF rainy day reserve by allowing 1.5 percent of General Fund revenues to be spent on infrastructure. In many other cases, however, the measure would increase the amount of money in the state's BSF rainy day reserve by:

- Restricting the ability of the Governor to stop the annual transfer into the reserve.
- Restricting the purposes for which funds can be taken out.
- Requiring revenues above a decade-long trend to be deposited into the fund.
- Raising the target cap on funds in the BSF (from 5 percent or $8 billion) to 12.5 percent of revenues.

On net, we expect that the balance of the BSF would be greater than under current law in many future years. The net amount of additional money in the BSF would depend on a number of factors, including future budgeting decisions by the Legislature and Governor and the rate and volatility of revenue growth.

Effect on State Budgeting. The precise effect of having more rainy day funds is unknown. However, it could lead to the following primary types of results:

- ***Revenues Determined by Prior Ten Years.*** Currently, the state's revenues available for spending in a year is determined by the state's economic condition at that point in time. A poor economy means less revenues, and a booming economy means extra revenues. Under the measure, however, revenues available generally would be based on the past decade. As a result, the amount of revenues available may no longer reflect the state's economy at that time.
- ***Smoother State Spending.*** The level of state spending would be reduced to the extent the BSF was built up to a higher level than would exist under current law. These funds would then be available in later years when revenues fell short. This could help cushion the level of spending reductions in lower-revenue years. Over time, this measure could help limit the ups and downs of state spending and smooth out spending from year to year.
- ***Changes in Types of Spending.*** The state would spend money on different types of programs than otherwise would be the case. The measure, for example, could increase spending on a variety of one-time activities—such as repaying budgetary borrowing and debt, infrastructure projects, and temporary tax relief. In some cases, this would mean less money was available to spend on ongoing spending increases.

For text of Proposition 1A, see page 46.

★ ARGUMENT IN FAVOR OF PROPOSITION 1A ★

YES ON 1A: WE HAVE TO TAKE ACTION NOW TO START REFORMING OUR BROKEN BUDGET SYSTEM.

We’re all frustrated by California’s broken budget system. Year after year, politicians deliver late budgets that harm our schools, healthcare system, police and fire services and more. The perpetual budget problems also hurt taxpayers as we see our taxes raised or services cut because of the legislature’s failure to budget responsibly.

By voting Yes on 1A, we can take a strong step in reforming the budget process so we don’t continually face the type of budget disaster that plagues our state year after year.

YES ON 1A WILL FORCE ACCOUNTABILITY AND STABILITY OVER THE BUDGET PROCESS.

Proposition 1A is meaningful, long-term reform. It will help stabilize future state spending and create an enhanced rainy day fund to save during good times so money is available when the economy falters.

Prop. 1A:

- STABILIZES CALIFORNIA’S BUDGET. It forces politicians to set aside money every year into a special “rainy day” fund. And Prop. 1A increases the size of our rainy day reserve from 5% to 12.5% of the overall budget.
- STOPS OUT-OF-CONTROL SPENDING. Prop. 1A puts restrictions on the amount the state can spend each year. It also prevents the politicians from spending one-time spikes in revenue on ongoing programs.

PROP. 1A PROTECTS TAXPAYERS.

Without accountability, every time we face budget deficits the politicians raise our taxes or make deep cuts to services we care about. The rainy day fund will allow us to use savings to mitigate the need for future tax increases and harmful cuts.

In fact, if this budget reform had been in place 10 years ago, the rainy day reserve would have allowed us to avoid $9 billion in tax increases and deep cuts that were part of this year’s budget.

PROP. 1A MEANS LONG-TERM BUDGET STABILITY.

By limiting spending using a formula based on historic revenues and economic growth, by forcing an enhanced rainy day fund and by preventing spending of one-time money on programs that we can’t afford in the future, Proposition 1A will help stabilize the budget process and prevent the wild peaks and valleys that cause budget dysfunction.

PROP. 1A PROTECTS SCHOOLS, PUBLIC SAFETY AND OTHER VITAL SERVICES.

Prop. 1A’s reforms will help provide a stable, consistent level of funding for vital services such as education, public safety and healthcare. Prop. 1A will prevent the types of massive budget deficits we faced this year which force crippling cuts to vital services. And the rainy day fund will help ensure we have money in bad times to reduce cuts to these vital services.

YES ON 1A: ACT NOW TO REFORM OUR BROKEN BUDGET SYSTEM.

We’ve got to act now to start reforming our broken budget system. Vote YES on 1A for budget stability and accountability.

www.CaBudgetReformNow.com

TERESA CASAZZA, President
California Taxpayers’ Association

ED BONNER, President
California State Sheriffs’ Association

DR. GLEN W. THOMAS, California Secretary of Education

★ REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 1A ★

Supporters claim 1A will “stabilize” the budget by saving “during good times so money is available when the economy falters.” That’s what a true Rainy Day fund *should* do. But that is not what 1A actually *does.*

1A was hastily written in a secret, back room drafting process with no public hearings or independent analysis showing how it will work. The result is a flawed measure that will not do what it claims.

1A diverts money into the “Rainy Day” fund *every year—even when the economy falters*—and not just “during the good times.” Where will the money come from in the bad times?

1A allows *open-ended* “Rainy Day” fund spending for *borrowing and Pork Barrel projects,* creating a *slush fund* instead of a true savings account for the bad times.

Instead of “protecting” taxpayers, 1A’s fine print actually *encourages tax increases* by allowing the Governor and Legislature to spend the proceeds of new tax increases without regard to 1A’s spending limits.

Instead of protecting services, 1A is so poorly written it could force *cuts in vital services even in good times* because it fails to take into account the growth in our aging population, rising health care costs and global warming.

Instead of increasing accountability, 1A gives new *unilateral budget powers to the Governor—with no checks and balances*.

We need a true Rainy Day fund, not a badly flawed 1A. Send the Governor and Legislature back to do it right. Vote No on 1A.

ANTHONY E. WRIGHT, Executive Director
Health Access California

KATHY J. SACKMAN, President
United Nurses Associations of California/Union of Health Care Professionals

BETTY PERRY, Public Policy Director
Older Women’s League of California

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

★ ARGUMENT AGAINST PROPOSITION 1A ★

Proposition 1A is a flawed measure filled with fine print and loopholes.

For years, the Governor has promised one solution after another to clean up the fiscal mess in Sacramento. Now he wants to sell us yet another "solution" that will fall short of his promises.

Read the text of 1A for yourself. You will see a proposed Constitutional Amendment filled with complex formulas and convoluted language that was hastily drafted behind closed doors, without public hearings or independent analysis of how it will actually work.

Instead of making our budget process more transparent and accountable, 1A does the opposite. Its complex formulas and fine print will invite unintended consequences and behind the scenes manipulation. As a result, the effects of 1A will be far different than its supporters promise:

- The expanded "Rainy Day Fund" will become a *slush fund.* The fine print allows *unlimited* "Rainy Day" funds to be spent on *borrowing and Pork Barrel spending.* More borrowing means more funds will have to be diverted into the slush fund to reach the 12.5 percent goal—that's more than $13,000,000,000.
- 1A could even require money to be diverted from the budget and deposited into the "Rainy Day" slush fund *in bad years* when we are in the depths of a recession and State revenues are falling.
- 1A is so poorly written that *it could force service cuts even in good times.* Its "one size fits all" approach ignores basic realities such as our aging population with more and more baby boomers retiring, rising health care costs, and dealing with the effects of global warming.
- 1A will *encourage unlimited tax increases—not stop them.* 1A's fine print limits what the Governor and Legislature can spend from existing tax revenues, but places *no limit on spending when they raise taxes.* And diverting more and more funds from existing taxes into the slush fund will cause *increased pressures to raise taxes.*

Prop. 1A also gives the Governor extraordinary unilateral power over the budget. The Director of Finance—a political appointee of the Governor—makes all the critical decisions determining when revenues are "excessive" and can be diverted into the "Rainy Day" slush fund, *with no checks and balances* from the Legislature.

And if 1A is adopted by voters, another law that was part of the budget deal gives the Governor more power to make unilateral cuts to the budget after it is signed into law, again with no oversight by the Legislature.

We all want our state's fiscal and economic nightmare to end, never to be repeated again. But political promises and real solutions are not always the same thing. Proposition 1A is not the solution it is promised to be. It will only add to our fiscal woes.

Tell the Governor and Legislature to go back to the drawing board and draft a new proposal in the light of day, with ample opportunity for public input and independent analysis.

VOTE NO ON PROPOSITION 1A

HANK LACAYO, State President
Congress of California Seniors
LILLIAN TAIZ, President
California Faculty Association
RICHARD HOLOBER, Executive Director
Consumer Federation of California

★ REBUTTAL TO ARGUMENT AGAINST PROPOSITION 1A ★

California's budget system is badly broken and needs reform NOW. Prop. 1A is strongly supported by a broad coalition of educators, taxpayers, business and labor, seniors, Republicans, Democrats and Independents.

Those opposed to Proposition 1A want to maintain the status quo. But the status quo is failing us.

Right now, THE STATUS QUO RESULTS IN IRRESPONSIBLE SPENDING. Politicians commit the state to spending it cannot sustain.

Right now, THE STATUS QUO BRINGS TAX INCREASES AND DEEP CUTS to education, health care, public safety and other services whenever the economy falters.

It's time for change NOW. Prop. 1A:

- PREVENTS POLITICIANS FROM SPENDING IRRESPONSIBLY. 1A strictly limits state spending and prevents politicians from spending one-time spikes in revenue on ongoing programs.
- STABILIZES CALIFORNIA'S BUDGET. It forces politicians to save into a "rainy day" fund and increases the size of the fund from 5% to 12.5% of general fund spending. The rainy day fund can *only* be used in times of emergency.
- PROTECTS TAXPAYERS AND CRITICAL SERVICES. 1A prevents the wild ups and downs that result in higher taxes and deep cuts to schools, public safety and other services.

IF PROP. 1A WERE IN PLACE TEN YEARS AGO, WE COULD HAVE AVOIDED $9 BILLION IN TAX INCREASES AND SERVICE CUTS THIS YEAR.

Props. 1A, 1B, 1C, 1D, 1E & 1F are a package of reforms to clean up budget dysfunction in Sacramento.

We can no longer afford the status quo. We need budget reform now.

YES ON 1A!

www.CaBudgetReformNow.com

ALLAN ZAREMBERG, President
California Chamber of Commerce
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PROPOSITION 1A

This amendment proposed by Senate Constitutional Amendment 13 of the 2007–2008 Regular Session (Resolution Chapter 144, Statutes of 2008) and Assembly Constitutional Amendment 1 of the 2009–2010 Third Extraordinary Session (Resolution Chapter 1, 2009–2010 Third Extraordinary Session) expressly amends sections of, and adds a section to, the California Constitution; therefore, 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

First—That Section 12 of Article IV thereof 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~~ *total state resources available to meet those expenditures*. If recommended expenditures exceed estimated ~~revenues~~ *resources*, the Governor shall recommend the sources from which the additional ~~revenues~~ *resources* should be provided. *The itemized statement of estimated total state resources available to meet recommended expenditures submitted pursuant to this subdivision shall identify the amount, if any, of those resources anticipated to be one-time resources.*

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

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

(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~~ *Fund* for that fiscal year pursuant to Section 20 of Article XVI, exceeds General Fund revenues*, transfers, and balances available from the prior fiscal year* for that fiscal year estimated as of the date of the budget bill's passage. That estimate of General Fund revenues*, transfers, and balances* shall be set forth in the budget bill passed by the Legislature.

Second—That Section 20 of Article XVI thereof is amended to read:

SEC. 20. (a) *(1)* The Budget Stabilization *Fund, and the Supplemental Budget Stabilization* Account ~~is~~*, are* hereby created in the General Fund.

(2) If Section 8.3 is added to this article to provide for supplemental education payments at the same election at which this paragraph was approved by the voters, the Supplemental Education Payment Account is hereby established in the General Fund.

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

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

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

(3) ~~No later than~~ *On* September 30, 2008, and *on September 23* annually thereafter, a sum equal to 3 percent of the estimated amount of General Fund revenues for the current fiscal year.

(c) ~~The~~ *Except for the amount determined pursuant to subdivision (h), the* transfer of moneys shall not be required by subdivision (b) in any fiscal year to the extent that the resulting balance in the ~~account~~ *Budget Stabilization Fund* would exceed ~~5~~ *12.5* percent of the General Fund revenues estimate set forth in the budget bill for that fiscal year, as enacted~~, or eight billion dollars ($8,000,000,000), whichever is greater~~. The Legislature may, by statute, direct the Controller, for one or more fiscal years, to transfer into the ~~account~~ *Budget Stabilization Fund* amounts in excess of the levels prescribed by this subdivision.

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

(e) ~~The~~ *Except for the amount determined pursuant to subdivision (h), the* transfer of moneys from the General Fund to the Budget Stabilization ~~Account~~ *Fund* may be suspended or reduced for a fiscal year as specified by an executive order issued by the Governor no later than ~~June 1 of the preceding fiscal year~~ *the date of the transfer set forth in subdivision (b). For a fiscal year commencing on or after July 1, 2011, this subdivision shall be operative only if a transfer of moneys from the Budget Stabilization Fund to the General Fund is authorized pursuant to subparagraph (A) of paragraph (2) of subdivision (f).*

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

(2) ~~All~~ *Except for the amount determined pursuant to subdivision (h), all* other funds transferred to the ~~account~~ *Budget Stabilization Fund* in a fiscal year shall not be deposited in the sinking fund subaccount and may~~, by statute,~~ be transferred to the General Fund *by statute as specified in this paragraph.*

(A) Apart from a transfer pursuant to subparagraph (B), the total amount that may be transferred to the General Fund pursuant to this paragraph for any fiscal year shall not exceed the amount derived by subtracting the General Fund revenues, transfers, and balances available from the prior fiscal year for that fiscal year from the

expenditure forecast amount for the current fiscal year. For purposes of this subparagraph, "General Fund revenues, transfers, and balances available from the prior fiscal year for that fiscal year" does not include revenues transferred from the General Fund to the Budget Stabilization Fund pursuant to subdivision (b) for that fiscal year. For purposes of this subparagraph, Section 21, and Section 12 of Article IV, "balances available from the prior fiscal year for that fiscal year" means the funds in the Special Fund for Economic Uncertainties, or a successor fund, as of June 30 of the prior fiscal year. The "expenditure forecast amount" for a fiscal year is the total General Fund expenditures for the immediately preceding fiscal year adjusted for the change in population of the State, as defined in Section 8 of Article XIII B, and the change in the cost of living for the State, as measured by the California Consumer Price Index, between the immediately preceding fiscal year and the fiscal year in which the transfer is made. "Total General Fund expenditures for the immediately preceding fiscal year" do not include, for this purpose, the expenditure of unanticipated revenues pursuant to subparagraph (B) or pursuant to paragraph (3) or (4) of subdivision (c) of Section 21.

(B) Any funds necessary for the purpose of responding to an emergency declared by the Governor may be transferred by statute. For purposes of this subparagraph, "emergency" has the same meaning as set forth in paragraph (2) of subdivision (c) of Section 3 of Article XIII B.

(g) In addition to any transfer authorized by this section, funds in the Budget Stabilization Fund or the Supplemental Budget Stabilization Account may be loaned to meet General Fund cash requirements on the condition that the funds are repaid within the same fiscal year in which the loan is made.

(h) If the Supplemental Education Payment Account is established by subdivision (a), on October 1, 2011, and on October 1 annually thereafter, the Controller shall transfer from the Budget Stabilization Fund to the Supplemental Education Payment Account the lesser of the following:

(1) A sum equal to 1.5 percent of the estimated amount of General Fund revenues for the current fiscal year.

(2) The amount of the total supplemental education payments set forth in subdivision (a) of Section 8.3 remaining to be allocated.

(i) (1) If the Supplemental Education Payment Account is established by subdivision (a), on October 1 of the first fiscal year for which the amount determined pursuant to paragraph (1) of subdivision (h) is greater than the amount determined pursuant to paragraph (2) of subdivision (h), and on October 1 annually thereafter, the Controller shall transfer from the Budget Stabilization Fund to the Supplemental Budget Stabilization Account a sum equal to 1.5 percent of the estimated amount of General Fund revenues for the current fiscal year minus the amount, if any, of the total supplemental education payments set forth in subdivision (a) of Section 8.3 remaining to be allocated.

(2) If the Supplemental Education Payment Account is not established by subdivision (a), on October 1, 2011, and on October 1 annually thereafter, the Controller shall transfer from the Budget Stabilization Fund to the Supplemental Budget Stabilization Account a sum equal to 1.5 percent of the estimated amount of General Fund revenues for the current fiscal year.

(3) Funds in the Supplemental Budget Stabilization Account may be appropriated only for the purposes set forth in subparagraphs (B) or (C) of paragraph (4) of subdivision (c) of Section 21.

Third— That Section 21 is added to Article XVI thereof, to read:

SEC. 21. (a) On or before May 29, 2011, and on or before May 29 of each year thereafter, the Director of Finance shall do all of the following, reporting the result in each case to the Legislature and the Governor:

(1) Separately estimate General Fund revenues, transfers, and balances available from the prior fiscal year for the current fiscal year.

(2) Determine the revenue forecast amount for the current fiscal year in the manner set forth in subdivision (d).

(3) Estimate the amount, as of that date, of any General Fund obligations arising under Section 8 for the current fiscal year, including any maintenance factor allocation for the current fiscal year required pursuant to subdivision (e) of Section 8, that have not yet been funded by the State.

(b) (1) Except as provided in paragraph (2), "unanticipated revenues" for a fiscal year, for purposes of this section, shall be the lesser of the following:

(A) Estimated General Fund revenues for the current fiscal year reported pursuant to paragraph (1) of subdivision (a) minus the revenue forecast amount for the current fiscal year.

(B) Estimated General Fund revenues, transfers, and balances available from the prior fiscal year for the current fiscal year reported pursuant to paragraph (1) of subdivision (a) minus the expenditure forecast amount for the current fiscal year determined pursuant to subparagraph (A) of paragraph (2) of subdivision (f) of Section 20.

(2) If the amount determined pursuant to paragraph (1) is less than zero, the amount of unanticipated revenues shall be zero.

(c) Unanticipated revenues, as determined pursuant to this section, may be used only as follows:

(1) Unanticipated revenues shall be appropriated to satisfy any unfunded General Fund obligations arising under Section 8 for the current fiscal year, as estimated pursuant to paragraph (3) of subdivision (a).

(2) Any unanticipated revenues that remain after deducting, in accordance with paragraph (1), the amount of the estimate required by paragraph (3) of subdivision (a) shall be transferred by the Controller no later than June 27 of the current fiscal year to the Budget Stabilization Fund, not exceeding the amount needed to increase the balance in the fund to an amount equal to 12.5 percent of the estimate of General Fund revenues as set forth in the enacted budget bill for that fiscal year. Notwithstanding any other provision of this Constitution:

(A) If the Director of Finance determines at any time that the total amount of General Fund obligations arising under Section 8 for a fiscal year, including any maintenance factor allocation for that fiscal year required pursuant to subdivision (e) of Section 8, exceeds the total amount of those General Fund obligations as calculated for that fiscal year for purposes of the estimate required by paragraph (3) of subdivision (a), he or she shall so report to the Legislature, the Governor, and the Controller. The Controller shall thereupon transfer funds in the amount of that difference from the Budget Stabilization Fund to the General Fund, and the funds so transferred shall be appropriated only for purposes of funding the additional amount of General Fund obligations under Section 8 determined pursuant to this paragraph.

(B) If the Director of Finance determines at any time that the total amount of General Fund obligations arising under Section 8 for a fiscal year, including any maintenance factor allocation for that fiscal year required pursuant to subdivision (e) of Section 8, is less than the total amount of those General Fund obligations as calculated for that fiscal year for purposes of the estimate required by paragraph (3) of subdivision (a), he or she shall so report to the Legislature, the Governor, and the Controller. The Controller shall thereupon transfer funds in the amount of that difference from the General Fund to the Budget Stabilization Fund, not exceeding the amount needed to increase the balance in the latter fund to an amount equal to 12.5 percent of the estimate of General Fund revenues as set forth in the enacted budget bill for that fiscal year.

(3) Any unanticipated revenues remaining after any appropriations and transfers described in paragraphs (1) and (2) shall be appropriated to retire outstanding budgetary obligations. For purposes of this paragraph, "budgetary obligations" means any of the following:

(A) Unfunded prior fiscal year General Fund obligations pursuant to Section 8.

(B) Any repayment obligations created by the suspension of subparagraph (A) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII.

(C) Any repayment obligations created by the suspension of subdivision (a) of Section 1 of Article XIX B.

(D) Bonded indebtedness authorized pursuant to Section 1.3.

(4) Any unanticipated revenues remaining after any appropriations and transfers described in paragraphs (1), (2), and (3) are made to retire all outstanding budgetary obligations shall be used for one or more of the following purposes:

(A) Transfer by statute to the Budget Stabilization Fund.

(B) Appropriation for one-time infrastructure or other capital outlay purposes.

(C) Appropriation to retire, redeem, or defease outstanding general obligation or other bonded indebtedness of the State.

(D) Return to taxpayers within the current or immediately following fiscal year by a one-time revision of tax rates, or by rebates.

(E) Appropriation for unfunded liabilities for vested nonpension benefits for state annuitants.

(d) For the 2010–11 fiscal year, and for each fiscal year thereafter, the revenue forecast amount shall be determined as follows:

(1) The General Fund revenues for the current fiscal year shall be forecast by extrapolating from the trend line derived by a linear regression of General Fund revenues as a function of fiscal year for the period of the 10 preceding fiscal years. For purposes of this paragraph, General Fund revenues shall exclude both of the following:

(A) The General Fund revenue effect of a change in state taxes that affects General Fund revenues for less than the entire period of the 10 preceding fiscal years.

(B) Any proceeds of bonds authorized by subdivision (a) of Section 1.3.

(2) The amount forecast pursuant to paragraph (1) shall be increased or decreased, as applicable, to reflect the net current fiscal year General Fund revenue effect of a change in state taxes for which General Fund revenue effects were excluded pursuant to subparagraph (A) of paragraph (1).

PROPOSITION 1B

This amendment proposed by Assembly Constitutional Amendment 2 of the 2009–2010 Third Extraordinary Session (Resolution Chapter 2, 2009–2010 Third Extraordinary Session) expressly amends the California Constitution by adding a section thereto; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

PROPOSED AMENDMENT TO ARTICLE XVI

That Section 8.3 is added to Article XVI thereof, to read:

SEC. 8.3. (a) School districts and community college districts shall receive supplemental education payments in the total amount of nine billion three hundred million dollars ($9,300,000,000). These payments shall be in lieu of the maintenance factor amounts, if any, that otherwise would be determined pursuant to subdivision (d) of Section 8 for the 2007–08 and 2008–09 fiscal years. These payments are not subject to subdivision (e) of Section 8. These payments shall be made only from the Supplemental Education Payment Account, subject to the deposit into that account of the amounts necessary to make the payments. The operation of this section is contingent upon the establishment of the Supplemental Education Payment Account pursuant to subdivision (a) of Section 20.

(b) Commencing with the 2011–12 fiscal year, in addition to the amounts required to be allocated pursuant to subdivisions (b) and (e) of Section 8, the Legislature annually shall appropriate to school districts and community college districts the amount transferred to the Supplemental Education Payment Account pursuant to subdivision (h) of Section 20 in satisfaction of the supplemental education payments required by subdivision (a), until the full amount of the supplemental education payments required by subdivision (a) has been allocated pursuant to this section.

(c) (1) Of the appropriations made to school districts for the 2011–12 fiscal year pursuant to subdivision (b), an amount not exceeding two hundred million dollars ($200,000,000) shall be available only for the purposes set forth in Section 42238.49 of the Education Code as that section read on March 28, 2009, as determined pursuant to the funding formula set forth in that section.

(2) The remaining amount of the appropriations made to school districts for the 2011–12 fiscal year pursuant to subdivision (b), and all of the appropriations made to school districts pursuant to subdivision (b) for each subsequent fiscal year, shall be allocated as an adjustment to revenue limit apportionments, as specified by statute, in a manner that does not limit a recipient school district with regard to the purposes of the district for which the moneys may be expended.

(d) All amounts appropriated in a fiscal year pursuant to this section shall be deemed allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B for that fiscal year, for purposes of determining, in the following fiscal year, the amount required pursuant to paragraph (2) or (3), as applicable, of subdivision (b) of Section 8.

PROPOSITION 1C

This amendment proposed by Senate Constitutional Amendment 12 of the 2007–2008 Regular Session (Resolution Chapter 143, Statutes of 2008) and Assembly Bill 1654 of the 2007–2008 Regular Session (Chapter 764, Statutes of 2008) and Assembly Bill 12 of the 2009–2010 Third Extraordinary Session (Chapter 8, 2009–2010 Third Extraordinary Session) expressly amends the California Constitution by amending a section thereof and amends, adds and repeals sections of the Government Code and amends a section of the California State Lottery Act of 1984; 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

PROPOSED AMENDMENT TO ARTICLE IV OF THE CALIFORNIA CONSTITUTION

That Section 19 of Article IV thereof is amended to read:

SEC. 19. (a) The Legislature has no power to authorize lotteries, and shall prohibit the sale of lottery tickets in the State.

(b) The Legislature may provide for the regulation of horse races and horse race meetings and wagering on the results.

(c) Notwithstanding subdivision (a), the Legislature by statute may authorize cities and counties to provide for bingo games, but only for charitable purposes.

(d) *(1)* Notwithstanding subdivision (a), there is authorized the ~~establishment of a~~ California State Lottery*, a lottery to be conducted by the State and operated for the purpose of increasing revenues to provide funds for the support of public education and other public purposes*.

(2) Notwithstanding any other provision of law or this Constitution to the contrary, the Legislature is hereby authorized to obtain moneys for the purposes of the California State Lottery through the sale of future revenues of the California State Lottery and rights to receive those revenues to an entity authorized by the Legislature to issue debt