

2016

Tax Extension to Fund Education and Healthcare. Initiative Constitutional Amendment.

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PROPOSITION **TAX EXTENSION TO FUND EDUCATION AND HEALTHCARE.**
55 INITIATIVE CONSTITUTIONAL AMENDMENT.

OFFICIAL TITLE AND SUMMARY

PREPARED BY THE ATTORNEY GENERAL

55

- Extends by twelve years the temporary personal income tax increases enacted in 2012 on earnings over \$250,000 (for single filers; over \$500,000 for joint filers; over \$340,000 for heads of household).
- Allocates these tax revenues 89% to K–12 schools and 11% to California Community Colleges.
- Allocates up to \$2 billion per year in certain years for healthcare programs.
- Bars use of education revenues for administrative costs, but provides local school boards discretion to decide, in open meetings and subject to annual audit, how revenues are to be spent.
- through 2030, depending on the economy and the stock market.
- Increased funding for schools and community colleges of roughly half of the revenue raised by the measure.
- Increased funding for health care for low-income people ranging from \$0 to \$2 billion each year, depending on decisions and estimates made by the Governor's main budget advisor.
- Increased budget reserves and debt payments ranging from \$60 million to roughly \$1.5 billion each year (in today's dollars), depending primarily on the stock market.

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

- Increased state revenues ranging from \$4 billion to \$9 billion each year (in today's dollars) from 2019

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

State Budget

Over Half of State Budget Spent on Education. The state collects taxes and fees from people and businesses and uses these revenues to fund programs in the state budget. This year, the state plans to spend about \$122 billion from its main operating account, the General Fund. As shown in Figure 1, over half of this spending is for K–12 schools, community colleges, and the state's public universities. About another one-quarter of this spending is for health and human services programs, the largest of which is the state's Medi-Cal program. Most of the spending shown in the figure for "various other programs" pays for prisons, parole programs, and the courts.

Taxes

Personal Income Tax Provides Most General Fund Monies. The state's General Fund is supported primarily by three taxes: the personal income tax, the sales tax, and the corporate income tax. (We refer to the personal income tax simply as "income tax" in this analysis.) The income tax is the most important for the state budget, as it provides about two-thirds of all General Fund revenues. The tax applies to most

forms of income—such as salaries, wages, interest income, and profits from the sales of stocks and other assets. It consists of several "marginal" tax rates, which are higher as income subject to the tax, or "taxable income," increases. For example, in 2011 the tax on a married couple's taxable income was 1 percent on the first \$14,632 but 9.3 percent on all taxable income over \$96,058.

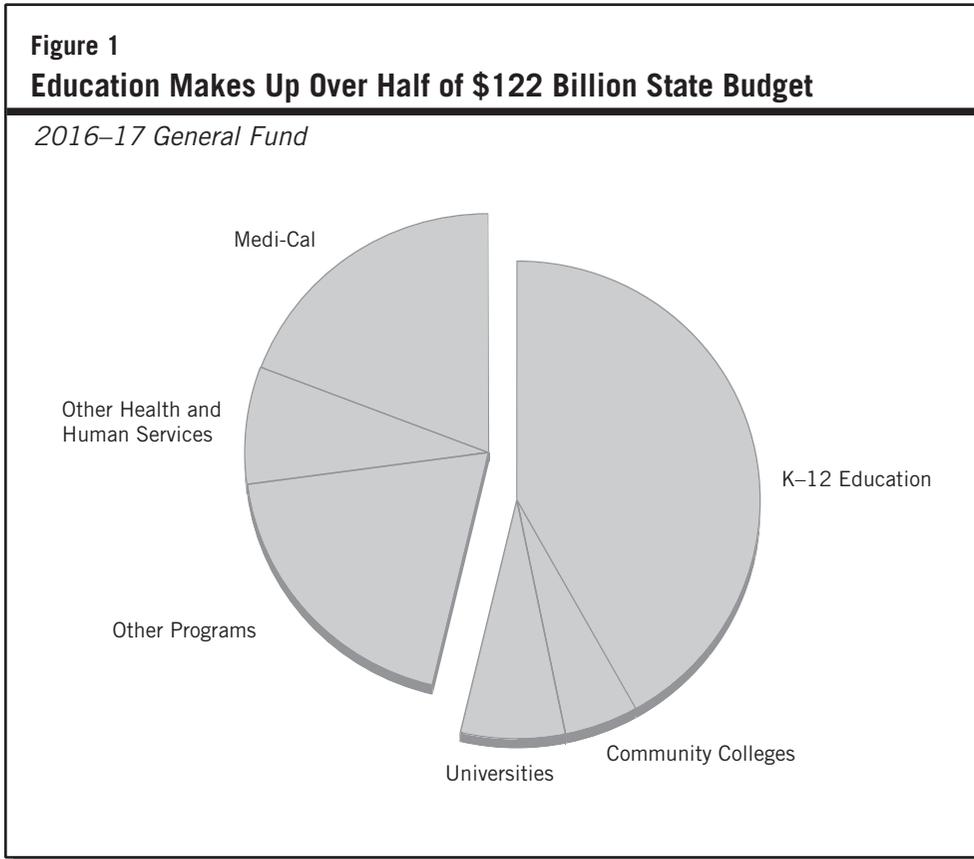
Proposition 30. Proposition 30, approved by voters in November 2012, increased income tax rates on high-income taxpayers. As shown in Figure 2, depending on their income levels, high-income taxpayers pay an extra 1 percent, 2 percent, or 3 percent tax on part of their incomes. These higher rates are in effect through 2018. This year's state budget assumes that the Proposition 30 income tax increases will raise about \$7 billion in revenue. Proposition 30 also increased the state sales tax rate by one-quarter cent from 2013 through 2016.

Education

Annual Required Spending on Education. The State Constitution requires the state to spend a minimum amount on K–12 schools and community colleges each year. This "minimum guarantee" grows over time based on growth in state tax revenues, the economy, and student attendance. This year, the state

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED



General Fund will provide over \$50 billion toward the minimum guarantee. Local property taxes also contribute to the minimum guarantee.

Medi-Cal

Serves Low-Income People in California. The Medi-Cal program provides health care services to low-income people. These services include primary care visits, emergency room visits, surgery, and prescription drugs. The program serves over 13 million people in California—roughly one-third of the population. This year, the state will spend about \$23 billion from the General Fund on Medi-Cal. In addition, the program relies heavily on federal funding and receives some support from other state sources.

Budget Reserves and Debt Payments

“Rainy-Day” Reserves. Governments use budget reserves to save money when the economy is good. When the economy gets worse and revenues decline, governments use money that they saved to reduce the amount of spending cuts, tax increases, and other actions needed to balance their budgets.

Constitution Requires Minimum Amount Used for Debt Payments and Budget Reserves.

The Constitution requires the state to save a minimum amount each year in its rainy-day fund and spend a minimum amount each year to pay down state debts faster. The annual amounts used for debts and budget reserves depend primarily upon state tax revenues. In particular, revenues from capital gains—money people make when they sell stocks and other types of property—are an important factor in estimating how much the state must use for these purposes.

PROPOSAL

This measure (1) extends for 12 years the additional income tax rates established by Proposition 30 and (2) creates a formula to provide additional funds to the Medi-Cal program from the 2018–19 state fiscal year through 2030–31.

Taxes

Income Taxes Increased on High-Income Taxpayers. Proposition 55 extends from 2019 through 2030

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

Figure 2
Income Tax Rates Under Proposition 30^a

Single Filer's Taxable Income ^b	Joint Filers' Taxable Income ^c	Marginal Tax Rate		
		Base Rate	Proposition 30 Increase	Total Rate
\$0 to \$8,000	\$0 to \$16,000	1.0%	—	1.0%
8,000 to 19,000	16,000 to 37,000	2.0	—	2.0
19,000 to 29,000	37,000 to 59,000	4.0	—	4.0
29,000 to 41,000	59,000 to 82,000	6.0	—	6.0
41,000 to 52,000	82,000 to 103,000	8.0	—	8.0
52,000 to 263,000	103,000 to 526,000	9.3	—	9.3
263,000 to 316,000	526,000 to 632,000	9.3	1.0%	10.3
316,000 to 526,000	632,000 to 1,053,000	9.3	2.0	11.3
Over 526,000	Over 1,053,000	9.3	3.0	12.3

^a Income brackets shown are rounded to the nearest thousands of dollars. Brackets are in effect for 2015 and are adjusted for inflation in future years.
^b Single filers include married individuals and registered domestic partners (RDPs) who file taxes separately.
^c Joint filers include married and RDP couples who file jointly, as well as qualified widows or widowers with a dependent child.

Note: Income brackets for head-of-household filers are not listed, but those filers with taxable income of \$357,981 and greater (as of 2015) also are subject to 10.3 percent, 11.3 percent, or 12.3 percent marginal tax rates under Proposition 30. Tax rates listed exclude the mental health tax rate of 1 percent for taxable income in excess of \$1 million.

the Proposition 30 income tax rate increases shown in Figure 2. These increases affect high-income taxpayers in the state. Specifically, the measure affects the roughly 1.5 percent of taxpayers with the highest incomes.

Amount of Tax Increase Depends Upon Taxable Income. The amount of increased taxes paid by high-income taxpayers would depend upon their taxable income. For example, if this measure passes, a single person with taxable income of \$300,000 would pay an extra 1 percent on their income between \$263,000 and \$300,000. This works out to a tax increase of \$370 for this person. A married couple filing a joint tax return with taxable income of \$2,000,000 also would see their taxes increased under this measure. Specifically, this couple would pay another 1 percent on their income between \$526,000 and \$632,000, an extra 2 percent on their income between \$632,000 and \$1,053,000, and an extra 3 percent on their income between \$1,053,000 and \$2,000,000. This works out to a tax increase of \$37,890 for this couple. (These examples would be somewhat different by 2019 because tax brackets would be adjusted annually for inflation.)

Does Not Extend Sales Tax Increase. Proposition 55 does not extend the one-quarter cent increase in the sales tax rate that voters approved in Proposition 30. In other words, whether or not voters pass this

measure, Proposition 30's sales tax increase will expire at the end of 2016.

Medi-Cal

Creates Formula for Medi-Cal. Proposition 55 includes a new state budget formula to provide more funding for the Medi-Cal program. The measure requires the Director of Finance, the Governor's main budget advisor, to determine each year from 2018–19 through 2030–31 whether General Fund revenues exceed (1) constitutionally required education spending and (2) the costs of government programs that were in place as of January 1, 2016. If revenues exceed these spending amounts, 50 percent of the excess (up to a maximum of \$2 billion) would be allocated to Medi-Cal. (This additional allocation could be reduced somewhat in difficult budget years.) The measure states that these Medi-Cal monies should not replace existing General Fund support for the program.

FISCAL EFFECTS

Figure 3 summarizes Proposition 55's fiscal effects. The measure's increased revenues would be used for K–12 schools and community colleges, health care services for low-income people, budget reserves, and debt payments. After satisfying these constitutional

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

requirements, remaining amounts, if any, would be available for any state budget purpose.

Taxes

Revenue Raised by Measure Would Depend on Economy and Stock Market. The exact amount of state revenue raised by Proposition 55 would depend on several factors that are difficult to predict. A large share of high-income taxpayers’ earnings comes from capital gains. These revenues depend heavily on future stock market and other asset values, which are difficult to

to predict. It is reasonable to assume, however, that roughly half of the revenue raised by Proposition 55 would go to schools and community colleges.

Medi-Cal

May Increase Medi-Cal Funding. The formula for added Medi-Cal funding would require the Director of Finance to estimate annually revenues and spending. As noted earlier, General Fund revenues are difficult to predict. Similarly, in order to produce the spending estimates required by the measure, the Director of

Finance would have to make assumptions about how spending on programs that were in place as of January 1, 2016 would have changed over time. Additional Medi-Cal funding under the measure, therefore, would depend on decisions and estimates made by the Director of Finance. The amount of any additional Medi-Cal funding under the measure could vary significantly each year, ranging from \$0 to \$2 billion.

Budget Reserves and Debt Payments

Increases Budget Reserves and Debt Payments. As described above, Proposition 55

**Figure 3
Fiscal Effects of Proposition 55**

Increased income tax revenues	Between \$4 billion and \$9 billion each year (in 2016 dollars), depending upon economy and stock market.
Increased funding for schools and community colleges	Roughly half of the revenue raised by the measure.
Increased Medi-Cal funding	Between \$0 and \$2 billion each year, depending upon decisions and estimates made by the Governor’s main budget advisor.
Increased budget reserves and debt payments	Between \$60 million and roughly \$1.5 billion each year (in 2016 dollars), depending primarily upon stock market.

predict. In addition, high-income taxpayers’ earnings fluctuate with the economy. Thus, in a bad economic and stock market year, the measure might raise around \$4 billion in revenue. When the economy and stock market are good, the measure might raise around \$9 billion in annual revenue. In most years, the amount of revenue raised by the measure would be in between these amounts. (These amounts are in today’s dollars and would tend to grow over time.)

increases state tax revenues. Higher revenues increase required debt payments and budget reserve deposits. The exact amount that the state would have to use for paying down state debts and building budget reserves depends largely on capital gains revenues, which are difficult to predict. In bad stock market years, Proposition 55 could increase debt payments and budget reserves by \$60 million. In good stock market years, Proposition 55 could increase debt payments and reserve deposits by \$1.5 billion or more.

Education

Increases in Education Spending. Higher state tax revenues generally result in increased education spending. The exact amount that the state must spend on schools and community colleges in the future depends on several factors that are difficult

to predict. Visit <http://www.sos.ca.gov/measure-contributions> for a list of committees primarily formed to support or oppose this measure. Visit <http://www.fppc.ca.gov/transparency/top-contributors/nov-16-gen-v2.html> to access the committee’s top 10 contributors.

★ ARGUMENT IN FAVOR OF PROPOSITION 55 ★

Proposition 55 prevents billions in budget cuts without raising taxes by ensuring the wealthiest Californians continue to pay their share. 55 requires strict accountability and transparency to ensure funds get to the classroom. We can't afford to go back to the days of devastating cuts and teacher layoffs.

Fact 1: Proposition 55 does not raise anyone's taxes.

- *Does not raise taxes on anyone.* Proposition 55 maintains the current income tax rate on couples earning over \$500,000 a year.
- *Only affects the wealthiest Californians who can most afford it,* ensuring they continue to pay their share of taxes.
- *Lower sales tax.* Under Proposition 55 all Californians' sales tax are reduced.

Fact 2: Proposition 55 has strict transparency and accountability requirements to ensure education funds get to the classroom.

- *Money goes to local schools and the Legislature can't touch it.* Strict accountability requirements ensure funds designated for education go to classrooms, not to bureaucracy or administrative costs. Authorizes criminal prosecution for any misuse of money.
- *Mandatory audits and strict transparency requirements.* Local school districts must post annual accounting online to guarantee that Californians know exactly how and where funds are spent.
- *Provides local control over school funding.* Proposition 55 gives control to local school boards to determine student needs.

Fact 3: Proposition 55 prevents up to \$4 billion in cuts to schools and continues to restore funding cut during the recession.

- *Proposition 55 helps address California's looming teacher shortage.* The state needs an estimated 22,000 additional teachers next year alone. Proposition 55 gives local school districts the money they need to hire teachers and prevent overcrowded classes.
- *Proposition 55 helps restore arts and music.* Arts and

music programs faced deep cuts during the recession. Proposition 55 will help protect and restore those programs.

- *Makes college more affordable.* Proposition 55 prevents cuts to California community colleges, preventing tuition increases and helping make classes more available to California's 2.1 million community college students.
- *Expands health care access for children.* Healthier children are healthier students. Too many families can't afford basic health care, meaning children miss school or come to class sick. Proposition 55 helps kids come to school healthy and ready to learn, because all children deserve access to quality health care, not just the wealthiest Californians.

California needs to keep moving forward, we can't afford to go back to the days of devastating cuts to public schools, colleges, and health care.

30,000 teachers were laid off, class sizes grew, and the cost of community colleges doubled.

Governor Jerry Brown has said that we'll face even more cuts if Proposition 55 doesn't pass.

Proposition 55 gives Californians a clear choice: voting YES protects our schools and children from massive cuts; voting NO costs our schools up to \$4 billion a year.

California's schools are starting to come back. Passing Proposition 55 will ensure that our children won't face another round of cuts. The future of California depends on the future of our children.

Because our children and schools matter most.

Details at www.YesOn55.com

JUSTINE FISCHER, President
California State PTA

ALEX JOHNSON, Executive Director
Children's Defense Fund—California

TOM TORLAKSON, California State Superintendent of
Public Instruction

★ REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 55 ★

TEMPORARY SHOULD MEAN TEMPORARY

Voters supported higher income and sales taxes in 2012 because Governor Jerry Brown made the commitment that they would be temporary.

The state budget has a surplus, and these temporary taxes should go away, just like the Governor promised.

PROP. 55 WILL HURT SMALL BUSINESS AND KILL JOBS.

Prop. 55 will kill jobs, close businesses, and hurt the economy. It will raise taxes on California's small businesses, and make it even harder for them to create good-paying jobs.

WE CAN'T TRUST THE POLITICIANS AND SPECIAL INTERESTS

The politicians and special interests know California is NOT facing cuts to programs. They just want to grow government bigger by passing Prop. 55. And they are using our kids and schools to scare voters into supporting it. Don't be fooled.

SCHOOLS ARE FULLY FUNDED

Education spending has grown by \$24.6 billion since

2012—a 52% increase.

Schools are funded, and the state budget is balanced. We have a \$2.7 billion surplus and over \$9.4 billion in budget reserves.

Prop. 55's new and higher taxes aren't needed.

DON'T BE FOOLED BY SCARE TACTICS, PROP. 55 IS NOT NEEDED.

Official budget estimates by the state's non-partisan Legislative Analyst show that higher taxes are NOT needed to balance the budget and fully fund schools. California can fund education, health care and state government without new or higher taxes.

VOTE NO ON PROP. 55

JON COUPAL, President
Howard Jarvis Taxpayers Association

TOM SCOTT, State Executive Director
National Federation of Independent Business—California

TERESA CASAZZA, President
California Taxpayers Association

★ ARGUMENT AGAINST PROPOSITION 55 ★

In 2012, voters approved Proposition 30 tax increases because we were promised they'd be temporary and end in 2017.

Now special interests want to break that promise and extend these tax hikes 12 more years.

That's *not* temporary.

Here's the official title from the 2012 measure: Prop. 30: TEMPORARY taxes to fund education, guaranteed local public safety funding. Initiative Constitutional Amendment.

TEMPORARY SHOULD MEAN TEMPORARY

Voters supported higher income and sales taxes in 2012 only because Governor Jerry Brown promised they would be temporary:

"THAT'S A TEMPORARY TAX AND, TO THE EXTENT THAT I HAVE ANYTHING TO DO WITH IT, WILL REMAIN TEMPORARY."—*Governor Brown, Sacramento Bee, 10/7/14*

Governor Brown promised the higher taxes would only last a few years and then end. Now, special interests want to extend them 12 more years—that's not "temporary."

California's economy has recovered and we now have a BUDGET SURPLUS.

WE DON'T NEED HIGHER TAXES

California has a balanced budget, we've reduced debt, increased school spending, put billions into California's "rainy day fund" and still have a \$2.7 billion budget surplus.

California takes in more tax dollars than we need each year—that's why the state budget recovered from a \$16 billion deficit in 2012 to a \$2.7 billion surplus in 2016.

Education spending has soared by \$24.6 billion since 2012—a 52% increase.

Medi-Cal spending has increased by \$2.9 billion—a 13% increase.

WE CAN FUND EDUCATION, HEALTH CARE, AND STATE GOVERNMENT WITHOUT NEW OR HIGHER TAXES

Governor Brown has stated and budget estimates from

the Legislative Analyst show that higher taxes are not needed to balance the budget.

We have adequate funds for schools and other critical requirements—we just need politicians with the backbone to cut waste and prioritize our spending. What we don't need is the largest tax hike in California history, sending billions more to Sacramento with no accountability to voters.

PROP. 55 TARGETS CALIFORNIA'S SMALL BUSINESSES WITH HIGHER TAXES FOR 12 YEARS

This measure targets small businesses who often pay taxes on their business income through their personal tax return. Prop. 55 will kill jobs, close businesses and damage the economy.

THE SPECIAL INTERESTS JUST WANT MORE MONEY TO SPEND TODAY

It's a fair bet that Prop. 55 money will be spent to pay pension benefits and other state debt rather than making it to the classroom or building roads. It'll be just like the lottery—we'll never know where the money went.

WE CAN'T TRUST THE POLITICIANS AND SPECIAL INTERESTS

The politicians and special interests know California is NOT facing cuts to any programs now. They just want to grow government by passing Prop. 55—the largest state tax increase ever.

Check it yourself: California has a \$2.7 billion surplus, and over \$9.4 billion in budget reserves.

New and higher taxes aren't needed.

CALIFORNIA SHOULD KEEP ITS WORD: TEMPORARY MEANS TEMPORARY

VOTE NO ON PROP. 55—IT'S A BROKEN PROMISE

JON COUPAL, President

Howard Jarvis Taxpayers Association

TOM SCOTT, State Executive Director

National Federation of Independent Business—California

HON. QUENTIN L. KOPP, Retired Superior Court Judge

★ REBUTTAL TO ARGUMENT AGAINST PROPOSITION 55 ★

Vote YES on 55. Help our children thrive.

Prop. 55 makes sure we won't go back to massive cuts in school funding. It protects the education and health of our children.

Proposition 55 does not raise anyone's taxes:

- Prop. 55 *maintains current tax rates* on the wealthiest Californians to ensure couples earning more than \$500,000 a year continue paying their share.
- Proposition 55 does not raise taxes on small businesses.
- Under Proposition 55 the state sales tax is reduced as planned at the end of 2016.

Proposition 55 *prevents* up to a \$4 billion per year cut in public school funding:

- Proposition 55 helps address the teacher shortage and continues to restore the school funding that was cut during the recession.
- California's high school graduation rate rose for the sixth year in a row. Prop. 55 will help continue the progress.

Yes on 55 has strict accountability and fiscal

requirements to ensure education funds go straight to the classroom:

- Revenue is guaranteed in the Constitution to go into a special account for schools and children's health care that the *Legislature can't touch*.
- Money will be audited every year. Audit findings are posted at <http://trackprop30.ca.gov/> so taxpayers can see how their money is spent.
- There are strict requirements that funding must go to the classroom, not administration or Sacramento bureaucracy.
- Proposition 55 authorizes criminal prosecution for misuse of money.
- The continuation of the current tax rates on the wealthiest is subject to the vote and will of the people.

ERIC C. HEINS, President

California Teachers Association

BETTY T. YEE, California State Controller

ANN-LOUISE KUHNS, President

California Children's Hospital Association

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of votes thereon, any provision of that measure that is inconsistent with, or interferes in any way with, the purpose or provisions adopted by this initiative measure shall be rendered void and without legal effect.

SEC. 8. Severability.

The provisions of this act are severable. If any provision of this act or its application is held to be invalid, that invalidity shall not affect the other provisions or applications that can be given effect in the absence of the invalid provision or application. Without limiting in any way the generality of the foregoing, the voters declare (1) that the amendments to Section 7 of Article IV of the California Constitution are severable from the amendments to Section 8 of Article IV of the California Constitution, (2) that the Legislature's obligations to cause to be made, to make public, and to maintain audiovisual recordings of legislative proceedings are severable from the right of any person to record the proceedings and broadcast or otherwise transmit such recordings pursuant to the amendments to Section 7 of Article IV of the California Constitution, (3) that the right to record proceedings is severable from the right to broadcast or otherwise transmit the recordings, and (4) that the statutory amendments of this initiative measure are severable from the constitutional amendments.

SEC. 9. Amendments.

The statutory provisions of this act shall not be amended except upon approval of the voters, except that the Legislature may amend paragraph (6) of subdivision (a) of Section 10248 of the Government Code to extend the time that recordings shall remain accessible to the public through the Internet and downloadable by passing a statute by a rollcall vote entered in the journal, a majority of the membership of each house concurring.

SEC. 10. Conflicting Ballot Propositions.

(a) In the event that this initiative measure and any other measure or measures that relate to the transparency of the legislative process with respect to any of the matters addressed herein are approved by a majority of voters at the same election, and this initiative measure receives a greater number of affirmative votes than any other such measure or measures, this initiative measure shall control in its entirety and the other measure or measures shall be rendered void and without legal effect.

(b) If this initiative measure and a statutory measure placed on the ballot by the Legislature are approved by a majority of voters at the same election, the constitutional amendments in this initiative measure shall control over any statutory measure placed on the ballot by the Legislature to the extent that the statutory measure conflicts with, is inconsistent with, or interferes with the purpose, intent, or provisions of this initiative measure.

(c) If this initiative measure is approved by voters but is superseded in whole or in part by any other conflicting measure approved by the voters and receiving a greater number of affirmative votes at the same election, and the conflicting measure or superseding provisions thereof are subsequently held to be invalid, the formerly superseded provisions of this initiative measure, to the extent superseded by the subsequently invalidated provisions of the conflicting measure, shall be self-executing and given the full force of law.

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PROPOSITION 55

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

This initiative measure amends a section of the California Constitution; 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

The California Children's Education and Health Care Protection Act of 2016

SECTION 1. Title.

This measure shall be known and may be cited as "The California Children's Education and Health Care Protection Act of 2016."

SEC. 2. Findings.

(a) During the recent recession, California cut more than \$56 billion from education, health care and other critical state and local services. These cuts resulted in thousands of teacher layoffs, increased school class sizes, higher college tuition fees, and reduced essential services. Temporary tax increases passed by California voters in 2012 helped to partially offset some of the lost funding, but those taxes will begin to expire at the end of 2016, leading to more deficits and more school cuts.

(b) Unless we act now to temporarily extend the current income tax rates on the wealthiest Californians, our public schools will soon face another devastating round of cuts due to lost revenue of billions of dollars a year. Public school funding was cut to the bone during the recession. Our schools and colleges are just starting to recover, and we should be trying to protect education funding instead of gutting it all over again. We can let the temporary sales tax increase expire to help working families, but this is not the time to be giving the wealthiest people in California a tax cut that they don't need and that our schools can't afford.

(c) California's future depends on the success of its nine million children. Every California child deserves a fair chance to become a successful adult. But for children to succeed as adults, they must have access to high quality education and health care.

(d) For children, education and health care are essential and dependent on one another. Access to a quality education is fundamental to the success of California's children. Even with adequate schools, children cannot obtain an education if illness prevents them from attending. And children growing up in communities without adequate health care are more likely to contract illnesses or have chronic medical conditions that prevent them from regularly attending school.

(e) Underfunding of health care programs also harms California financially. Every new state dollar spent on health care for children and their families is automatically matched by federal funds. This means every year California loses out on billions of dollars in federal matching money that could be used to ensure children and their families have access to health care.

(f) Research also shows that early access to quality education and health care improves children's chances of succeeding in school and in life. California should do more to ensure that the state's children receive the education

and health care they need to thrive and achieve their highest potential.

(g) California public schools, for example, are the most crowded in the nation. Class sizes are an astonishing 80 percent larger than the national average. The number of Californians training to be future teachers has dropped by 50 percent in the last five years as class sizes have soared.

(h) As well, the budgets of California's community colleges were slashed during the Great Recession, diminishing the ability of California children—especially those from low-income families—to receive career training and an affordable and necessary college education.

(i) California chronically underfunds health care. California ranks 48th out of the 50 states in health care spending, making it difficult for children and their families, seniors, and the disabled to access health care. Underfunding health care for children leads to increased rates of serious illness, and higher long-term medical expenses. Improved reimbursement for health services helps ensure that children have access to doctors and hospitals. And once a hospital or doctor's office closes due to chronic underfunding, it closes for everyone in that community.

(j) The California Children's Education and Health Care Protection Act of 2016 temporarily extends the higher income tax rates on couples earning more than half a million dollars a year—those who can most afford it—to help all California children stay healthy, stay in good public schools, and have the opportunity for higher education.

(k) This measure does not increase taxes on anyone earning under \$250,000. It does not extend the temporary sales tax increases that voters previously approved in 2012.

(l) The income tax revenue is guaranteed in the California Constitution to go directly to local school districts and community colleges, and to help the state pay for health care expenses for low-income children and their families. State funding is freed up to help balance the budget and prevent even more devastating cuts to services for seniors, low-income children, working families, and small business owners. Everyone benefits.

(m) To ensure all these funds go only where the voters intend, they are put in a special fund that the Legislature cannot divert to other purposes. None of these revenues can be spent on state bureaucracy or administrative costs.

(n) These funds will be subject to an independent audit every year to ensure they are spent only for the purposes set forth in this measure. Elected officials will be subject to prosecution and criminal penalties if they misuse the funds.

(o) California has seen massive budget swings over the past 15 years, with deep deficits and devastating cuts after the Dot-Com bust and the Great Recession. Maintaining the state's rainy day fund will stabilize the budget, avoid the boom and bust cycles of the past, and protect our children, seniors, and disabled Californians from cuts in school and health care funding during future economic downturns.

SEC. 3. Purpose and Intent.

(a) The chief purpose and intent of the voters in enacting this measure is to avoid harmful cuts that would reduce the quality of education and instruction in California's local public schools, and to provide adequate funding for essential health care services for children and family members who are legal residents of California.

(b) This measure is intended to protect our children by temporarily extending current income tax rates on wealthy Californians, instead of awarding a huge tax break to couples earning more than half a million dollars a year, or individuals earning more than a quarter million. Instead of sending money back into the pockets of the wealthy, this measure sends the money to a special account that must be spent exclusively to ensure that every California child has access to a quality public education and the quality health care necessary for them to stay in school and learn.

(c) This measure is intended to keep California on its current track of balanced budgets and reliable funding for schools, community colleges, and health care, preventing a return to the days of chronic budget deficits and funding cuts.

(d) This measure guarantees in the Constitution that the revenues it raises for schools will be sent directly to school districts and community colleges for classroom expenses, not administrative costs. This school funding cannot be suspended or withheld no matter what happens with the state budget.

(e) This measure guarantees in the Constitution that the revenues it raises for health care will be spent to supplement existing state funding for health care services that qualify for matching federal funds.

(f) All revenues from this measure are subject to local audit every year, and audit by the independent Controller to ensure that they will be used only for the purposes set forth in this measure.

SEC. 4. Section 36 of Article XIII of the California Constitution is amended to read:

SEC. 36. (a) For purposes of this section:

(1) "Public Safety Services" includes the following:

(A) Employing and training public safety officials, including law enforcement personnel, attorneys assigned to criminal proceedings, and court security staff.

(B) Managing local jails and providing housing, treatment, and services for, and supervision of, juvenile and adult offenders.

(C) Preventing child abuse, neglect, or exploitation; providing services to children and youth who are abused, neglected, or exploited, or who are at risk of abuse, neglect, or exploitation, and the families of those children; providing adoption services; and providing adult protective services.

(D) Providing mental health services to children and adults to reduce failure in school, harm to self or others, homelessness, and preventable incarceration or institutionalization.

(E) Preventing, treating, and providing recovery services for substance abuse.

(2) "2011 Realignment Legislation" means legislation enacted on or before September 30, 2012, to implement the state budget plan, that is entitled 2011 Realignment and provides for the assignment of Public Safety Services responsibilities to local agencies, including related reporting responsibilities. The legislation shall provide local agencies with maximum flexibility and control over the design, administration, and delivery of Public Safety Services consistent with federal law and funding requirements, as determined by the Legislature. However, 2011 Realignment Legislation shall include no new programs assigned to local agencies after January 1, 2012, except for the early periodic screening, diagnosis, and

treatment (EPSDT) program and mental health managed care.

(b) (1) Except as provided in subdivision (d), commencing in the 2011–12 fiscal year and continuing thereafter, the following amounts shall be deposited into the Local Revenue Fund 2011, as established by Section 30025 of the Government Code, as follows:

(A) All revenues, less refunds, derived from the taxes described in Sections 6051.15 and 6201.15 of the Revenue and Taxation Code, as those sections read on July 1, 2011.

(B) All revenues, less refunds, derived from the vehicle license fees described in Section 11005 of the Revenue and Taxation Code, as that section read on July 1, 2011.

(2) On and after July 1, 2011, the revenues deposited pursuant to paragraph (1) shall not be considered General Fund revenues or proceeds of taxes for purposes of Section 8 of Article XVI of the California Constitution.

(c) (1) Funds deposited in the Local Revenue Fund 2011 are continuously appropriated exclusively to fund the provision of Public Safety Services by local agencies. Pending full implementation of the 2011 Realignment Legislation, funds may also be used to reimburse the State for program costs incurred in providing Public Safety Services on behalf of local agencies. The methodology for allocating funds shall be as specified in the 2011 Realignment Legislation.

(2) The county treasurer, city and county treasurer, or other appropriate official shall create a County Local Revenue Fund 2011 within the treasury of each county or city and county. The money in each County Local Revenue Fund 2011 shall be exclusively used to fund the provision of Public Safety Services by local agencies as specified by the 2011 Realignment Legislation.

(3) Notwithstanding Section 6 of Article XIII B, or any other constitutional provision, a mandate of a new program or higher level of service on a local agency imposed by the 2011 Realignment Legislation, or by any regulation adopted or any executive order or administrative directive issued to implement that legislation, shall not constitute a mandate requiring the State to provide a subvention of funds within the meaning of that section. Any requirement that a local agency comply with Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5 of the Government Code, with respect to performing its Public Safety Services responsibilities, or any other matter, shall not be a reimbursable mandate under Section 6 of Article XIII B.

(4) (A) Legislation enacted after September 30, 2012, that has an overall effect of increasing the costs already borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation shall apply to local agencies only to the extent that the State provides annual funding for the cost increase. Local agencies shall not be obligated to provide programs or levels of service required by legislation, described in this subparagraph, above the level for which funding has been provided.

(B) Regulations, executive orders, or administrative directives, implemented after October 9, 2011, that are not necessary to implement the 2011 Realignment Legislation, and that have an overall effect of increasing the costs already borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation, shall apply to local agencies only to the extent

that the State provides annual funding for the cost increase. Local agencies shall not be obligated to provide programs or levels of service pursuant to new regulations, executive orders, or administrative directives, described in this subparagraph, above the level for which funding has been provided.

(C) Any new program or higher level of service provided by local agencies, as described in subparagraphs (A) and (B), above the level for which funding has been provided, shall not require a subvention of funds by the State nor otherwise be subject to Section 6 of Article XIII B. This paragraph shall not apply to legislation currently exempt from subvention under paragraph (2) of subdivision (a) of Section 6 of Article XIII B as that paragraph read on January 2, 2011.

(D) The State shall not submit to the federal government any plans or waivers, or amendments to those plans or waivers, that have an overall effect of increasing the cost borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation, except to the extent that the plans, waivers, or amendments are required by federal law, or the State provides annual funding for the cost increase.

(E) The State shall not be required to provide a subvention of funds pursuant to this paragraph for a mandate that is imposed by the State at the request of a local agency or to comply with federal law. State funds required by this paragraph shall be from a source other than those described in subdivisions (b) and (d), ad valorem property taxes, or the Social Services Subaccount of the Sales Tax Account of the Local Revenue Fund.

(5) (A) For programs described in subparagraphs (C) to (E), inclusive, of paragraph (1) of subdivision (a) and included in the 2011 Realignment Legislation, if there are subsequent changes in federal statutes or regulations that alter the conditions under which federal matching funds as described in the 2011 Realignment Legislation are obtained, and have the overall effect of increasing the costs incurred by a local agency, the State shall annually provide at least 50 percent of the nonfederal share of those costs as determined by the State.

(B) When the State is a party to any complaint brought in a federal judicial or administrative proceeding that involves one or more of the programs described in subparagraphs (C) to (E), inclusive, of paragraph (1) of subdivision (a) and included in the 2011 Realignment Legislation, and there is a settlement or judicial or administrative order that imposes a cost in the form of a monetary penalty or has the overall effect of increasing the costs already borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation, the State shall annually provide at least 50 percent of the nonfederal share of those costs as determined by the State. Payment by the State is not required if the State determines that the settlement or order relates to one or more local agencies failing to perform a ministerial duty, failing to perform a legal obligation in good faith, or acting in a negligent or reckless manner.

(C) The state funds provided in this paragraph shall be from funding sources other than those described in subdivisions (b) and (d), ad valorem property taxes, or the Social Services Subaccount of the Sales Tax Account of the Local Revenue Fund.

(6) If the State or a local agency fails to perform a duty or obligation under this section or under the 2011

Realignment Legislation, an appropriate party may seek judicial relief. These proceedings shall have priority over all other civil matters.

(7) The funds deposited into a County Local Revenue Fund 2011 shall be spent in a manner designed to maintain the State's eligibility for federal matching funds, and to ensure compliance by the State with applicable federal standards governing the State's provision of Public Safety Services.

(8) The funds deposited into a County Local Revenue Fund 2011 shall not be used by local agencies to supplant other funding for Public Safety Services.

(d) If the taxes described in subdivision (b) are reduced or cease to be operative, the State shall annually provide moneys to the Local Revenue Fund 2011 in an amount equal to or greater than the aggregate amount that otherwise would have been provided by the taxes described in subdivision (b). The method for determining that amount shall be described in the 2011 Realignment Legislation, and the State shall be obligated to provide that amount for so long as the local agencies are required to perform the Public Safety Services responsibilities assigned by the 2011 Realignment Legislation. If the State fails to annually appropriate that amount, the Controller shall transfer that amount from the General Fund in pro rata monthly shares to the Local Revenue Fund 2011. Thereafter, the Controller shall disburse these amounts to local agencies in the manner directed by the 2011 Realignment Legislation. The state obligations under this subdivision shall have a lower priority claim to General Fund money than the first priority for money to be set apart under Section 8 of Article XVI and the second priority to pay voter-approved debts and liabilities described in Section 1 of Article XVI.

(e) (1) To ensure that public education is not harmed in the process of providing critical protection to local Public Safety Services, the Education Protection Account is hereby created in the General Fund to receive and disburse the revenues derived from the incremental increases in taxes imposed by this section, as specified in subdivision (f).

(2) (A) Before June 30, 2013, and before June 30 of each year from 2014 to ~~2018~~ 2030, inclusive, the Director of Finance shall estimate the total amount of additional revenues, less refunds, that will be derived from the incremental increases in tax rates made in subdivision (f) that will be available for transfer into the Education Protection Account during the next fiscal year. The Director of Finance shall make the same estimate by January 10, 2013, for additional revenues, less refunds, that will be received by the end of the 2012–13 fiscal year.

(B) During the last 10 days of the quarter of each of the first three quarters of each fiscal year from 2013–14 to ~~2018–19~~ 2030–31, inclusive, the Controller shall transfer into the Education Protection Account one-fourth of the total amount estimated pursuant to subparagraph (A) for that fiscal year, except as this amount may be adjusted pursuant to subparagraph (D).

(C) In each of the fiscal years from 2012–13 to ~~2020–21~~ 2032–33, inclusive, the Director of Finance shall calculate an adjustment to the Education Protection Account, as specified by subparagraph (D), by adding together the following amounts, as applicable:

(i) In the last quarter of each fiscal year from 2012–13 to ~~2018–19~~ 2030–31, inclusive, the Director of Finance shall recalculate the estimate made for the fiscal year pursuant to subparagraph (A), and shall subtract from this

updated estimate the amounts previously transferred to the Education Protection Account for that fiscal year.

(ii) In June 2015 and in every June from 2016 to ~~2021~~ 2033, inclusive, the Director of Finance shall make a final determination of the amount of additional revenues, less refunds, derived from the incremental increases in tax rates made in subdivision (f) for the fiscal year ending two years prior. The amount of the updated estimate calculated in clause (i) for the fiscal year ending two years prior shall be subtracted from the amount of this final determination.

(D) If the sum determined pursuant to subparagraph (C) is positive, the Controller shall transfer an amount equal to that sum into the Education Protection Account within 10 days preceding the end of the fiscal year. If that amount is negative, the Controller shall suspend or reduce subsequent quarterly transfers, if any, to the Education Protection Account until the total reduction equals the negative amount herein described. For purposes of any calculation made pursuant to clause (i) of subparagraph (C), the amount of a quarterly transfer shall not be modified to reflect any suspension or reduction made pursuant to this subparagraph.

(E) Before June 30, 2018, and before June 30 of each year from 2019 to 2030, inclusive, the Director of Finance shall estimate the amount of the additional revenues, less refunds, to be derived in the following fiscal year from the incremental increases in tax rates made in subdivision (f), that, when combined with all other available General Fund revenues, will be required to meet:

(i) The minimum funding guarantee of Section 8 of Article XVI for that following fiscal year; and

(ii) The workload budget for that following fiscal year, excluding any program expenditures already accounted for through clause (i). For purposes of this section, "workload budget" has the meaning set forth in Section 13308.05 of the Government Code, as that section read and was interpreted by the Department of Finance on January 1, 2016, provided, however, that "currently authorized services" shall mean only those services that would have been considered "currently authorized services" under Section 13308.05 of the Government Code as of January 1, 2016.

(F) In order to enhance the ability of all California school children and their families to receive regular, quality health care and thereby minimize school absenteeism due to health-related problems, whenever the Director of Finance estimates that the amount available for transfer into the Education Protection Account during the following fiscal year exceeds the amount of revenues required from that account pursuant to subparagraph (E) for that following fiscal year, the director shall identify the remaining amount. Fifty percent of that remainder, up to a maximum of two billion dollars in any single fiscal year, shall be allocated by the Controller from the Education Protection Account to the California Department of Health Care Services on a quarterly basis to increase funding for the existing health care programs and services described in Chapter 7 (commencing with Section 14000) to Chapter 8.9 (commencing with Section 14700), inclusive, of Part 3 of Division 9 of the Welfare and Institutions Code. The funding shall be used only for critical, emergency, acute, and preventive health care services to children and their families, provided by health care professionals and health facilities that are licensed pursuant to Section 1250 of the Health and Safety Code, and to health plans or others that manage the provision of health care for Medi-Cal

beneficiaries that are contracting with the California Department of Health Care Services to provide health benefits pursuant to this section.

(G) The allocation provided for in subparagraph (F) may be suspended by statute during a fiscal year in which a budget emergency has been declared, provided, however, that the allocation shall not be reduced beyond the proportional reduction in overall General Fund expenditures for that year. For purposes of this section, "budget emergency" has the same meaning as in paragraph (2) of subdivision (b) of Section 22 of Article XVI.

(H) The funding provided pursuant to subparagraph (F) shall not be used to supplant existing state General Funds for the nonfederal share of payments for those programs and, consistent with federal law, shall be used to obtain federal matching Medicaid funds.

(3) All moneys in the Education Protection Account are hereby continuously appropriated for the support of school districts, county offices of education, charter schools, and community college districts as set forth in this paragraph, and for health care as set forth in subparagraph (F) of paragraph (2).

(A) Eleven percent of the moneys appropriated for education pursuant to this paragraph shall be allocated quarterly by the Board of Governors of the California Community Colleges to community college districts to provide general purpose funding to community college districts in proportion to the amounts determined pursuant to Section 84750.5 of the Education Code, as that code section read ~~upon voter approval of this section on November 6, 2012~~. The allocations calculated pursuant to this subparagraph shall be offset by the amounts specified in subdivisions (a), (c), and (d) of Section 84751 of the Education Code, as that section read ~~upon voter approval of this section on November 6, 2012~~, that are in excess of the amounts calculated pursuant to Section 84750.5 of the Education Code, as that section read ~~upon voter approval of this section on November 6, 2012~~, provided that no community college district shall receive less than one hundred dollars (\$100) per full time equivalent student.

(B) Eighty-nine percent of the moneys appropriated for education pursuant to this paragraph shall be allocated quarterly by the Superintendent of Public Instruction to provide general purpose funding to school districts, county offices of education, and state general-purpose funding to charter schools in proportion to the revenue limits calculated pursuant to Sections 2558 and 42238 of the Education Code and the amounts calculated pursuant to Section 47633 of the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read ~~upon voter approval of this section on November 6, 2012~~. The amounts so calculated shall be offset by the amounts specified in subdivision (c) of Section 2558 of, paragraphs (1) through (7) of subdivision (h) of Section 42238 of, and Section 47635 of, the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read ~~upon voter approval of this section on November 6, 2012~~, that are in excess of the amounts calculated pursuant to Sections 2558, 42238, and 47633 of the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read ~~upon voter approval of this section on November 6, 2012~~, provided that no school district, county office of education, or charter school shall

receive less than two hundred dollars (\$200) per unit of average daily attendance.

(4) This subdivision is self-executing and requires no legislative action to take effect. Distribution of the moneys in the Education Protection Account by the Board of Governors of the California Community Colleges and Superintendent of Public Instruction shall not be delayed or otherwise affected by failure of the Legislature and Governor to enact an annual budget bill pursuant to Section 12 of Article IV, by invocation of ~~paragraph subdivision~~ (h) of Section 8 of Article XVI, or by any other action or failure to act by the Legislature or Governor.

(5) Notwithstanding any other provision of law, the moneys deposited in the Education Protection Account for education shall not be used to pay any costs incurred by the Legislature, the Governor, or any agency of state government.

(6) A community college district, county office of education, school district, or charter school shall have sole authority to determine how the moneys received from the Education Protection Account are spent in the school or schools within its jurisdiction, provided, however, that the appropriate governing board or body shall make these spending determinations in open session of a public meeting of the governing board or body and shall not use any of the funds from the Education Protection Account for salaries or benefits of administrators or any other administrative costs. Each community college district, county office of education, school district, and charter school shall annually publish on its Internet Web site an accounting of how much money was received from the Education Protection Account and how that money was spent.

(7) The annual independent financial and compliance audit required of community college districts, county offices of education, school districts, and charter schools shall, in addition to all other requirements of law, ascertain and verify whether the funds provided from the Education Protection Account have been properly disbursed and expended as required by this section. Expenses incurred by those entities to comply with the additional audit requirement of this section may be paid with funding from the Education Protection Account and shall not be considered administrative costs for purposes of this section.

(8) Revenues, less refunds, derived pursuant to subdivision (f) for deposit in the Education Protection Account pursuant to this section shall be deemed "General Fund revenues," "General Fund proceeds of taxes," and "moneys to be applied by the State for the support of school districts and community college districts" for purposes of Section 8 of Article XVI.

(f) (1) (A) In addition to the taxes imposed by Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code, for the privilege of selling tangible personal property at retail, a tax is hereby imposed upon all retailers at the rate of 1/4 percent of the gross receipts of any retailer from the sale of all tangible personal property sold at retail in this State on and after January 1, 2013, and before January 1, 2017.

(B) In addition to the taxes imposed by Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code, an excise tax is hereby imposed on the storage, use, or other consumption in this State of tangible personal property purchased from any retailer on and after

January 1, 2013, and before January 1, 2017, for storage, use, or other consumption in this state at the rate of 1/4 percent of the sales price of the property.

(C) The Sales and Use Tax Law, including any amendments enacted on or after the effective date of this section, shall apply to the taxes imposed pursuant to this paragraph.

(D) This paragraph shall become inoperative on January 1, 2017.

(2) For any taxable year beginning on or after January 1, 2012, and before January 1, ~~2019~~ 2031, with respect to the tax imposed pursuant to Section 17041 of the Revenue and Taxation Code, the income tax bracket and the rate of 9.3 percent set forth in paragraph (1) of subdivision (a) of Section 17041 of the Revenue and Taxation Code shall be modified by each of the following:

(A) (i) For that portion of taxable income that is over two hundred fifty thousand dollars (\$250,000) but not over three hundred thousand dollars (\$300,000), the tax rate is 10.3 percent of the excess over two hundred fifty thousand dollars (\$250,000).

(ii) For that portion of taxable income that is over three hundred thousand dollars (\$300,000) but not over five hundred thousand dollars (\$500,000), the tax rate is 11.3 percent of the excess over three hundred thousand dollars (\$300,000).

(iii) For that portion of taxable income that is over five hundred thousand dollars (\$500,000), the tax rate is 12.3 percent of the excess over five hundred thousand dollars (\$500,000).

(B) The income tax brackets specified in clauses (i), (ii), and (iii) of subparagraph (A) shall be recomputed, as otherwise provided in subdivision (h) of Section 17041 of the Revenue and Taxation Code, only for taxable years beginning on and after January 1, 2013.

(C) (i) For purposes of subdivision (g) of Section 19136 of the Revenue and Taxation Code, this paragraph shall be considered to be chaptered on ~~the date it becomes effective~~ *November 6, 2012*.

(ii) For purposes of Part 10 (commencing with Section 17001) of, and Part 10.2 (commencing with Section 18401) of, Division 2 of the Revenue and Taxation Code, the modified tax brackets and tax rates established and imposed by this paragraph shall be deemed to be established and imposed under Section 17041 of the Revenue and Taxation Code.

(D) This paragraph shall become inoperative on December 1, ~~2019~~ 2031.

(3) For any taxable year beginning on or after January 1, 2012, and before January 1, ~~2019~~ 2031, with respect to the tax imposed pursuant to Section 17041 of the Revenue and Taxation Code, the income tax bracket and the rate of 9.3 percent set forth in paragraph (1) of subdivision (c) of Section 17041 of the Revenue and Taxation Code shall be modified by each of the following:

(A) (i) For that portion of taxable income that is over three hundred forty thousand dollars (\$340,000) but not over four hundred eight thousand dollars (\$408,000), the tax rate is 10.3 percent of the excess over three hundred forty thousand dollars (\$340,000).

(ii) For that portion of taxable income that is over four hundred eight thousand dollars (\$408,000) but not over six hundred eighty thousand dollars (\$680,000), the tax

rate is 11.3 percent of the excess over four hundred eight thousand dollars (\$408,000).

(iii) For that portion of taxable income that is over six hundred eighty thousand dollars (\$680,000), the tax rate is 12.3 percent of the excess over six hundred eighty thousand dollars (\$680,000).

(B) The income tax brackets specified in clauses (i), (ii), and (iii) of subparagraph (A) shall be recomputed, as otherwise provided in subdivision (h) of Section 17041 of the Revenue and Taxation Code, only for taxable years beginning on and after January 1, 2013.

(C) (i) For purposes of subdivision (g) of Section 19136 of the Revenue and Taxation Code, this paragraph shall be considered to be chaptered on ~~the date it becomes effective~~ *November 6, 2012*.

(ii) For purposes of Part 10 (commencing with Section 17001) of, and Part 10.2 (commencing with Section 18401) of, Division 2 of the Revenue and Taxation Code, the modified tax brackets and tax rates established and imposed by this paragraph shall be deemed to be established and imposed under Section 17041 of the Revenue and Taxation Code.

(D) This paragraph shall become inoperative on December 1, ~~2019~~ 2031.

(g) (1) The Controller, pursuant to his or her statutory authority, may perform audits of expenditures from the Local Revenue Fund 2011 and any County Local Revenue Fund 2011, and shall audit the Education Protection Account to ensure that those funds are used and accounted for in a manner consistent with this section.

(2) The Attorney General or local district attorney shall expeditiously investigate, and may seek civil or criminal penalties for, any misuse of moneys from the County Local Revenue Fund 2011 or the Education Protection Account.

SEC. 5. Conflicting Measures.

In the event that this measure and another measure that affects the tax rates for personal income shall appear on the same statewide ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this measure. In the event that this measure receives a greater number of affirmative votes than a measure deemed to be in conflict with it, the provisions of this measure shall prevail in their entirety, and the other measure or measures shall be null and void.

SEC. 6. Severability.

If the provisions of this measure, 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 of this measure are severable.

SEC. 7. Proponent Standing.

Notwithstanding any other provision of law, if the state, government agency, or any of its officials fail to defend the constitutionality of this measure, following its approval by the voters, any other government employer, the proponent, or in his or her absence, any citizen of this state shall have the authority to intervene in any court action challenging the constitutionality of this measure for the purpose of defending its constitutionality, whether such action is in trial court, on appeal, or on discretionary review by the Supreme Court of California or the Supreme Court of the United States. The fees and costs of defending the action

shall be a charge on funds appropriated to the Attorney General, which shall be satisfied promptly.

SEC. 8. Effective Date.

This measure shall take effect immediately upon passage.

PROPOSITION 56

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

This initiative measure adds a section to the California Constitution and amends and adds sections to the Revenue and Taxation Code; 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

The California Healthcare, Research and Prevention Tobacco Tax Act of 2016

SECTION 1. Findings and Declarations.

(a) Tobacco use is the single most preventable cause of death and disease in California, claiming the lives of more than 40,000 people every year. Each year thousands of Californians require medical and dental treatment as a result of tobacco use.

(b) Healthcare treatment of all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases continues to impose a significant financial burden upon California's overstressed healthcare system. Tobacco use costs Californians more than \$13.29 billion in healthcare expenses every year, of which \$3.5 billion is paid for by taxpayers through existing healthcare programs and services that provide healthcare, treatment, and services for Californians. The cost of lost productivity due to tobacco use adds an additional estimated \$10.35 billion to the annual economic consequences of smoking and tobacco use in California.

(c) An increase in the tobacco tax is an appropriate way to decrease tobacco use and mitigate the costs of healthcare treatment and improve existing programs providing for quality healthcare and access to healthcare services for families and children. It will save lives and save state and local government money in the future.

(d) An increase in funding for existing healthcare programs and services that treat all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases and conditions will expand the number of healthcare providers that treat patients with such diseases and conditions. Funds spent for this purpose can be used to match federal funds, with the federal government putting up as much as nine dollars for every dollar spent from this fund.

(e) Most electronic cigarettes contain nicotine, which is derived from tobacco and is a highly addictive drug. Electronic cigarettes are currently not subject to any tobacco taxation, making them cheaper and potentially more attractive, especially to young people.

(f) There are more than 470 electronic cigarette brands for sale today offered in over 7,700 flavors including candy-flavors that appeal to youth, such as Captain Crunch, gummy bear, cotton candy, Atomic Fireball, and fruit loops. The fastest growing age range for electronic cigarettes is middle school and high school students and

according to the U.S. Centers for Disease Control and Prevention, electronic cigarette use among this group tripled from 2013 to 2014.

(g) Research into the causes, early detection, and effective treatment, care, prevention, and potential cures of all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases will ultimately save lives and save state and local government money in the future.

(h) There is an urgent need for research in California for new and effective treatments for all types of cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases. Such research transforms scientific discoveries into clinical applications that reduce the incidence and mortality of such diseases and conditions.

(i) Funding prevention programs designed to discourage individuals, particularly youth, from taking up smoking and the use of other tobacco products through health education and health promotion programs will save lives and save state and local government money in the future.

(j) A reinvigorated tobacco control program will allow targeted public health efforts to combat the tobacco industry's predatory marketing to ethnic groups, driving down smoking rates and ultimately reducing cancer, cardiovascular and lung disease, oral disease, and tobacco-related diseases in these California communities.

(k) Funding implementation and administrative programs to support law enforcement efforts to reduce illegal sales of tobacco products to minors, cigarette smuggling, and tobacco tax evasion will save lives and save state and local government money in the future.

(l) California faces a shortage of physicians and dentists to meet the growing healthcare needs of its residents. As a result, access to primary and oral healthcare, treatment for tobacco-related diseases, regular check-ups and other urgent healthcare needs will suffer. California taxpayers support the education of thousands of medical and dental students every year, yet because of limits on the number of residency programs, many of those physicians and dentists are forced out of state to continue their training, leaving patients in California without access to care. Funding implementation and administrative programs that will help keep hundreds more doctors in California every year to improve the health of Californians will save lives and save state and local government money in the future.

(m) Medical studies have shown that the smoking of cigarettes and use of other tobacco products affects oral health by causing dental disease, including gum disease and bone loss, cancers of the mouth and throat, and severe tooth wear. Smoking causes half of the cases of gum disease, which results in increased tooth loss. Oral cancer risk for smokers is at least six times higher than for nonsmokers and 75% of all oral cancer in the United States is related to tobacco use. Oral cancer risk for smokeless tobacco increases 50-fold over nonsmokers. There is an association between maternal smoking during pregnancy and cleft lip development in fetuses. Tobacco cessation reduces the risk of mouth and throat cancer by 50%. Funding programs that educate, prevent and treat dental diseases, including those caused by use of tobacco, will improve the lives of Californians and save state and local government money in the future.

(n) Increasing the cost of cigarettes and tobacco products is widely recognized as the most effective way to reduce smoking across California, especially by young people. The

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