

1973

Voter Information Guide for 1973, Special Election

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PROPOSED
AMENDMENT TO
CONSTITUTION

INITIATIVE
CONSTITUTIONAL AMENDMENT

Together With Arguments

*(Arguments in support or opposition of the proposed laws
are opinions of the authors)*

SPECIAL STATEWIDE ELECTION

Tuesday, November 6, 1973

Compiled by GEORGE H. MURPHY, Legislative Counsel

Distributed by EDMUND G. BROWN Jr., Secretary of State

PART I—ARGUMENTS

<p>TAX AND EXPENDITURE LIMITATIONS. Initiative Constitutional Amendment. Limits State expenditures; restricts use of defined surplus revenue to tax reductions, refunds, or emergencies. Constitutionally eliminates personal income tax for lower income persons, reduces others' 1973 tax up to 20% from surplus, and reduces subsequent year rates 7½%. Requires two-thirds legislative vote for new or changed State taxes. Limits local property tax rates except school districts'. Requires State funding of new programs mandated to local governments. Provides for tax and expenditure limit adjustments when functions transferred. Contains special indebtedness obligation provisions. Allows local tax rate and expenditure limit increases upon voter approval. Summary of legislative analyst financial impact estimate: \$170,000,000 annual reduction in State tax revenues and probable undeterminable future revenue reductions; reduction in projected State program expenditures of estimated \$620,000,000 in first year to \$1,366,000,000 in fourth year and increasing thereafter, with probable substantial offsetting cost and tax increases to local government. The initiative provision exempting certain low income persons from income taxes and granting a one-time 20% credit on 1973 income taxes for all taxpayers has been accomplished by legislation passed August 23, 1973, granting low income persons exemptions and granting others a 1973 tax credit ranging from 20 to 35%.</p>	YES
	NO

(For full text of measure, see page 1, Part II)

General Analysis by the Legislative Counsel*

"Yes" vote is a vote to restrict the taxing and spending powers of the state and to limit the taxing powers of cities, counties, and other local governmental agencies.

A "No" vote is a vote to continue the present constitutional and statutory provisions regulating taxation and spending.

For further details, see below.

Detailed Analysis by the Legislative Counsel*

This measure, if adopted, would add a new article to the Constitution containing the following major provisions:

Limit on State Expenditures

An expenditure limit would be established for each fiscal year commencing with the 1974-1975 fiscal year. The limit would be based on a percentage of total California personal income.

State expenditures in excess of the limit would be prohibited, except that the Legislature could authorize expenditures in excess of the limit:

- (a) To pay state indebtedness.

* Section 3566 of the Elections Code requires the Legislative Counsel to prepare an impartial analysis of each ballot measure.

(Continued on page 4, column 1)

Cost Analysis by the Legislative Analyst †

The financial analysis of this initiative must take into consideration the effect which a limit on state expenditures, which it imposes, will have on existing state programs and on possible offsetting increases in expenditures of cities, counties, schools and other local governments.

The initiative limits state government expenditures to a declining percentage of California's personal income. The limit drops one-tenth of one percent each year until 1979-80, when the Legislature can stop the decline.

To measure the impact we first projected state expenditures, assuming a continuation of existing programs. We then compared that with the level of expenditures allowed under the limitation. The results show that substantial reductions in projected state expenditures will be required each year; however, we have made estimates only for the first four years. These reductions are:

1974-75	\$ 620,000,000
1975-76	\$ 718,000,000
1976-77	\$ 877,000,000
1977-78	\$1,366,000,000

† Section 3566.3 of the Elections Code requires the Legislative Analyst to prepare an impartial financial analysis of each ballot measure.

(Continued on page 4, column 2)

Detailed Analysis by the Legislative Council

(Continued from page 3, column 1)

(b) To meet an emergency situation where the Governor declared the emergency and requested the Legislature to increase expenditures.

(c) To pay a tax refund from money received in excess of the revenue limit.

The limit could be increased or decreased if approved at a statewide election.

The measure includes various provisions for the adjustment of the expenditure limit where costs are shifted from one level of government to another.

State Taxation

1. The Constitution now requires a two-thirds vote of the Legislature to change state insurance and corporation taxes. Under this measure, a two-thirds vote of the Legislature would be required to impose any new state tax or change the rate or base of any existing state tax; however, tax refunds or reductions by appropriation from tax surpluses could be enacted by a majority vote.

2. This measure includes, as a constitutional requirement, a provision similar to existing law which provides that for the year 1973 and thereafter, a single person with an adjusted gross income of less than \$4,000, and a married couple or head of a household with an adjusted gross income of less than \$8,000, would pay no state income tax. The Legislature, by a two-thirds vote, could change this provision after 1973.

3. For 1974 and years thereafter, state personal income tax rates could not exceed those in effect on January 1, 1973, less 7½ percent. The Legislature, by a two-thirds vote, could change this provision.

Local Taxation

1. Provisions, somewhat similar to those now contained in the law, would be added to the Constitution to provide that cities, counties, and special districts, other than school districts, could not levy property taxes at a rate in excess of the rate levied in the 1971-72 or 1972-73 fiscal year, whichever is higher.

Property taxes could, however, be increased:

(a) To secure funds to meet the costs of an emergency situation when authorized by a four-fifths vote of the governing board of the local agency.

(b) When population or cost of living increases faster than the assessed valuation of property for tax purposes.

(c) To allow for special circumstances creating hardship for individual local agencies.

(Continued on page 5, column 1)

Cost Analysis by the Legislative Analyst

(Continued from page 3, column 2)

The initiative does not specify where cuts will be made; it leaves that to the Governor and Legislature. It does provide, however, that such reductions will be governed by a complex series of rules, with the following probable results.

First, it is highly probable the state will have to reduce its payments to cities, counties, schools and other local governments because about two-thirds of the state budget consists of such payments. To compensate for such reductions, local governments will have to (a) cut expenditures, (b) increase property taxes, or (c) impose new taxes.

Second, the initiative for all practical purposes prohibits reductions in state payments for the homeowners' and business inventory exemptions, but permits cuts in senior citizens' property tax assistance and renter tax relief.

Third, it encourages heavier reliance on borrowing, tuition, fees, and other charges because certain expenditures financed from these receipts are exempt from the limit. This will especially affect the University, colleges, and beach and park facilities.

It would be well to put the \$620 million first-year cut into proper perspective. It would mean an approximate one-quarter reduction in state operations if applied to that portion of the budget alone. In turn, about 60 percent of state operations is highway and education expenditures.

State revenues in excess of the expenditure limit will be transferred to a special fund for tax reductions or emergencies called by the Governor.

Adoption of the initiative will directly increase state administrative costs by \$236,000 annually. There will also be other contingent costs to implement optional future actions.

The initiative contains the following other provisions:

1. Present statutory law limits property tax rate increases. This initiative places all but those for schools in the Constitution. However, it requires the Legislature to allow cities and counties, etc., to increase their property tax rates (a) if four-fifths of the local governing body declares an emergency, or (b) if special circumstances create hardships.

The initiative does not place constitutional limits on any other taxes which local governments may levy. By a two-thirds vote, the Legislature is expressly authorized to establish local income taxes.

2. If, after January 1, 1973, the state orders a local government to perform additional services, an existing law requires the

(Continued on page 5, column 2)

Cost Analysis by the Legislative Counsel

(Continued from page 4, column 1)

(d) When the federal government or a court imposes new costs on the local agency.

(e) When authorized by the voters of the local agency.

The limitation on property taxation would not apply to taxes necessary to pay indebtedness or retirement benefits approved by the voters.

2. No local agency, including a school district, could impose an income tax, unless authorized to do so by the Legislature by a two-thirds vote.

3. Various provisions are included for the adjustment of local property taxing limits where costs are shifted from one level of government to another or from one local agency to another.

State-Mandated Local Costs

This measure contains provisions somewhat similar to those now in the law which would require a state appropriation to reimburse a local agency, including a school district, for its costs under any new program or service required by state law. However, no reimbursement would be required in the following cases:

(a) Where the state requirement is applicable to private entities and individuals as well as to local agencies.

(b) Where the workload under an existing program is increased by the state requirement.

(c) Where the state requirement consists of a change in the definition of a crime or the definition of a new crime.

(d) Where the state requirement implements a statute in existence on the effective date of this measure.

Legislative Enactments

The Legislature would be required, both specifically and generally, to enact statutes necessary to carry out the provisions of the new article. Thus, the effect of the measure, to some extent, would depend upon the provisions of the statutes so enacted.

Statute Affecting Above Measure

This measure includes a provision that taxpayers will receive a refund of 20 percent of their 1973 state income tax unless such refund has been previously made by the Legislature. Such a refund was made by the Legislature (Chapter 296, Statutes of 1973). Therefore, adoption of this measure would not provide an additional refund.

Cost Analysis by the Legislative Analyst

(Continued from page 4, column 2)

to pay the cost. The initiative enacts four exceptions to that law (see Legislative Counsel's Analysis). If state mandated services fall within those exceptions, local government costs will increase or other local services will be cut.

3. For 1974 and thereafter, the initiative establishes a 7½ percent income tax credit for all taxpayers, which reduces state revenue by \$170 million annually. The initiative allows the Legislature by a two-thirds vote to change or eliminate this credit.

The initiative contains language which would have granted a one-time, 20 percent credit on 1973 income taxes. However, 1973 legislation granting a variable tax credit ranging from 20 to 35 percent has nullified that provision.

The initiative also contains language exempting certain low-income persons from income taxation. Whether or not the initiative is adopted, however, the low-income exemption will go into effect as a result of legislation enacted in 1973.

4. Many government services are paid for by money transferred from the federal government to the state. If the federal government cuts back on those transfers, the initiative prevents total state expenditures from rising to make up for the loss of federal government money.

5. The initiative enacts restrictions on future laws granting property tax relief, the effect of which is strongly to discourage the Legislature from increasing (a) the homeowners' property tax exemption, (b) renters' tax relief, (c) the business inventory property tax exemption, or (d) senior citizens' property tax assistance. The initiative allows the Legislature to increase state expenditures to make across-the-board property tax reductions on both residential and business property.

ARGUMENT IN FAVOR OF PROPOSITION 1

Last spring, hundreds of thousands of voters signed petitions to put Proposition 1 on the ballot. Only then, did the legislature act to give back at least 20% of 1973 income taxes and exempt individuals with incomes of \$4,000 per year or less, and families with an \$8,000 income, or less, from income taxes, as required by the Proposition.

Now, it is up to the voters to put these cuts into the Constitution, place a lid on local property taxes, give themselves an on-going income tax cut, and provide a safe, reasonable restraint on the overall growth of the state tax burden, by voting YES on Proposition 1.

What a YES vote on Proposition 1 WILL do:

Reduce 1974 and subsequent year state income taxes by 7½%.

Prevent any future state budget from rising faster than the cost of living index and the rate of economic growth, except by vote of the people.

Prevent any future state programs, such as those for improving the environment, aid to education and public safety, from ever having to be reduced below the current level of services.

Require that any future state surpluses be returned to the people in the form of tax reductions, unless used to meet emergency situations.

Provide an ample emergency fund for unforeseen needs.

Prevent the state from shifting service costs to local government without paying for them.

Impose a ceiling on property tax rates except as required by normal growth, hardship, or by a vote of the people.

Prevent the legislature from raising any state tax except by a two-thirds vote.

Provide for normal growth of all current state programs, such as education, environment and public safety, and new money each year for new programs.

Prohibit any on-going increase in the state tax burden except by a vote of the people.

What a YES vote on Proposition 1 will

NOT do:

It will not shift taxes or costs onto the local property taxpayers. It strictly and specifically prohibits this.

It will not cut funding levels of any current state programs. On the contrary, it provides a reasonable amount of money for increases in programs which could include environmental, educational and public safety programs.

It will not change minimum income tax rates, or change the current tax structure.

It will not benefit the rich over the poor. The 7½% income tax cut is applied evenly and fairly, straight across the board.

It will not put the state in a financial straitjacket. If historical patterns of growth continue, the budget could double in ten years and triple in fifteen, if needed.

SUMMARY:

The state tax burden on Californians is still much too heavy. Yet those who oppose this Proposition want to keep their blank check authority over taxes.

The time has come for the people themselves to curb the growth rate of state taxes. A YES vote on Proposition 1 will do just that, while providing for normal growth and reasonable state needs.

JOHN CONLON

Supervisor, Ventura County

MACK J. EASTON

President

California Taxpayers Association

VERNE ORR

Director, Department of Finance
State of California

REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 1

This proposition will mean deteriorating public services. Inevitable budget cuts will come largely from education, health and public safety.

The legislature did act to reduce taxes to benefit low and middle income families. That legislation was vetoed by the Governor. Now compromise legislation has removed a major attraction of the initiative by granting an income tax rebate and exempting low income people from state income tax.

The proponents' use of the term "blank check" is misleading. There are adequate controls now in the budget process giving both the legislature and the Governor authority to reduce spending.

Taxes can be shifted to local government to increase the burden on local property and sales taxpayers.

It will favor the rich. The ongoing 7.5% income tax credit will save the average family with an income of \$10,000 only \$42.9% of their tax bill. The same credit will

REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 1—Continued

save the family with a \$50,000 income \$219, 6% of their tax bill.

It will preserve present tax inequities by requiring a $\frac{2}{3}$ vote to change any state tax rate. No existing tax loopholes are closed.

It will freeze into the Constitution a complicated measure which is full of ambiguities and debatable features which will lead to prolonged litigation.

This proposition will not work as advertised. In November 1972 the voters wisely rejected Proposition 14, a similar unrealistic tax scheme opposed by the proponents of this initiative.

LEAGUE OF WOMEN VOTERS
OF CALIFORNIA

Evelyn P. Kaplan, President

ARGUMENT AGAINST PROPOSITION 1

The offer of reduced taxes by imposing expenditure limitations is a false promise. Tax rates and expenditure ceilings tried elsewhere in the country have meant deteriorating public services and more costly, inequitable methods of financing state and local government. Californians should reject this initiative.

Through their taxes, Californians buy services: education, law enforcement, highways, parks and social services. While the proponents claim that under the initiative these services will not be cut, their projections are based on past trends and questionable assumptions about future growth.

ed Taxes Are Possible

Under the expenditure limitation, reductions in the state budget would force increases in local sales taxes, property taxes and service charges. Local sales tax increases could be authorized by the legislature by a majority vote; other tax rate changes would require a $\frac{2}{3}$ vote. Property tax rates may be raised on an emergency basis by a $\frac{1}{3}$ vote of the local governing body. Services charges and fees such as those for licenses, parks, state colleges and universities could be raised without limit. Any savings offered by an income tax credit would be lost to low and middle income families as other taxes rise. Existing tax relief for senior citizens, homeowners, and renters will be threatened.

New Law Increases Threat of Initiative

The one-time 20% rebate promised by this measure has been eliminated and been replaced by a larger rebate in recent legislation. This action lowered the base on which future expenditure limitations must be calculated and will drastically limit the ability of the state to fund services.

Federal Legislation Imposes State Costs

Federal cut-backs or new programs directly affect both the need for and cost of state services. The initiative makes no provision for adjusting the expenditure limitation if costs of programs now financed by the federal government are shifted to the state. This measure will mean loss of federal revenue sharing funds for state and local governments because of the state's reduced taxing effort.

The Initiative Shifts Power

Presently the Governor can veto expenditures, but he cannot limit the ability of the legislature to respond to the state's needs. If an "emergency situation" should arise which requires expenditures beyond the limitation, the legislature would be unable to act. Only the Governor can declare an "emergency." We should maintain the present balance between legislative and executive powers.

The Initiative Creates Unfair Tax Shifts

Ongoing income tax reduction, as opposed to a cut in the sales tax, places a heavier share of taxes on low and middle-income people. Two-thirds of the state budget is used to finance vital local services. With expenditure limits at the state level, these costs will shift to cities, counties and school districts.

In conclusion, this measure would place in the Constitution an extremely complicated system limiting the ability of elected representatives to respond to changing economic conditions and changing needs for services. Complex tax legislation should be the subject of statute enacted by the legislature. It should not be frozen into our Constitution.

LEAGUE OF WOMEN VOTERS
OF CALIFORNIA

Evelyn P. Kaplan, President

REBUTTAL TO ARGUMENT AGAINST PROPOSITION 1

The authors of the opposing argument, the League of Women Voters, oppose any limit on taxes at any level of government. They are thus hardly qualified to make credible predictions of any kind.

Their argument against the proposition is based upon dire predictions of what the proposition might "lead to", or "build pressures" for, or "can be expected" to do, or "doubt" that the proposition would produce the "promised" results.

These are not substantial reasons to vote against the only chance Californians have ever had, and may ever have, to limit state revenues to a set percentage of their own total earnings.

It is easy for the opponents to say that a promise of lower taxes is a "false promise." But that argument loses all substance when it is considered that this "promise" is a constitutional amendment. Passage of this amendment ensures a steady and reasonable reduction of the state tax burden. That's no empty promise.

The charge that "additional local taxes can be expected" is absurd. Proposition 1 specifically prohibits any increase in local taxes over and above normal growth except by a vote of the people. It also requires the state to pay for any new functions it requires of local government. If Proposition 1 does not pass, higher local taxes are not merely

an expectancy, they are an absolute historical certainty.

Proposition 1 cannot shift federal costs to the state since the proposition itself has no effect whatsoever on the federal-state fiscal relationship.

This measure does not affect the balance between executive and legislative power, but rather gives to the people, who have to pay, a new "power"—to slow down the growth rate of state taxes.

In sum, all of the dire predictions in the opposing arguments simply cannot happen because of passage of the proposition.

The fact remains that the state tax burden is too high and is growing too fast. Those special interest spenders who oppose the measure do not trust the people. It appears they are afraid that they will lose their capacity to influence a handful of legislators to produce bigger budgets and higher taxes.

They are absolutely right. This simple, safe restraint will do exactly that, nothing more and nothing less.

JOHN CONLON
Supervisor, Ventura County

MACK J. EASTON
President
California Taxpayers Association

VERNE ORR
Director, Department of Finance
State of California

PART II—APPENDIX

<p>TAX AND EXPENDITURE LIMITATIONS. Initiative Constitutional Amendment. Limits State expenditures; restricts use of defined surplus revenue to tax reductions, refunds, or emergencies. Constitutionally eliminates personal income tax for lower income persons, reduces others' 1973 tax up to 20% from surplus, and reduces subsequent year rates 7½%. Requires two-thirds legislative vote for new or changed State taxes. Limits local property tax rates except school districts'. Requires State funding of new programs mandated to local governments. Provides for tax and expenditure limit adjustments when functions transferred. Contains special indebtedness obligation provisions. Allows local tax rate and expenditure limit increases upon voter approval. Summary of legislative analyst financial impact estimate: \$170,000,000 annual reduction in State tax revenues and probable undeterminable future revenue reductions; reduction in projected State program expenditures of estimated \$620,000,000 in first year to \$1,366,000,000 in fourth year and increasing thereafter, with probable substantial offsetting cost and tax increases to local government. The initiative provision exempting certain low income persons from income taxes and granting a one-time 20% credit on 1973 income taxes for all taxpayers has been accomplished by legislation passed August 23, 1973, granting low income persons exemptions and granting others a 1973 tax credit ranging from 20 to 35%.</p>	YES
	NO

(This Initiative Constitutional Amendment proposes to add a new article to the Constitution. It does not amend any part of the existing Constitution. Therefore, the provisions thereof are printed in **BOLDFACE TYPE** to indicate that they are **NEW**.)

PROPOSED ARTICLE XXIX

ARTICLE XXIX

REVENUE CONTROL AND TAX REDUCTION

Section 1. Declaration of Purpose.

The people of the State of California declare it is in the best interests of the State to effect an orderly reduction of their tax burden, without shifting costs to local government, by enacting this Constitutional provision to:

- (a) Limit and reduce State taxes,
- (b) Provide for refunds to the taxpayers of surplus State revenues,
- (c) Limit Local Entity property tax rates,
- (d) Establish funding procedures for Emergency Situations, and
- (e) Require voter approval of taxes which exceed the limits set forth in this Article.

Section 2. State Tax Revenue Limit; Tax Surplus Fund; 20% Tax Refund.

(a) There is a State Tax Revenue Limit determined as provided in this Article.

(1) If State Tax Revenues for any fiscal year exceed the State Tax Revenue Limit at that fiscal year, the excess shall be trans-

ferred to the Tax Surplus Fund, which is hereby established.

(2) The Tax Surplus Fund shall be used only for one or more of the following purposes:

- (i) For tax refunds or reductions;
- (ii) For approved Emergency Situation appropriations under Section 6 of this Article.

(3) The Legislature shall minimize accumulations within the Tax Surplus Fund by making periodic tax refunds or reductions as permitted by this Article.

(b) On the effective date of this Article, the Controller shall determine the amount of surplus in the General Fund as of the end of fiscal year 1972-73 and shall designate such portion of the surplus as is necessary and available to effect the refund of subdivision (b)(1) hereof.

(1) The surplus so designated shall be utilized for a refund by means of a credit of 20% of personal income taxes for the calendar year 1973, excluding taxes on capital gains on assets held for more than one year, items of tax preference, estates and trusts, or in such lesser percentage as the Director of the Department of Finance shall certify is available for such refund. Single individuals whose adjusted gross income is less than \$4,000.00 and married couples and heads of households whose adjusted gross income is less than \$8,000.00 shall bear no personal income tax. If this Article is effective on or before December 31, 1973, then this

paragraph shall apply to the 1973 taxable year. If this Article becomes effective after December 31, 1973, then this Section shall apply to the 1974 taxable year.

(2) If, prior to the effective date of this Article, a statute is enacted providing the refund as set forth in subdivision (b)(1) of this Section, such statute shall be deemed compliance with the requirements of this subdivision (b) to the extent such refund is provided.

(3) The Legislature shall, by statute, implement the tax refund required by subdivision (b)(1) as to application to non-resident and fiscal year taxpayers and as to credits in computing liability.

(4) State Tax Revenue for purposes of computing the State Tax Revenue Limit as here defined shall not be reduced by refunds made pursuant to this subdivision (b).

Section 3. Appropriation Limit.

No appropriation shall cause an expenditure during any fiscal year of State Tax Revenues for that fiscal year in excess of the State Tax Revenue Limit for that fiscal year, other than for tax refunds or, pursuant to Section 6 of this Article, for Emergency Situations. Subject only to such exceptions, any such expenditure in excess of the State Tax Revenue Limit is prohibited. The Legislature shall, prior to any other appropriation, first make provision for the payment of the principal and interest on the indebtedness of the State.

Section 4. State Tax Adjustments; Personal Income Tax Reduction.

(a) The imposition of any new tax or the change in the rate or base of any tax by the Legislature shall be by statute passed by roll-call vote entered in the journal, two-thirds of the membership of each house concurring, except for tax refunds or reductions by appropriations specifically declared to be out of the Tax Surplus Fund which shall be by statute passed by a vote of the majority of the membership of each house.

(b) For 1974 and thereafter, the State personal income tax liability of taxpayers shall be determined at rates no higher than those in effect on January 1, 1973, less a credit of 7½%. Single individuals whose adjusted gross income is less than \$4,000.00 and married couples and heads of households whose adjusted gross income is less than \$8,000.00 shall bear no State personal income tax. The Legislature shall, by statute, implement the tax reduction required by this Section as to application to non-resident and fiscal year taxpayers and as to credits in computing liability. The provisions of this subdivision (b) may be modified by statute passed by roll-call vote entered in the journal, two-thirds of the

membership of each house concurring. If this Article becomes effective after December 31, 1973, then this subdivision shall apply to 1975 and thereafter instead of 1974 and thereafter.

Section 5. State Tax Revenue Limit Adjustment by Election.

The State Tax Revenue Limit may be increased or decreased by a designated dollar amount by a majority vote of the people at a Statewide election approving a measure placed on the ballot by the Legislature by a roll-call vote entered into the journal, two-thirds of the membership of each house concurring, or placed on the ballot as an initiative statute pursuant to Article IV of this Constitution. A measure so approved shall take effect the day after the election, unless the measure provides otherwise.

Section 6. Emergency Fund and Emergency Appropriations.

(a) A Special Emergency Fund of not more than 0.2% of the State Personal Income shall be established and maintained by the Legislature. Money appropriated to the Special Emergency Fund shall be from State Tax Revenues and shall be subject to the State Tax Revenue Limit.

(b) Upon the Governor's declaration of an Emergency Situation and the exhaustion of such emergency funds as may be available from the Federal Government, the Legislature may make appropriations to meet the Emergency Situation from the Special Emergency Fund or, if that Fund is exhausted, either from the Tax Surplus Fund or from State Tax Revenues derived from a specific tax increase or a specific new tax designated for the Emergency Situation and enacted in accordance with Section 4 of this Article. Any tax so enacted shall remain in effect no longer than two years, unless its continuation is approved by a majority of the votes cast for and against its continuance at a Statewide election.

Section 7. Local Taxes.

(a) The Maximum Property Tax Rates of each Local Entity are set at the rates levied for the fiscal year 1971-72 or for the fiscal year 1972-73, whichever is the higher. The Maximum Property Tax Rates for a Local Entity created after the effective date of this Article shall be established by the electorate of the Local Entity at the time of its creation.

(b) To permit adjustment of the Maximum Property Tax Rates set in subdivision (a) of this Section, the Legislature shall enact statutes, within the general intent of this Article, to permit:

(1) Maximum Property Tax Rates to be increased or decreased to reflect cost variations due to cost-of-living or population changes not offset by assessed value changes or to allow for other special circum-

es creating hardship for individual
Entities.

(2) Maximum Property Tax Rates to be increased or decreased when authorized by the electorate of the Local Entity, or if there is no electorate, then as provided by the Legislature.

(3) Maximum Property Tax Rates to be increased by a four-fifths vote of the governing board of a Local Entity, to secure revenue to defray the costs of an Emergency Situation affecting the Local Entity, but any such increase shall remain in effect no longer than two years, unless its continuation is approved by the Local Entity's electorate.

(c) All property taxable by Local Entities and School Districts, except personal property specially classified for the purpose of assessment and taxation pursuant to the provisions of Section 14 of Article XIII of this Constitution, shall be assessed at a uniform percentage of full value established by the Legislature. If that percentage is any figure other than twenty-five, the maximum rates prescribed in subdivisions (a) and (b) of this Section shall be converted into new maximums by multiplying them by twenty-five and dividing them by the new assessment percentage. Full value, as used herein, means fair market value or such other standard of as is required or authorized under this itution.

(d) No Local Entity or School District shall impose, levy or collect any tax upon or measured by income, or any part thereof, except as authorized by the Legislature by a statute passed by a roll-call vote entered in the journal, two-thirds of the membership of each house concurring. This subdivision (d) shall not be construed to prohibit the imposition, levy or collection of any otherwise authorized license tax upon a business measured by or according to gross receipts.

Section 8. Protection of Local Entities and School Districts from State-Imposed Costs.

(a) After the effective date of this Article, no new program, or increase in level of service under an existing program, shall be mandated to Local Entities or School Districts by the State until an appropriation has been made to pay to the Local Entities or School Districts the costs of the mandated program or service, but no appropriation for payments to Local Entities or School Districts shall be required if such program or increase in level of service under a program is determined by the Legislature to be applicable generally to private entities or individuals, as well as to Local Entities or School Dis-

The Legislature shall enact statutes to establish procedures for implementing this

Section consistent with the following principles and directives:

(1) The performance of functions or services not required to be performed prior to a mandate to the Local Entity or School District shall be considered a new program or increase in level of service.

(2) The increased workload under an existing program, the implementation of statutes existing at the effective date of this Article or the definition of a new crime or change in the definition of an existing crime by statute shall not be considered a mandated new program or a mandated increase in level of service.

Section 9. Maintenance of Local Property Tax Relief.

(a) If the State reduces local property tax relief by decreasing the specific unit amount, rate or percentage established by statute for payments made under formula to Local Entities or School Districts from that in effect upon the effective date of this Article, the State Tax Revenue Limit shall be decreased by an amount equivalent to the decrease in payments to Local Entities or School Districts.

(b) The adjustment to the State Tax Revenue Limit required by this Section shall be made in the first fiscal year of the decrease of payment described in subdivision (a) of this Section. Such adjustment shall remain in effect for each subsequent fiscal year.

Section 10. Adjustments for Program and Cost Transfers.

To maintain a balance between the tax burden and the cost of specific government programs at the State and local level, and to further accomplish the purposes of this Article, the Legislature shall enact statutes consistent with the following principles and directives:

(a) If the Legislature enacts a specific property tax relief measure funded by State Tax Revenues or if, by order of any court, the costs of a program are transferred from Local Entities or School Districts to the State, the State Tax Revenue Limit may be increased, providing the Maximum Property Tax Rates of affected Local Entities or the then existing tax rates of affected School Districts are commensurately decreased.

(b) If the costs of a program are transferred from the State or Local Entities or School Districts to the Federal Government, the State Revenue Limit or the Maximum Tax Rates of affected Local Entities or the then existing tax rates of affected School Districts shall be commensurately decreased.

(c) If the costs of a program are transferred to or imposed on existing or newly created Local Entities by Federal Law or the order of any court, the Maximum Property Tax Rates of affected Local Entities

may be commensurately increased, pursuant to such specific conditions of State approval in each case as the Legislature may impose.

(d) If the costs of a program are transferred between existing or newly created Local Entities or School Districts, the Maximum Property Tax Rates or the then existing tax rates of each shall be commensurately adjusted.

(e) If Federal taxes are reduced on condition that the State increase expenditures by an amount equivalent to the Federal reduction, the State Tax Revenue Limit may be increased by such amount.

(f) The adjustments required by this Section of the State Tax Revenue Limit, the Maximum Property Tax Rates or the then existing tax rates in the case of School Districts shall be made in the first fiscal year of transfer or operation. Such adjustment shall remain in effect for each subsequent fiscal year.

Section 11. Economic Estimates Commission.

(a) There shall be an Economic Estimates Commission consisting of the State Controller; the Director of the Department of Finance or an appointee of the Governor as designated by him; and a designee appointed by the Legislature who is not a member of the Legislature, selected in a manner provided by the Joint Rules of the Legislature. The Commission shall act by a vote of two-thirds of its membership. The Commission Chairman shall be designated by the Governor. The Commission shall utilize the resources of existing State agencies in carrying out its duties.

(b) The Commission shall determine and publish, prior to April 1 of each year, the State Tax Revenue Limit for the following fiscal year by making and publishing all necessary estimates and calculations as provided in this Article. If this Amendment is not effective prior to April 1, 1974, the Commission shall determine the State Tax Revenue Limit for fiscal year 1974-75 as soon after enactment as it can act. If it does not act prior to July 1, 1974, the State Tax Revenue Limit for fiscal year 1974-75 shall be the amount of the State Tax Revenue as here defined for fiscal year 1973-74. The Commission shall also determine and publish such estimates of the State Tax Revenue Limit as are necessary for the orderly and proper development of State budgets. If the Commission does not act to determine the State Tax Revenue Limit before July 1 of a fiscal year, the State Tax Revenue Limit for that fiscal year shall remain the same as for the previous fiscal year.

Section 12. Computation of State Tax Revenue Limit.

(a) The State Tax Revenue Limit for a fiscal year shall be computed as the lesser sum of

(1) the greater of the following:

(i) The dollar amount derived by multiplying together the State Tax Revenue Limit Income Quotient for the specified fiscal year and the State Personal Income for the calendar year in which the specified fiscal year commences; or

(ii) The dollar amount derived by multiplying together the State Tax Revenue Limit Population-Inflation Quotient, the State Population for the calendar year in which the specified fiscal year commences and the Consumer Price Index; plus

(2) the dollar amount increase or decrease to the State Tax Revenue Limit authorized for that fiscal year pursuant to Sections 5, 9 and 10 of this Article.

(b) Beginning with the fiscal year 1989-90, or with a fiscal year in which the State Tax Revenue Limit Income Quotient is no greater than 0.0700, the Legislature, by statute passed by roll-call vote entered in the journal, two-thirds of the membership of each house concurring, may terminate further reduction in the State Tax Revenue Limit Income Quotient. Thereafter, the State Tax Revenue Limit Income Quotient shall be maintained at the level reached in the fiscal year in which such statute is enacted; however, annual reductions may be reinstated by statute passed by roll-call vote, two-thirds of the membership of each house concurring.

(c) If the statistical series used to determine the Consumer Price Index, State Personal Income and State Population, as defined in Section 16 of this Article, are recomputed by or succeeded by new series reported by the United States Department of Commerce or the United States Department of Labor or a successor agency of the United States Government, the State Tax Revenue Limit Income Quotient or State Tax Revenue Limit Population-Inflation Quotient shall be re-derived in accordance with the recomputation or new series, and the re-derived quotient shall be used in computing the State Tax Revenue Limit for the fiscal year succeeding the fiscal year in which the quotient was re-derived.

Section 13. Bonds and Pensions.

(a) Nothing in Section 3 or in any other provision of this Article shall limit the taxes levied or otherwise to be levied or appropriations made for the payment or discharge of any indebtedness of the State and the interest thereon heretofore or hereafter authorized by vote of the electors, or State notes or other securities issued in anticipation of the collection of taxes, and all bonds or indebtedness of the State shall be payable

1 taxes of any kind or character which
n. be levied by the State without limita-
tion of rate or amount.

(b) Nothing herein contained shall limit any indebtedness or liability of Local Entities or School Districts which has been duly authorized by a vote of the electors thereof. All taxes or assessments required to be levied or collected for the payment of indebtedness so incurred may be levied upon all property subject to taxation or special assessment by the Local Entities or School Districts without limit as to rate or amount, and the Maximum Property Tax Rates applicable herein shall not apply to the payment of indebtedness so incurred. The Maximum Property Tax Rates applicable to Local Entities shall not be applicable to obligations to levy taxes under the Improvement Bond Act of 1915 or to the authority of Local Entities or School Districts to levy and collect taxes to pay for Local Entities or School Districts retirement and pension benefits pursuant to laws which have been, or may in the future be, approved by the voters.

Section 14. Severability.

If any portion, section, subdivision or clause of this Article, or the application thereof to any entity, person or circumstance, be declared unconstitutional or held invalid or deemed unenforceable for any reason, the remaining portions of this Article and the application of such portions to other entities, persons or circumstances, shall not be affected thereby.

Section 15. Implementing Statutes.

(a) The Legislature, by statute, shall establish procedures for elections required by this Article, shall appropriate funds for any Statewide special election called pursuant to this Article and shall enact any other statutes necessary to carry out the provisions of this Article.

(b) The Legislature, by statute, may determine the fund or funds from which transfers to the Tax Surplus Fund, as established by subdivision (a) of Section 2 of this Article, shall be made, unless this Constitution restricts the use of a designated fund to other specified purposes. In the absence of statutory provisions, transfer to the Tax Surplus Fund shall be from the State General Fund.

Section 16. Definitions.

(a) "State Tax Revenue" means the revenue of the State from every tax, fee, penalty, receipt and other monetary exaction, interest in connection therewith, and any transfer out of the Tax Surplus Fund other than for tax refund, except Excluded State Revenues are not part of State Tax Revenues.

"Excluded State Revenues" means

the following receipts:

(1) intergovernmental transfer payments;

(ii) contributions and deposits to, receipts of, income of and proceeds of capital transactions of Employment Trust Funds;

(iii) revenue derived from a specific tax levied as permitted in Section 6 to the extent such revenue is used to meet an Emergency Situation;

(iv) proceeds from the sale or issuance of State bonds or notes;

(v) grants and contract income for projects or research sponsored and funded by non-governmental agencies;

(vi) internal fund transfers such as inter-fund or inter-agency transfers, revenue, reimbursements, abatements, advances, loans, repayment of loans;

(vii) proceeds from the sale of investments and the redemption of matured securities;

(viii) proceeds from the sale of real and personal property;

(ix) gifts, donations, bequests to the State;

(x) endowment income;

(xi) service fees and charges derived from projects which are financed by revenue bonds secured solely by the revenue of such projects to the extent that such fees and charges are used for the payment of principal and interest on such bonds;

(2) The following fees:

(i) proceeds from the activities of the University of California and the State University and College System, including, but not limited to, student tuition and fees and post-secondary education income derived from housing, parking, food service, student union fees, book stores or similar enterprises;

(ii) non-commercial fish and game fees, assessments and other revenues;

(iii) service or use fees levied by the Department of Parks and Recreation;

(iv) income from environmental license plates;

(v) revenue derived from State-owned parking lots and garages;

(3) Fees which meet all of the following criteria:

(i) the service or product for which the fee is paid is generally available from a non-State source, or the fee is collected solely to regulate a non-commercial, non-professional, non-criminal activity other than those referred to in Article XXVI;

(ii) the fee collected is used to defray all or part of the costs of the State in providing the service;

(iii) the payer of the fee receives the benefit derived from payment of the fee; and

(iv) are designated by statute as Excluded State Revenues.

(c) "Intergovernmental Transfer Payments" means dollar amounts received by the State of California from the Federal

Government or any Local Entity or School District except those taxes, fees and penalties imposed by the State and collected by the Local Entity or School District for the State.

(d) "Employment Trust Funds" means the Unemployment Fund, Unemployment Administration Fund, Unemployment Compensation Disability Fund, Old Age and Survivors Insurance Revolving Fund, Uninsured Employers Fund, State Compensation Insurance Fund, State Employees Contingency Reserve Fund; and the Public Employees Retirement Fund, Teachers Retirement Fund, Judges Retirement Fund, Legislators Retirement Fund and other similar retirement funds.

(e) "Expenditure." As used herein, an expenditure occurs at the time and to the extent that a valid obligation against an appropriation is created. For the purpose of capital outlay in connection with this Article, a valid obligation shall be considered to have been incurred when the Legislature appropriates the funds.

(f) "Emergency Situation" means an extraordinary occurrence requiring unanticipated and immediate expenditures to preserve the health and safety of the people.

(g) "Maximum Property Tax Rates" means the property tax rate or rates and ad valorem special assessment rate or rates for any Local Entity.

(h) "Local Entity" means any city, county, city and county, chartered city, chartered county, chartered city and county, taxing zone, special district or other unit of government encompassing an area less than the entire State, or any Statewide district, or any combination thereof in existence on the effective date of this Article or any such entity established thereafter. Local Entity does not include a School District.

(i) "School Districts" means the entities specified as parts of the Public School System in Article IX, Section 6, of this Constitution and includes Community Colleges but does not include the State University and College System.

(j) "Estimated State Tax Revenues" means the dollar amount of State Tax Rev-

enues as estimated by the Economic Estimates Commission.

(k) "State Personal Income" means the estimate made by the Economic Estimates Commission of the dollar amount that will be reported as Total Income by Persons for the State of California for the specified calendar year by the United States Department of Commerce or successor agency in its official publications.

(l) "State Tax Revenue Limit Income Quotient" means:

(1) For the fiscal year 1974-75, the number derived by:

(i) Dividing the sum of Estimated State Tax Revenues for the fiscal year 1973-74 by the State Personal Income for the calendar year 1973, and

(ii) Subtracting 0.001.

(2) For each fiscal year succeeding the fiscal year 1974-75, the number derived by:

(i) Dividing the State Tax Revenue Limit for the previous fiscal year by the State Personal Income for the previous calendar year, and

(ii) Subtracting 0.001.

(m) "State Population" means the estimate made by the Economic Estimates Commission of the number that will be reported as Total Population of the State of California for the specified calendar year by the United States Department of Commerce or successor agency in its official publications.

(n) "Consumer Price Index" means the number reported as the Consumer Price Index for the United States (Base Year 1967 = 100) by the United States Department of Labor, or successor agency of the United States Government, for the most current month in its latest official publication.

(o) "State Tax Revenue Limit Population-Inflation Quotient" means the number derived by dividing:

(1) The Estimated State Tax Revenue for the fiscal year 1973-74 by

(2) The State Population for the calendar year 1973 as multiplied by the Consumer Price Index available to the Economic Estimates Commission at the time it computes the State Tax Revenue Limit for fiscal year 1974-75.

CERTIFICATE OF SECRETARY OF STATE

I, Edmund G. Brown Jr., Secretary of State of the State of California, do hereby certify that the foregoing measure will be submitted to the electors of the State of California at the SPECIAL STATEWIDE ELECTION to be held throughout the State on November 6, 1973, and that the foregoing pamphlet is correct.

Witness my hand and the Great Seal of the State, at office in Sacramento, California, this thirtieth day of August, 1973.



A handwritten signature in black ink that reads "Edmund G. Brown Jr." with a large, stylized flourish at the end.

EDMUND G. BROWN JR.
Secretary of State


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