1988

Appropriations Limit Adjustment.

71 Appropriations Limit Adjustment. Initiative Constitutional Amendment

Official Title and Summary Prepared by the Attorney General

APPROPRIATIONS LIMIT ADJUSTMENT. INITIATIVE CONSTITUTIONAL AMENDMENT. Constitution limits tax revenues state and local governments annually appropriate for expenditure: allows "cost of living" and "population" changes. "Cost of living" defined as lesser of change in US Consumer Price Index or per capita personal income; measure redefines as greater of change in California Consumer Price Index or per capita personal income. "State population" redefined: includes increases in K–12 or community college average daily attendance greater than state population growth. Local government "population" redefined: includes increases in residents and persons employed. Specifies motor vehicle and fuel taxes are fees excluded from appropriations limit. Summary of Legislative Analyst's estimate of net state and local government fiscal impact: Change in the appropriations limit inflation adjustment will allow increased state appropriations of up to $700 million in 1988–89, and increasing amounts annually thereafter. Change in the population adjustment will allow further undetermined increase in state appropriations. State's ability to appropriate additional funds as a result of increased state limit is dependent on receipt of sufficient revenue. Based on estimates contained in Governor's Budget, state revenues will not be sufficient in 1988–89 to fund any additional appropriations allowed by this measure. In future years, economy's performance will determine whether and to what extent state revenues will be available to fund such additional appropriations. Local government and school district appropriation limits will be increased by unknown but significant amounts. Change in the treatment of state transportation-related revenues would have no fiscal effect because of the limit adjustment formula.

Analysis by the Legislative Analyst

Background

Under the California Constitution, most government entities (including the state, cities, counties, schools and special districts) have a limit on the amount of taxes they can appropriate each year. This appropriations limit does not apply to *nontax* revenues, such as user fees. The limit also does not apply to certain types of expenditures, such as debt service on voter-approved general obligation bonds.

The limit is adjusted each year to reflect changes in inflation and population. The adjustment for inflation is made using the *lower* of the change in (1) the United States Consumer Price Index or (2) California per capita personal income. The adjustment for population is based on the change in each entity's residential population, except the adjustment for schools is made using the change in units of average daily attendance (ADA).

The limit also must be adjusted whenever the responsibility for providing services is shifted from one entity of government to another (or to the private sector), or when the source of funds for a program is shifted from taxes to user fees. These shifts are known as "transfers of financial responsibility."

Whenever a government entity does not appropriate all of its tax revenues, these "excess revenues" must be returned to taxpayers within two years.

Proposal

This measure makes several changes in how the appropriations limit operates.

First, this measure changes the annual inflation adjustment. Specifically, it changes the adjustment to reflect the *higher* of the change in (1) the California Consumer Price Index or (2) California per capita personal income, rather than the *lower* of the change in the United States Consumer Price Index or the change in California per capita personal income.

Second, this measure changes the annual population adjustment. For the *state's* adjustment, it requires that the growth in the average daily attendance of K–12 school districts and community colleges be included, to the extent that these factors exceed the percen[illegible] growth in statewide population. For the *local* adjustm[illegible] it gives local governments the option, in addition to the change in residential population, to include the growth in the number of persons employed within their jurisdictions.

Third, this measure requires the appropriations limits for 1986–87 and 1987–88 to be recalculated to reflect the revised cost-of-living and population changes in determining the limits for 1988–89 and future years.

Fourth, this measure changes the way some state tax revenues are treated for purposes of calculating the appropriations limit. Specifically, state tax revenues which are now dedicated for transportation purposes must be treated as "user fees" which are not subject to the limit. These revenues include: (1) the excise tax on motor vehicle fuels; (2) motor vehicle weight fees; and (3) vehicle registration fees. This change represents a "transfer of financial responsibility," and the measure specifies how the required adjustment to the appropriations limit is made.

Finally, this measure requires the Commission on State Finance to report annually to taxpayers how state revenues were spent in the preceding fiscal year, and the amount of the state's appropriations which is subject to the limit.

Fiscal Effect

This measure increases the appropriations limits of a[illegible] government entities in California. As a result, governments may be able to spend or retain tax proceeds which under current law could be subject to return to taxpayers.

The change in the inflation adjustment will allow increased state appropriations of up to $700 million in 1988–89, and increasing amounts annually thereafter. The change in the population adjustment factor will allow a further increase in state appropriations, but the size of the change cannot be determined at this time. The ability of the state to appropriate additional funds as a result of the increased state limit is dependent on the receipt of sufficient revenue. Based on the estimates contained in the Governor's Budget, state revenues will not be sufficient in 1988–89 to fund any additional appropriations allowed by this measure. In future years, the economy's performance will determine whether and to what extent state revenues will be available to fund such additional appropriations.

The appropriations limits of local governments and school districts also will be increased by unknown but significant amounts.

The change in the treatment of state transportation-related revenues would have no fiscal effect because of the limit adjustment formula contained in this measure.

Text of Proposed Law

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

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

PROPOSED AMENDMENTS TO ARTICLE XIII B

SECTION 1. This amendment shall be known as the "Government Spending Limitation and Accountability Act."

SECTION 2. The People of the State of California find and declare that:

(1) A strong and effective constitutional limitation on government spending is necessary to guarantee accountability to taxpayers and force the politicians to set priorities and manage our tax dollars efficiently.

(2) The state and local government spending limitation contained in the California Constitution is out of date and no longer provides taxpayers with an effective tool for controlling government spending.

(3) Since its adoption in 1979, the current limit has failed to reflect many changes in California's economy. As a result, already-collected tax revenues cannot be used to maintain the current level of education, crime prevention, public safety, and other vital public services.

(4) The current limit also has failed to reflect the changing and growing needs of California taxpayers. With 100,000 new children entering our schools each year, enrollments are increasing much faster than the overall growth in population.

(5) Adoption of this act will not increase state or local taxes or remove any funds from existing programs, including education, law enforcement, health care and senior services.

(6) Current law, assuring that the spending limit may be changed only by a vote of the people, is retained; and if the voters do raise the spending limit, that change must be voted on every four years.

(7) As taxpayers, we should be told the manner in which government is spending our hard-earned dollars. To guarantee accountability to taxpayers, the existing Commission on State Finance shall report annually to the taxpayers, how state revenues are spent and the amount of the state appropriations subject to limitation. Such reports can be prepared at minimal cost, using existing information, and can be mailed to taxpayers along with other tax information.

(8) Taxes and fees on motor vehicle fuels are currently earmarked for transportation purposes and should be treated as user fees. This act properly treats them as user fees, subject to the taxpayer protections provided by Proposition 13, without adversely affecting other public services.

(9) Adjustments are necessary to update the existing spending limitation to reflect the real growth of California's economy and the needs of its citizens, and enable taxpayers to hold government accountable for the proper enforcement of this act.

SECTION 3. Article XIIIB, Section 8(e) of the California Constitution is amended to read:

SEC. 8(e) "Cost of living" shall mean the Consumer Price Index for ~~the United States as reported by~~ the ~~United States Department of Labor.~~ *State of California as reported by the Division of Labor Statistics and Research* or successor agency of the ~~United States Government~~ *State of California*; provided, however, that for purposes of Section 1, the change in *the* cost of living from the preceding year shall in no event ~~exceed~~ *be less than* the change in California per capita personal income from said preceding year;

SECTION 4. Article XIIIB, Section 8(f) of the California Constitution is amended to read:

SEC. 8(f) "Population" of any entity of government, other than a school district, shall be determined by a method prescribed by the Legislature, provided that such determination shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce~~,~~ or successor agency of the United States Government. The population of any school district shall be such school district's average daily attendance as determined by a method prescribed by the Legislature~~;~~. *In addition, for the state, population shall include any increases in average daily attendance for the K–12 or community college system which are in excess of the percentage growth in state population. In the case of local governments other than schools, such determination shall consider increases in the number of persons employed as well as residing within the jurisdiction.*

SECTION 5. Section 12 is hereby added to Article XIIIB of the California Constitution:

SECTION 12. The Commission on State Finance shall report annually to the taxpayers how state revenues received during the preceding fiscal year are spent and the amount of the state's appropriations subject to limitation under the provisions of this Article.

SECTION 6. Section 13 is hereby added to Article XIIIB of the California Constitution:

SECTION 13. Changes to Section 8 adopted at the time this section is added to the Constitution shall be considered effective commencing with the 1986–87 fiscal year for purposes of calculating the appropriations limit of each entity of government for the 1988–89 fiscal year and each year thereafter.

SECTION 7. Section 14 is hereby added to Article XIIIB of the California Constitution:

SECTION 14. (a) For purposes of this Article, taxes and fees imposed on motor vehicles and motor vehicle fuels to the extent they are appropriated for the purposes specified in Article XIX shall be deemed user fees.

(b) Commencing with the 1988–89 fiscal year, the appropriations limit for each fiscal year shall be reduced by an amount equal to the amount of revenues which but for subdivision (a) would be classified as proceeds of taxes.

(c) In computing the appropriations limit for the 1989–90 fiscal year and succeeding fiscal years, the appropriations limit for the immediately prior fiscal year shall be determined to be the amount of the appropriations limit prior to the reduction made in subdivision (b).

(d) For purposes of this section, "revenues which but for subdivision (a) would be classified as proceeds of taxes" includes only those revenues which would have been generated by laws in effect at the time this section becomes effective.

SECTION 8. If any section, part, clause or phrase in this Article is for any reason held invalid or unconstitutional, the remaining portions of this Article shall not be affected but shall remain in full force and effect.

71 Appropriations Limit Adjustment. Initiative Constitutional Amendment

Argument in Favor of Proposition 71

There are two issues on which most Californians agree:

(1) Government spending should be restricted by strong, workable limits; and

(2) The existing state and local government spending limit, passed in 1979, *MUST BE UPDATED.*

The only question: How to update the outmoded limit?

Here's the problem:

CALIFORNIA HAS CHANGED DRAMATICALLY IN THE PAST DECADE. Our state's economy has grown. *More than 140,000 new children enter our schools each year.* Our senior population has almost doubled. More criminals are behind bars. Traffic has increased. Many new, unanticipated problems such as AIDS and toxic waste threaten our citizens.

The existing limit, tied to national inflation, NOT California's economy, *doesn't allow us to spend already-collected taxes on current problems.* It's unworkable and ineffective. It has become a shell game for politicians and is full of loopholes for clever bureaucrats.

Unless we update the limit, according to the Commission on State Finance, even though funds will be available, *$23 BILLION IN CUTS WILL BE MADE FROM CURRENT SERVICE LEVELS*—cuts in education, law enforcement, senior services and health care—in the next 10 years.

Here's the sensible solution:

We need a common-sense limit. Proposition 71 makes reasonable changes allowing us to meet present needs and future challenges while keeping firm limits on the politicians. *IT DOES NOT RAISE STATE OR LOCAL TAXES.*

It will:

- Allow us to use already-collected taxes to deal with critical problems thereby avoiding the need for future tax increases.
- Retain important provisions of the existing limit, such as the requirement that the limit may *ONLY* be *CHANGED BY A VOTE OF THE PEOPLE.*
- Update the limit in a manner that benefits *ALL* Californians, NOT JUST ONE SPECIAL INTEREST!
- Provide the flexibility necessary to keep up with California's economy and population—the fastest growing in the nation.

Proposition 71 makes these fair, common-sense changes:

- It requires the limit reflect our growing school population. With *140,000 new children entering our schools every year* Proposition 71 is necessary for schools to keep up.
- It uses the CALIFORNIA Consumer Price Index (CPI), not the National CPI, to determine annual adjustments and requires the limit keep pace with our economy. *OUR limit should reflect CALIFORNIA, NOT other states.*
- It requires an *annual report* by the Commission on State Finance to the taxpayers on what the spending limit is and *HOW OUR TAX DOLLARS ARE SPENT.* Government must be accountable to the people.

The current limit is outdated. Proposition 71 is necessary if we expect government to deal with *new problems such as AIDS and toxic waste disposal.*

Proposition 71 is well balanced and fair. It FAVORS NO SPECIAL INTERESTS. The needs of schools, law enforcement, seniors, fire protection, health care, and transportation are all treated in an even-handed manner. It makes the system more accountable and *IT WILL NOT RAISE TAXES.*

That's why citizens from all walks of life and over 100 major statewide organizations representing over *5 MILLION TAXPAYERS* are *sponsoring* Proposition 71.

VOTE YES ON PROPOSITION 71.

BILL HONIG
State Superintendent of Public Instruction

CAROL J. FEDERIGHI
President, League of Women Voters of California

JOSEPHINE D. BARBANO
American Association of Retired Persons/California (AARP)

Rebuttal to Argument in Favor of Proposition 71

They're at it again, folks.

This time they want to increase government spending some 6.1 billion dollars over the next 4 years.

And the people who stand to gain the most are leading the effort:

- Giant public employee unions.
- Powerful special interests.
- Ambitious politicians.

Together they are out to destroy the "Gann Spending Limit," which voters approved in 1979 with 74.3% of the vote.

They have used a very misleading title for their initiative: "Government Spending Limitation and Accountability Act."

First, let's look at the "limitation" part of their proposition: It will allow government spending to increase at approximately twice the rate of the present "Gann Limit." If Proposition 71 had been in effect since 1979, state government spending would have been allowed to grow $6.3 billion more than it has. In the next 4 years, state spending could go up an extra $6.1 billion more if you allow Proposition 71 to pass.

Where will that $6 billion come from? Proposition 71 is very silent about this point, but government gets its money from taxing people. So much for Proposition 71's claim to limit government spending.

Next, let's look at Proposition 71's "accountability." We find no accountability whatsoever.

It doesn't guarantee that education will get even a dollar of these new funds, and the same for roads, flood control, and other essential needs such as fire and police protection.

What it does do is give the Legislature a blank check to spend billions of dollars any way it wants—more welfare, more boondoggle, more bureaucrats and higher salaries.

Just last year, for example, we retired a member of the State Board of Equalization with a guaranteed annual pension of over $190,000 a year. Sad to say that's the kind of accountability we have come to expect from our Legislature. So much for the "accountability" of Proposition 71.

We truly believe that if the public employee unions ultimately have their way, and Proposition 71 is passed, larger salaries and pensions will become the first order of the day.

The "Gann Limit" (Proposition 4) was specifically designed to stop runaway government spending and taxation.

The "Gann Limit" has served the people of California well. Government spending has been brought under control, there have been no general tax increases, and California's climate for new jobs and businesses has improved dramatically.

Under the "Gann Limit," government spending cannot increase any faster than the rise in population and inflation, thus preventing wild spending sprees by politicians—unless the people *vote* for an increase.

Now along comes Proposition 71, which would effectively wipe out the "Gann Limit" and open the door to huge tax increases.

The real effect of Proposition 71 is to ensure that government in California will never again be "troubled" by any limit on its spending. Without the accountability of the current Gann Limit, you—the taxpayer—will end up paying the bills.

Give the politicians a budget, not a blank check. Vote NO on Proposition 71.

PAUL GANN
Proponent of "Gann Spending Limit"

JOHN HAY
Past President, California Chamber of Commerce

TOM MEZGER
Yolo County Taxpayers Association

Argument Against Proposition 71

Why change the Gann spending limit? So the politicians, bureaucrats and special interests can spend more, of course. And spending more means taxing more. Say goodbye to future tax rebates and hello to tax hikes.

Through this initiative, public employee unions and welfare rights groups seek to repeal the Gann limit. But Californians like the limit. So promoters of this initiative have disguised the repeal, calling it an "adjustment." But if *their* limit had been in effect since 1979, California governments could have spent $15 billion *more* last year alone and $56 billion more since 1979 than under the Gann limit.

The Gann limit is flexible, but firm. Spending may increase annually reflecting California's economic and population growth (including school enrollment).

Proposition 13 and the Gann limit together have restored power to the taxpayers. These limits provide certainty and peace of mind to everyone, including senior citizens on fixed incomes.

Our schools have been amply funded, including provision for new students with over 50% of the State General Fund going to education. Expenditures have risen from $3,000 to over $4,200 per pupil in five years. Bill Honig acknowledges that education is receiving its "fair share." California teachers are 4th highest paid in the nation. Extra funds have gone to current teachers rather than hiring new teachers to bring down class size.

Keep our Gann spending limit working for the taxpayers of California. Say NO to the politicians and special interests who want spending *unlimited.*

LEWIS K. UHLER
Co-Chairman, Californians Against Higher Taxes, and President, National Tax Limitation Committee

WM. CRAIG STUBBLEBINE
Von Tobel Professor of Economics
Claremont McKenna College

Rebuttal to Argument Against Proposition 71

False statements and *faulty assertions* in the argument *against Proposition 71* are so numerous and outrageous they must be examined under the spotlight of truth.

They claim Proposition 71's campaign is led by "powerful special interests."

Do they mean such *members of the sponsoring coalition* as the *AMERICAN ASSOCIATION OF RETIRED PERSONS/CALIFORNIA (AARP), LEAGUE OF WOMEN VOTERS, CALIFORNIA PTA,* and the *CALIFORNIA FIRE CHIEFS ASSOCIATION?*

Or the *CALIFORNIA CATHOLIC CONFERENCE OF BISHOPS, CALIFORNIA COUNCIL OF CHURCHES,* and the *CALIFORNIA ASSOCIATION OF HIGHWAY PATROLMEN?*

Or the *more than 100 other major statewide organizations* that *represent millions of taxpayers* and comprise the coalition sponsoring Proposition 71?

They fail to note that Proposition 71 *WILL NOT RAISE STATE OR LOCAL TAXES.* Instead, the initiative would *inject some common sense into the spending limit* by permitting the limited use of already-collected and available tax revenues for schools, roads and other desperately needed public services.

They falsely claim Proposition 71 would be a "blank check" for the Legislature to spend billions "any way it wants." The facts: The *Legislature* would *still need a two-thirds majority vote* and the Governor's approval on every spending bill. The *spending limit law would still apply* to every expenditure financed by state or local government tax dollars.

In fact, all the protections against tax increases that are contained in *PROPOSITION 13* are *RETAINED INTACT BY PROPOSITION 71.*

Don't be deceived by the *FALSE STATEMENTS* being spread *BY OUR OPPONENTS!*

VOTE YES on PROPOSITION 71!

JOHN K. VAN DE KAMP
Attorney General

JOHN SONNEBORN
Chair, California Commission on Aging

CRAIG MEACHAM
President, California Police Chiefs Association

Polls are open from 7 a.m. until 8 p.m.