



Facts about the State Budget Reform Propositions

California voters will be asked to consider six propositions on the special statewide May 19 ballot. The Governor and the state Legislature have proposed these measures as part of a package of actions to address a \$41.6 billion state budget shortfall.

More information about these propositions, including analysis and ballot arguments for and against the measures, as well as information about how the state budget process works, is available on the Secretary of State's Web site at www.voterguide.sos.ca.gov.

Proposition 1A – Budget Stabilization, Rainy Day Fund

Prop 1A would establish a "rainy day" reserve fund, regulate the level of spending each year, and increase the amount of funding held in reserve to help guard against the dramatic ups and downs that have characterized state spending in recent years.

If approved by California voters, Prop 1A could result in approximately \$16 billion in additional revenue to the state's general fund between 2010-11 and 2012-13. This revenue would come from a 1-cent-per-dollar increase in the state sales tax, a vehicle license fee increase and a 0.25% increase in the state personal income tax. Under Prop 1A, these increases would be combined with a budget cap on the amount the state can spend each year and the creation of a "rainy day" fund. The spending limit is based on revenue growth over the previous 10-year period – any revenues over that amount would be saved in a rainy day fund.

Starting in 2011, 3% of general fund revenue would be placed in the rainy day fund each year. The rainy day fund would be capped at 12.5% of the revenue generated. Any amount above that could be used to pay debt or for one-time purposes.

The UC Board of Regents endorsed Prop 1A at their March meeting, but has taken no position on the other five measures.

Proposition 1B – K-14 Education Funding

Enactment of this measure is contingent on passage of Prop 1A. Recognizing that the state might have been owed school districts and community college districts (K-14) additional funding under the Prop 98 "maintenance factor" during the past two years, Prop 1B would provide K-14 \$9.3 billion "in lieu" supplemental payments beginning in FY 2011-12 to be paid over seven years; provide that up to \$200 million of the amount appropriated in FY 2011-12 be allocated to districts with low per-pupil revenue limits to equalize revenue limit payments between districts; require K-12 funding be allocated as an adjustment to revenue limit apportionments (no requirements on community colleges); and add these annual installments to the base budget used to determine the following year's Prop 98 base.

Proponents argue that California schools have been hit very hard by the state budget crisis, causing increased class sizes, out-of-date textbooks and elimination of important programs such as vocational education, art and music classes in many schools. Prop 1B starts a process of paying back schools and community colleges some of the money lost in the devastating cuts. [No ballot arguments against Prop 1B were submitted to the Secretary of State.]

Proposition 1C – State Lottery Borrowing

Prop 1C changes the state lottery regulations to allow the state to borrow \$5 billion in FY 2009-10 from future lottery profits. The state could also borrow more from lottery profits in future years. Under Prop 1C, lottery profits now dedicated to schools and colleges would be used to repay borrowed funds. State payments to education from the General Fund would be increased to make up for the loss of these lottery payments.

According to the Legislative Analyst's Office, debt-service payments on the borrowed funds and higher payments to education would likely make it more difficult to balance future state budgets if Prop 1C passes. Lottery profits probably would not be enough to cover higher payments to education required by Prop 1C. This means the state would have to identify new revenues or spending reductions to make these higher payments to education in the future. The LAO also notes that K-12 schools, community colleges and universities would

no longer receive payments from the lottery. Instead, they would receive higher payments from the General Fund. These payments would grow over time – likely faster and more consistently than its payments from the lottery under current law.

Proposition 1D – Children’s Services

To help achieve budget savings, Prop 1D would temporarily redirect up to \$340 million of available unspent reserves held as of July 1, 2009 by the state Children and Families Commission from Prop 10 funding, and divert \$268 million annually in future Prop 10 revenues over the next five fiscal years (2009-14). Prop 10 funds early development programs for young children. If Prop 1D passes, the redirected funds will be used to finance other state health and human services programs for children in the same age group – effectively offsetting saving general funds by using Prop 10 funds instead for state-supported programs for young children.

The LAO notes that reduction in state and local commission funding could result in other costs to state agencies, counties and local school districts. If Prop 1D does not pass, however, other budget cuts or tax increases would be needed to address the state’s budget shortfall. Opponents say it will take money from critical local health and education programs for young children and violates the will of voters who twice approved local health, education and anti-smoking programs.

Proposition 1E – Mental Health Services

Prop 1E would amend the 2004 Mental Health Services Act (Prop 63), which established a 1% state income tax surcharge on personal income in excess of \$1 million to fund mental health programs. If Prop 1E is approved by California voters, the General Fund will save about \$461 million over the next two fiscal years by allowing Prop 63 funding to be used to backfill for General Fund support for mental health programs for children.

According to the Legislative Analyst’s Office, the reduction in Prop 63 funding could result in added costs for homeless shelters, social services programs, medical care, law enforcement, and county jail and state prisons. The reduction in Prop. 63 funds resulting from Prop 1E could also result in the loss of some federal matching funds through Medi-Cal.

Prop 1E supporters argue that this is a necessary, one-time action to address the consequences of an historic economic crisis and state budget shortfall. Prop 1E, they say, will allow continued critical mental health services to vulnerable children without reducing the current level of services under the MHSA. Opponents claim Prop 1E would shift funds away from crucial programs, which will impede services to even more people.

** The University of California does not support or oppose ballot measures. However, it does seek to objectively evaluate a ballot measure's impact on UC and higher education. For legal guidelines for UC participation in ballot campaigns: www.ucop.edu/state/advocacy/ballotguidelines.html*

** Additional information may be posted here as it becomes available.*