

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

ACTION ITEM

For Meeting of March 19, 2009

ENDORSEMENT OF PROPOSITION 1A ON MAY 19, 2009 STATEWIDE SPECIAL ELECTION BALLOT

RECOMMENDATION

The President recommends that the Committee on Finance recommend that the Regents endorse Proposition 1A on the May 19, 2009 Statewide Special Election ballot. Proposition 1A is a budget stabilization measure approved by the Legislature and the Governor as part of the Special Session budget package. It establishes a “rainy day” reserve fund, extends tax increases that were part of the budget stabilization package, and makes other modifications to the State budget process.

The President further recommends that the Committee on Finance recommend that the Regents direct the President to inform UC constituents and supporters of the benefit to the University, consistent with what is allowable under State law, Regental policy, and Presidential authority.

BACKGROUND

The Special Session of the Legislature enacted an 18-month budget package that was signed by the Governor on February 20, 2009, intended to address an estimated \$41.6 billion shortfall for both the remainder of 2008-09 and the 2009-10 fiscal year.

Several components of the budget package will require voter approval. A special election is to be held on May 19 to vote on these initiatives. Several of the ballot initiatives will implement revenue-enhancing measures that are critical to balancing the State budget. In particular, Proposition 1A establishes a “rainy day” reserve fund, extends for one or two years tax increases approved as part of the Special Session budget package, provides the Governor with mid-year budget reduction authority, and makes other changes to the way in which the State sets aside money in its “rainy day” account. The provisions that extend the duration of tax increases enacted in the Special Session could result in approximately \$16 billion additional revenue to the State’s General Fund between 2010-11 and 2012-13. If this initiative is not approved, the State’s General Fund will once again be in significant deficit, which likely would necessitate further cuts to State-funded programs.

In addition, the initiative regulates the level of spending each year and increases the amount of funding held in reserve to help guard against the dramatic ups and downs that have characterized State spending in recent years. Thus, this measure will not only help avoid further deep budget cuts to those State entities that are subject to discretionary funding actions of the Legislature and the Governor, but it will also help smooth out how State funds are spent in future years to avoid the boom and bust cycles California has experienced in the last decade-and-a-half. By helping the State to achieve a more stable financial picture, Proposition 1A enhances the ability of the University of California to secure more adequate support from the State to fund its core mission in future years. Although endorsement of this initiative is critical to achieving more financial balance at the State level, UC still intends to support efforts in the future to reform the State's overall structural situation that disadvantages programs funded from State General Funds without constitutional protection.

Below are the proposition numbers and descriptions of the other five budget package initiatives. Full text of the ballot measures is available at http://www.sos.ca.gov/elections/elections_j.htm#2009statewidespecial.

Proposition 1B - Alters repayment schedule for schools and community colleges owed Prop. 98 funds by the State to protect their funding after State revenues rebound.

Proposition 1C - Allows State to borrow money for the General Fund based on future profits from the State lottery.

Proposition 1D - Temporarily shifts cigarette taxes away from California Children and Families Program and into the General Fund; eliminates the states First 5 Commission and uses money for General Fund.

Proposition 1E – Temporarily shifts some Proposition 63 funds (adopted in 2004 to expand mental health services) for three years to fund the Early and Periodic Screening, Diagnosis, and Treatment Program that otherwise would need to be funded from the General Fund.

Proposition 1F - Forbids California Citizens Compensation Commission from raising legislators' and State officers' salaries when the State is running a deficit.