



**Proposition 1A
May 2009 Ballot**

Title: Rainy Day Budget Stabilization Fund

Sponsor: Assemblyman Roger Niello, Governor Arnold Schwarzenegger

Legislative History: **ACA X3 1** (Niello) was approved by the Assembly by a 76-4 vote on February 14 and by the Senate by a 30-8 vote on February 19.

Major Provisions:

This amendment seeks to augment revenues going into a Rainy Day Fund and limit spending for ongoing programs, as follows:

A) Size of the Rainy Day Fund

The maximum size of the Rainy Day Fund is 12.5 percent of the General Fund plus any amounts required to fund Proposition 1B (if passed).

B) How Money Gets Into the Rainy Day Fund

- 1) 3% of General Fund revenues are transferred each year. However, the governor can suspend transfers in low revenue growth years and only to the extent revenues are below spending limits.
- 2) A portion of "unanticipated revenues," if any, will be transferred. First call on "unanticipated revenues" will be to satisfy unfunded Proposition 98 obligations. What is left over, if anything, will be transferred, unless the Rainy Day Fund is full.

C) How Money Comes Out of the Rainy Day Fund

- 1) Fifty percent will be automatically transferred out (up to \$5 billion) to retire the deficit recovery bonds.
- 2) (a) If Proposition 1B passes, an amount equal to 1.5 percent of the General Fund or the amount left to be paid, to pay off the \$9.3 billion, will be transferred out.

(b) If Proposition 1B does not pass, or after Proposition 1B is paid off, an amount equal to 1.5 percent of the General Fund may be apportioned to retire debt or be used for capital outlay.
- 3) Funds may be spent for emergencies called by the governor.

- 4) Funds are to be removed from the Rainy Day Fund to fund Proposition 98 obligations above Department of Finance estimates.
- 5) After the above transfers, the only amounts that can be transferred out of the Rainy Day Fund will come in years where revenue growth for a year is not enough to fund prior year expenditures adjusted for population growth and CPI. Amounts to fill the gap can be transferred.

D) What Are "Unanticipated Revenues?" "Unanticipated revenues" are defined as the lesser: of (1) revenues above the trend in revenue growth of the last 10 years, adjusted for changes in taxes; or (2) estimated General Fund revenues, transfers and balances available from the prior year for the current fiscal year, minus the forecast of current fiscal year expenditures adjusted for population and CPI.

E) What Happens to "Unanticipated Revenues" When the Rainy Day Fund Is Full?

They may be first used for all outstanding specific budgetary obligations as follows:

- Funding the Proposition 98 maintenance factor.
- Funding of Proposition 98 "obligations."
- To retire prior-year unfunded obligations.
- To repay local government for property tax shifts.
- To repay transportation loans to the General Fund.
- To pay off specified indebtedness.

If there are any "unanticipated revenues" after amounts are spent for the above, they can be used for the following one-time purposes as follows:

- Transfer to the Rainy Day Fund.
- To pay for one-time capital outlays.
- To retire bonds.
- To pay unfunded liabilities for vested non-pension benefits (such as health care) for state annuitants.
- To return to taxpayers.

Policy Considerations:

This has the potential of enlarging amounts in the Rainy Day Fund and limiting spending for ongoing purposes. However, the amounts earmarked to the fund from the 3 percent provision must be first used to pay off the deficit recovery bonds and the \$9.3 billion to schools, if Proposition 1B passes

Several things are contingent on the passage of Proposition 1A:

- A 0.125 or 0.25 percent personal income tax on net income (depending on the size of the federal stimulus received) will be extended for the years 2011 and 2012.
- A 1 percent sales tax will be extended from June 30, 2011 to June 30, 2012.
- A decrease in the dependent income tax credit from \$309 to \$99 will be extended for income years 2011 and 2012.
- A 0.5 percent increase in the car tax will be extended from June 2011 until June 2013.
- The \$9.3 billion for schools in Proposition 1B will not go into effect unless both Proposition 1A and 1B pass.

Cal-Tax Official Position:

Support. This should improve state budgeting, as it has the potential to get more dollars into a Rainy Day Fund and curb excessive spending on ongoing programs.

Ballot Title:

'RAINY DAY' BUDGET STABILIZATION FUND. Changes the budget process. Could limit future deficits and spending by increasing the size of the state "Rainy Day" Fund and requiring above-average revenues to be deposited into it, for use during economic downturns and other purposes. Fiscal Impact: Higher state tax revenues of roughly \$16 billion from 2010-11 through 2012-13. Over time, increased amounts of money in state rainy day reserve and potentially less ups and downs in state spending.

Ballot Summary:

STATE BUDGET. CHANGES CALIFORNIA BUDGET PROCESS. LIMITS STATE SPENDING. INCREASES 'RAINY DAY' BUDGET STABILIZATION FUND.

- Increases size of state "Rainy Day" Fund from 5% to 12.5% of the General Fund.
- A portion of the annual deposits into that fund would be dedicated to savings for future economic downturns, and the remainder would be available to fund education, infrastructure, and debt repayment, or for use in a declared emergency.
- Requires additional revenue above historic trends to be deposited into state "rainy day" fund, limiting spending.

Cal-Tax Ballot Argument:

YES ON 1A: WE HAVE TO TAKE ACTION NOW TO START REFORMING OUR BROKEN BUDGET SYSTEM.

We're all frustrated by California's broken budget system. Year after year, politicians deliver late budgets that harm our schools, healthcare system, police and fire services and more. The perpetual budget problems also hurt taxpayers as we see our taxes raised or services cut because of the legislature's failure to budget responsibly.

By voting Yes on 1A, we can take a strong step in reforming the budget process so we don't continually face the type of budget disaster that plagues our state year after year.

YES ON 1A WILL FORCE ACCOUNTABILITY AND STABILITY OVER THE BUDGET PROCESS.

Proposition 1A is meaningful, long-term reform. It will help stabilize future state spending and create an enhanced rainy day fund to save during good times so money is available when the economy falters.

Proposition 1A:

- **STABILIZES CALIFORNIA'S BUDGET.** It forces politicians to set aside money every year into a special "rainy day" fund. And Proposition 1A increases the size of our rainy day reserve from 5% to 12.5% of the overall budget.
- **STOPS OUT-OF-CONTROL SPENDING.** Proposition 1A puts restrictions on the amount the state can spend each year. It also prevents the politicians from spending one-time spikes in revenue on ongoing programs.

PROPOSITION 1A PROTECTS TAXPAYERS.

Without accountability, every time we face budget deficits the politicians raise our taxes or make deep cuts to services we care about. The rainy day fund will allow us to use savings to mitigate the need for future tax increases and harmful cuts.

In fact, if this budget reform had been in place 10 years ago, the rainy day reserves would have allowed us to avoid \$9 billion in tax increases and deep cuts that were part of this year's budget.

PROPOSITION 1A MEANS LONG-TERM BUDGET STABILITY.

By limiting spending using a formula based on historic revenues and economic growth, by forcing an enhanced rainy day fund and by preventing spending on one-time money on programs that we can't afford in the future, Proposition 1A will help stabilize the budget process and prevent the wild peaks and valleys that cause budget dysfunction.

PROPOSITION 1A PROTECTS SCHOOLS, PUBLIC SAFETY AND OTHER VITAL SERVICES.

Proposition 1A's reforms will help provide a stable, consistent level of funding for vital services such as education, public safety and healthcare. Proposition 1A will prevent the types of massive budget deficits we faced this year which force crippling cuts to vital services. And the rainy day fund will help ensure we have money in bad times to reduce cuts to these vital services.

YES ON 1A: ACT NOT TO REFORM OUR BROKEN BUDGET SYSTEM.

We've got to act now to start reforming our broken budget system. Vote YES on 1A for budget stability and accountability.

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