

## Special Election Issue

When the Legislature finished its long-overdue budget on February 19th of this year major parts of the budget were left for the voters to decide in a special election on May 19th. Faced with a \$41 billion deficit through June 2010, the Legislature filled the gap through a series of spending cuts, tax increases, borrowing, and federal stimulus funds. The budget matched \$14.9 billion in spending cuts with \$12.5 billion in new or increased, but temporary, taxes. Health care and human services will be significantly affected since the cuts come on the heels of \$19 billion over-all cuts in the past three years.

The budget also included \$2.5 billion in tax cuts—including one to multi-state corporations which will cost California about \$1.5 annually. Tax breaks are a “hidden” part of the state’s deficit that have been given through the years as part of the budget negotiations. In addition, the Vehicle

License Fee (VLF) give-back that came with Governor Schwarzenegger’s election has meant a cumulative revenue loss of about \$9 billion.

Budgeting through ballot measures puts the voters in the position of passing judgment on very complex issues without the opportunity for the kind of study and public hearings that provide legislators with broad background for making decisions that we have elected them to make. In fact, some of the difficulties that have made it more difficult for the Legislature to pass a budget—notwithstanding political differences—have come from budgetary constraints of past initiatives.

The following brief summaries are meant to be an aid as you vote on May 19. Additional resources are listed on page 4. See also our website at [www.jerichoca.org](http://www.jerichoca.org).

### ■ Proposition 1A

**State Budget. Changes California Budget Process. Limits State Spending. Increases “Rainy Day” Budget Stabilization Fund.**

This measure makes major changes to the way in which revenue is set aside in one of the state’s “rainy day” funds and sets stricter standards on how and for what purposes revenue can be withdrawn. The measure also includes a short extension of taxes that were included in the February 2009 budget—worth about \$16 billion.

Prop 1A also gives the Governor new authority to make certain spending cuts during the year without legislative approval.

**Background.** California’s state spending limit was first passed in 1979 as Proposition 4,

or the Gann Initiative, for the purpose of limiting local and state governments to the growth of population and the lower amount of inflation or per capita personal income. It required revenues collected in excess of the limit to be returned to taxpayers. Proposition 111 in 1990 loosened the so-called Gann limit to allow spending to grow with population, school enrollment, and increase in personal income. The ups and downs of California’s revenue has kept state spending today more than \$10 billion below the ceiling that voters set in 1990.

In 2004 voters passed Proposition 57 which allowed the state to issue \$15 billion in Economic Recovery Bonds to pay off past debt. It was paired with Proposition 58 which created the Budget Stabilization Account as a “rainy day” reserve. Each year 3% of estimated state revenues are

*Since 1987 JERICO has engaged the interfaith community throughout California in shaping state public policy that affects individuals and families living in poverty.*



## Proposition 1A

Continued from page 1

transferred into the fund up to a balance of \$8 billion or 5% of revenues—which-ever is higher. However, the transfer can be suspended by executive order and it has been suspended during the state's current budget problems.

**Proponents of Prop 1A** maintain that the tax extensions are needed to balance California's budget and to reform the state's budgeting system. They argue that Prop 1A forces accountability and stability in the budget process.

**Opponents of Prop 1A** argue that it contains only a brief influx of revenue and a "poison pill" in the so-called "reform" that it proposes. Its complicated formula for spending any new revenue would seriously hurt health and human

services programs that grow with need rather than population increase. For example, as our population ages, health care costs will increase by the growing need but not because the population has increased.

Proposition 1A will not address California's existing "structural" deficit—which is the difference between state revenues and expenditures. It will create far reaching changes that are not apparent—much less clear—in its complicated formulas.

## ■ Proposition 1B Education Funding. Payment Plan.

Proposition 1B would require the state to make \$9.3 billion in supplemental payments to local school districts and community colleges beginning in 2011-12. Payments would be made out of the state's Budget Stabilization Fund (created through Prop 1A) until the total amount has been paid. Payments to local school districts will be allocated in proportion to average daily attendance and may be used for classroom instruction, textbooks, and other local educational purposes.

Proposition 1B will only take effect if Proposition 1A also passes.

**Background.** Prop 1B came out of a disagreement between the Governor and the state public school system regarding the interpretation of the way in which Proposition 98 (passed in 1998) mandates levels of school funding under its various formulas. The difference in interpretation between the disputing parties is about \$9.3 billion. This amount is the difference between the monies actually appropriated in recent budgets, and the amount that school proponents maintain should have been spent.

Passage of Proposition 1B would replace any payments that the state

would otherwise be required to make under the "maintenance factor" of Prop 98 for 2007-08 and 2008-09 and would potentially create a savings of several billion dollars in the two years after that. The measure does not clear up the uncertainty regarding the "maintenance factor" in future years under certain circumstances. The legislative analyst maintains that it could create additional future costs for education of "billions of dollars each year."

**Supporters** such as the California Teachers Association say that the passage of Prop 1B will allow the schools to be repaid for money lost in bad budget years.

**There is no rebuttal for Prop 1B on the sample ballot.** Organizations and unions that are concerned about the impact of Prop 1B on the future funding of other services are focusing their efforts on the defeat of Proposition 1A. Defeat of Prop 1A would also mean the defeat of Prop 1B.

## ■ Proposition 1C Lottery Modernization Act.

Proposition 1C allows the lottery to increase payouts, improve marketing and effective management with the goal of improved performance. It requires the state to maintain ownership. Its purpose on the ballot is to borrow \$5 billion from future profits to help balance the state's 2009-2010 budget. Future lottery profits would not be dedicated to education which, instead, would be paid from the state's General Fund.

**Background.** Voters established the lottery in California in 1984 with the purpose of better funding for education. Currently, a minimum of 34% of proceeds must go to K through university

JERICHO Newsletter is published quarterly for members of JERICHO's two organizations.

JERICHO Education for Justice educates faith communities and others about California public policy as it affects poor people.

JERICHO A Voice for Justice through its registered lobbyist in Sacramento and statewide members actively engages in the development of legislation that promotes economic fairness.

JERICHO STATEWIDE OFFICE  
1225 8<sup>th</sup> Street, Suite 590  
Sacramento, CA 95814  
Phone (916) 441-0387  
Fax (916) 441-0388  
www.jerichoCA.org  
jericho@jerichoCA.org

STAFF  
Judith Larson  
Executive Director  
Debra Montiero Ortega  
Legislative Assistant

education and half the proceeds go for lottery winner pay-offs and the rest for overhead and administration.

**Proponents of Prop 1C** are optimistic about the increased revenue effects of lottery improvements and see the lottery as a help to this year's budget without raising taxes.

**Opponents of Prop 1C** are concerned about future costs to the state's General Fund that could impact health and human services and other programs. The Legislative Analyst maintains that after the increased lottery profits are used to make debt-service payments to investors, the remaining profits probably would not be enough to cover the General Fund's higher payments to education for most of the next 20 to 30 years. In the years after the \$5 billion borrowing, the Legislature would probably have to identify hundreds of millions of dollars per year in revenue increases or spending decreases to cover these costs.

## ■ Proposition 1D Protects Children's Services Funding. Helps Balance State Budget.

The title to this Proposition is somewhat misleading. Proposition 1D would take currently unspent money from counties' First Five early childhood programs and redirect them to pay for other children's health and human services programs at risk in the state budget. Prop 1D redirects \$268 million annually from First Five county commissions to the state General Fund for five years, beginning July 1, 2009. It does not generate any new money for children's services and includes some provisions that would affect counties' future funding levels.

Because Prop 10 monies not spent

in a fiscal year can be carried over to subsequent years, local commissions have a total of \$2.1 billion in unspent funds which can insure the future of existing programs or provide additional services. Because of a decrease in tobacco use, new revenue is expected to decline by about 3% a year.

**Background.** First Five was created in 1998 by Proposition 10. It uses tobacco tax money to fund a variety of early childhood health, pre-school, and service programs for children ages birth to five and for anti-smoking programs. First Five Commissions in each county determine the needs of their areas in developing local programs.

**Proponents of Prop 1D** say that in these difficult economic times money that has been allocated to counties but not yet spent should be used to protect other children and family services currently at risk in the state budget.

**Opponents of Prop 1D** argue that counties would be penalized for good stewardship of Prop 10 money for local programs. They are concerned that current programs will be affected by the reduction in tobacco use and will not be able to continue without the money that is held for future needs.

## ■ Proposition 1E Mental Health Services Funding. Temporary Reallocations. Helps Balance State Budget.

Proposition 1E allows a two-year re-direction of some Proposition 63 mental health funds to offset state costs for a federally mandated program that would otherwise come from the state's General Fund. The Early Periodic Screening, Diagnosis, and Treatment (EPSDT) Program requires states to provide

a broad range of medical services—including mental health services—to Medi-Cal beneficiaries under age 21. Prop 63 money would be used to fund this program.

The most recent report of Prop 63 expenditures showed that as of last year only \$1.5 of \$4.1 billion had been spent due to implementation delays. A little over \$500 million would be diverted for other programs over a two year period.

**Background.** California voters approved Proposition 63 in 2004 to provide state funding to increase needed mental health services through a personal income tax surcharge of 1% on the portion of a taxpayer's taxable income in excess of \$1 million.

Mental health services for those without insurance are provided primarily through county or county-contracted programs. Counseling, hospitalization, and community support are among the services funded by a mix of state, federal and local dollars.

**Proponents for Prop 1E** say that money that is currently not being used should be available to fund other programs at this critical time.

**Opponents for Prop 1E** maintain that local communities have planned or begun to implement needed services and that diverting money could jeopardize these programs. The voters recognized the need when they passed Prop 63 and that need is still there.

*Continued on page 4*

**SAVE THE DATE**  
**JERICHO Annual**  
**Auction Event**

June 16, 2009



1225 8th Street, Suite 590  
Sacramento, CA 95814  
(916) 441-0387

NON-PROFIT  
ORGANIZATION  
U.S. POSTAGE  
PAID  
SACRAMENTO, CA  
PERMIT NO. 1598

**RETURN SERVICE REQUESTED**

**TIME LIMITED - Please Expedite**

### **Are You On Our E-mail Alert List?**

At key times during the legislative sessions we send an Alert indicating an activity (phone call, letter, e-mail, visit) that can help make a difference in the state budget or a piece of legislation. We are selective about the number of Alerts and, generally, no more than 6 will come to you during the year.

Please consider adding your e-mail address to our list if we do not have it. Many of our long time members may not have included their e-mail when they first signed up. A benefit this year for those who were on the list was immediate notification when our ballot measure summary was posted on the website.

To add your e-mail address, just e-mail us at [jericho@jerichoca.org](mailto:jericho@jerichoca.org) and let us know to include you.

### **■ Proposition 1F Elected Officials' Salaries. Prevents Pay Increases During Budget Deficit Years.**

Proposition 1F requires the Director of Finance to determine if a year is a deficit year. If it is determined to be so, it prevents the Citizens Compensation Commission from increasing the salaries of state elected officials and in years when the state Special Fund for Economic Uncertainties is in the negative

by an amount equal to or greater than one percent of the General Fund.

**Proponents for Prop 1F** say that it is only fair in lean years to include elected officials when others are being penalized.

**Opponents for Prop1F** maintain that this is a vindictive way of getting back for late budgets and other issues.

---

### **See also...**

**California Budget Project** ([cbp.org](http://cbp.org)) for more info on Props 1A, 1D, 1E)

**Ballotpedia** ([ballotpedia.org](http://ballotpedia.org)) provides an updated list of those supporting and opposing each measure

**California League of Women Voters** ([ca.lwv.org](http://ca.lwv.org))

