ATTACHMENTS

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PROPOSITION 1A

This amendment proposed by Senate Constitutional Amendment 13 of the 2007–2008 Regular Session (Resolution Chapter 144, Statutes of 2008) and Assembly Constitutional Amendment 1 of the 2009–2010 Third Extraordinary Session (Resolution Chapter 1, 2009–2010 Third Extraordinary Session) expressly amends sections of, and adds a section to, the California Constitution; therefore, provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

First—That Section 12 of Article IV thereof is amended to read:

SEC. 12. (a) Within the first 10 days of each calendar year, the Governor shall submit to the Legislature, with an explanatory message, a budget for the ensuing fiscal year containing itemized statements for recommended state expenditures and estimated ~~state revenues~~ *total state resources available to meet those expenditures*. If recommended expenditures exceed estimated ~~revenues~~ *resources*, the Governor shall recommend the sources from which the additional ~~revenues~~ *resources* should be provided. *The itemized statement of estimated total state resources available to meet recommended expenditures submitted pursuant to this subdivision shall identify the amount, if any, of those resources anticipated to be one-time resources.*

(b) The Governor and the Governor-elect may require a state agency, officer, or employee to furnish whatever information is deemed necessary to prepare the budget.

(c) (1) The budget shall be accompanied by a budget bill itemizing recommended expenditures.

(2) The budget bill shall be introduced immediately in each house by the persons chairing the committees that consider the budget.

(3) The Legislature shall pass the budget bill by midnight on June 15 of each year.

(4) Until the budget bill has been enacted, the Legislature shall not send to the Governor for consideration any bill appropriating funds for expenditure during the fiscal year for which the budget bill is to be enacted, except emergency bills recommended by the Governor or appropriations for the salaries and expenses of the Legislature.

(d) No bill except the budget bill may contain more than one item of appropriation, and that for one certain, expressed purpose. Appropriations from the General Fund of the State, except appropriations for the public schools, are void unless passed in each house by rollcall vote entered in the journal, two-thirds of the membership concurring.

(e) The Legislature may control the submission, approval, and enforcement of budgets and the filing of claims for all state agencies.

(f) For the 2004–05 fiscal year, or any subsequent fiscal year, the Legislature may not send to the Governor for consideration, nor may the Governor sign into law, a budget bill that would appropriate from the General Fund, for that fiscal year, a total amount that, when combined with all appropriations from the General Fund for that fiscal year made as of the date of the budget bill's passage, and the amount of any General Fund moneys transferred to the Budget Stabilization ~~Account~~ *Fund* for that fiscal year pursuant to Section 20 of Article XVI, exceeds General Fund revenues, *transfers, and balances available from the prior fiscal year* for that fiscal year estimated as of the date of the budget bill's passage. That estimate of General Fund revenues, *transfers, and balances* shall be set forth in the budget bill passed by the Legislature.

Second—That Section 20 of Article XVI thereof is amended to read:

SEC. 20. (a) *(1)* The Budget Stabilization *Fund, and the Supplemental Budget Stabilization* Account ~~is~~, *are* hereby created in the General Fund.

(2) If Section 8.3 is added to this article to provide for supplemental education payments at the same election at which this paragraph was approved by the voters, the Supplemental Education Payment Account is hereby established in the General Fund.

(b) In each fiscal year as specified in paragraphs (1) to (3), inclusive, the Controller shall transfer from the General Fund to the Budget Stabilization ~~Account~~ *Fund* the following amounts:

(1) No later than September 30, 2006, a sum equal to 1 percent of the estimated amount of General Fund revenues for the 2006–07 fiscal year.

(2) No later than September 30, 2007, a sum equal to 2 percent of the estimated amount of General Fund revenues for the 2007–08 fiscal year.

(3) ~~No later than~~ *On* September 30, 2008, and *on September 23* annually thereafter, a sum equal to 3 percent of the estimated amount of General Fund revenues for the current fiscal year.

(c) ~~The~~ *Except for the amount determined pursuant to subdivision (h), the* transfer of moneys shall not be required by subdivision (b) in any fiscal year to the extent that the resulting balance in the ~~account~~ *Budget Stabilization Fund* would exceed ~~5~~ *12.5* percent of the General Fund revenues estimate set forth in the budget bill for that fiscal year, as enacted~~, or eight billion dollars ($8,000,000,000), whichever is greater~~. The Legislature may, by statute, direct the Controller, for one or more fiscal years, to transfer into the ~~account~~ *Budget Stabilization Fund* amounts in excess of the levels prescribed by this subdivision.

(d) Subject to any restriction imposed by this section, funds transferred to the Budget Stabilization *Fund, the Supplemental Education Payment Account, or the Supplemental Budget Stabilization* Account shall be deemed to be General Fund revenues for all purposes of this Constitution.

(e) ~~The~~ *Except for the amount determined pursuant to subdivision (h), the* transfer of moneys from the General Fund to the Budget Stabilization ~~Account~~ *Fund* may be suspended or reduced for a fiscal year as specified by an executive order issued by the Governor no later than ~~June 1 of the preceding fiscal year~~ *the date of the transfer set forth in subdivision (b). For a fiscal year commencing on or after July 1, 2011, this subdivision shall be operative only if a transfer of moneys from the Budget Stabilization Fund to the General Fund is authorized pursuant to subparagraph (A) of paragraph (2) of subdivision (f).*

(f) (1) Of the moneys transferred to the ~~account~~ *Budget Stabilization Fund* in each fiscal year, *exclusive of the amount determined pursuant to subdivision (h)*, 50 percent, up to the aggregate amount of five billion dollars ($5,000,000,000) for all fiscal years, shall be deposited in the Deficit Recovery Bond Retirement Sinking Fund Subaccount, which is hereby created in the ~~account~~ *Budget Stabilization Fund* for the purpose of retiring deficit recovery bonds authorized and issued as described in Section 1.3, in addition to any other payments provided for by law for the purpose of retiring those bonds. The moneys in the sinking fund subaccount are continuously appropriated to the Treasurer to be expended for that purpose in the amounts, at the times, and in the manner deemed appropriate by the Treasurer. Any funds remaining in the sinking fund subaccount after all of the deficit recovery bonds are retired shall be transferred to the ~~account~~ *Budget Stabilization Fund*, and may be transferred to the General Fund pursuant to paragraph (2).

(2) ~~All~~ *Except for the amount determined pursuant to subdivision (h), all* other funds transferred to the ~~account~~ *Budget Stabilization Fund* in a fiscal year shall not be deposited in the sinking fund subaccount and may~~, by statute,~~ be transferred to the General Fund *by statute as specified in this paragraph.*

(A) Apart from a transfer pursuant to subparagraph (B), the total amount that may be transferred to the General Fund pursuant to this paragraph for any fiscal year shall not exceed the amount derived by subtracting the General Fund revenues, transfers, and balances available from the prior fiscal year for that fiscal year from the

expenditure forecast amount for the current fiscal year. For purposes of this subparagraph, "General Fund revenues, transfers, and balances available from the prior fiscal year for that fiscal year" does not include revenues transferred from the General Fund to the Budget Stabilization Fund pursuant to subdivision (b) for that fiscal year. For purposes of this subparagraph, Section 21, and Section 12 of Article IV, "balances available from the prior fiscal year for that fiscal year" means the funds in the Special Fund for Economic Uncertainties, or a successor fund, as of June 30 of the prior fiscal year. The "expenditure forecast amount" for a fiscal year is the total General Fund expenditures for the immediately preceding fiscal year adjusted for the change in population of the State, as defined in Section 8 of Article XIII B, and the change in the cost of living for the State, as measured by the California Consumer Price Index, between the immediately preceding fiscal year and the fiscal year in which the transfer is made. "Total General Fund expenditures for the immediately preceding fiscal year" do not include, for this purpose, the expenditure of unanticipated revenues pursuant to subparagraph (B) or pursuant to paragraph (3) or (4) of subdivision (c) of Section 21.

(B) Any funds necessary for the purpose of responding to an emergency declared by the Governor may be transferred by statute. For purposes of this subparagraph, "emergency" has the same meaning as set forth in paragraph (2) of subdivision (c) of Section 3 of Article XIII B.

(g) In addition to any transfer authorized by this section, funds in the Budget Stabilization Fund or the Supplemental Budget Stabilization Account may be loaned to meet General Fund cash requirements on the condition that the funds are repaid within the same fiscal year in which the loan is made.

(h) If the Supplemental Education Payment Account is established by subdivision (a), on October 1, 2011, and on October 1 annually thereafter, the Controller shall transfer from the Budget Stabilization Fund to the Supplemental Education Payment Account the lesser of the following:

(1) A sum equal to 1.5 percent of the estimated amount of General Fund revenues for the current fiscal year.

(2) The amount of the total supplemental education payments set forth in subdivision (a) of Section 8.3 remaining to be allocated.

(i) (1) If the Supplemental Education Payment Account is established by subdivision (a), on October 1 of the first fiscal year for which the amount determined pursuant to paragraph (1) of subdivision (h) is greater than the amount determined pursuant to paragraph (2) of subdivision (h), and on October 1 annually thereafter, the Controller shall transfer from the Budget Stabilization Fund to the Supplemental Budget Stabilization Account a sum equal to 1.5 percent of the estimated amount of General Fund revenues for the current fiscal year minus the amount, if any, of the total supplemental education payments set forth in subdivision (a) of Section 8.3 remaining to be allocated.

(2) If the Supplemental Education Payment Account is not established by subdivision (a), on October 1, 2011, and on October 1 annually thereafter, the Controller shall transfer from the Budget Stabilization Fund to the Supplemental Budget Stabilization Account a sum equal to 1.5 percent of the estimated amount of General Fund revenues for the current fiscal year.

(3) Funds in the Supplemental Budget Stabilization Account may be appropriated only for the purposes set forth in subparagraphs (B) or (C) of paragraph (4) of subdivision (c) of Section 21.

Third— That Section 21 is added to Article XVI thereof, to read:

SEC. 21. (a) On or before May 29, 2011, and on or before May 29 of each year thereafter, the Director of Finance shall do all of the following, reporting the result in each case to the Legislature and the Governor:

(1) Separately estimate General Fund revenues, transfers, and balances available from the prior fiscal year for the current fiscal year.

(2) Determine the revenue forecast amount for the current fiscal year in the manner set forth in subdivision (d).

(3) Estimate the amount, as of that date, of any General Fund obligations arising under Section 8 for the current fiscal year, including any maintenance factor allocation for the current fiscal year required pursuant to subdivision (e) of Section 8, that have not yet been funded by the State.

(b) (1) Except as provided in paragraph (2), "unanticipated revenues" for a fiscal year, for purposes of this section, shall be the lesser of the following:

(A) Estimated General Fund revenues for the current fiscal year reported pursuant to paragraph (1) of subdivision (a) minus the revenue forecast amount for the current fiscal year.

(B) Estimated General Fund revenues, transfers, and balances available from the prior fiscal year for the current fiscal year reported pursuant to paragraph (1) of subdivision (a) minus the expenditure forecast amount for the current fiscal year determined pursuant to subparagraph (A) of paragraph (2) of subdivision (f) of Section 20.

(2) If the amount determined pursuant to paragraph (1) is less than zero, the amount of unanticipated revenues shall be zero.

(c) Unanticipated revenues, as determined pursuant to this section, may be used only as follows:

(1) Unanticipated revenues shall be appropriated to satisfy any unfunded General Fund obligations arising under Section 8 for the current fiscal year, as estimated pursuant to paragraph (3) of subdivision (a).

(2) Any unanticipated revenues that remain after deducting, in accordance with paragraph (1), the amount of the estimate required by paragraph (3) of subdivision (a) shall be transferred by the Controller no later than June 27 of the current fiscal year to the Budget Stabilization Fund, not exceeding the amount needed to increase the balance in the fund to an amount equal to 12.5 percent of the estimate of General Fund revenues as set forth in the enacted budget bill for that fiscal year. Notwithstanding any other provision of this Constitution:

(A) If the Director of Finance determines at any time that the total amount of General Fund obligations arising under Section 8 for a fiscal year, including any maintenance factor allocation for that fiscal year required pursuant to subdivision (e) of Section 8, exceeds the total amount of those General Fund obligations as calculated for that fiscal year for purposes of the estimate required by paragraph (3) of subdivision (a), he or she shall so report to the Legislature, the Governor, and the Controller. The Controller shall thereupon transfer funds in the amount of that difference from the Budget Stabilization Fund to the General Fund, and the funds so transferred shall be appropriated only for purposes of funding the additional amount of General Fund obligations under Section 8 determined pursuant to this paragraph.

(B) If the Director of Finance determines at any time that the total amount of General Fund obligations arising under Section 8 for a fiscal year, including any maintenance factor allocation for that fiscal year required pursuant to subdivision (e) of Section 8, is less than the total amount of those General Fund obligations as calculated for that fiscal year for purposes of the estimate required by paragraph (3) of subdivision (a), he or she shall so report to the Legislature, the Governor, and the Controller. The Controller shall thereupon transfer funds in the amount of that difference from the General Fund to the Budget Stabilization Fund, not exceeding the amount needed to increase the balance in the latter fund to an amount equal to 12.5 percent of the estimate of General Fund revenues as set forth in the enacted budget bill for that fiscal year.

(3) Any unanticipated revenues remaining after any appropriations and transfers described in paragraphs (1) and (2) shall be appropriated to retire outstanding budgetary obligations. For purposes of this paragraph, "budgetary obligations" means any of the following:

(A) Unfunded prior fiscal year General Fund obligations pursuant to Section 8.

(B) Any repayment obligations created by the suspension of subparagraph (A) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII.

(C) Any repayment obligations created by the suspension of subdivision (a) of Section 1 of Article XIX B.

(D) Bonded indebtedness authorized pursuant to Section 1.3.

(4) Any unanticipated revenues remaining after any appropriations and transfers described in paragraphs (1), (2), and (3) are made to retire all outstanding budgetary obligations shall be used for one or more of the following purposes:

(A) Transfer by statute to the Budget Stabilization Fund.

(B) Appropriation for one-time infrastructure or other capital outlay purposes.

(C) Appropriation to retire, redeem, or defease outstanding general obligation or other bonded indebtedness of the State.

(D) Return to taxpayers within the current or immediately following fiscal year by a one-time revision of tax rates, or by rebates.

(E) Appropriation for unfunded liabilities for vested nonpension benefits for state annuitants.

(d) For the 2010–11 fiscal year, and for each fiscal year thereafter, the revenue forecast amount shall be determined as follows:

(1) The General Fund revenues for the current fiscal year shall be forecast by extrapolating from the trend line derived by a linear regression of General Fund revenues as a function of fiscal year for the period of the 10 preceding fiscal years. For purposes of this paragraph, General Fund revenues shall exclude both of the following:

(A) The General Fund revenue effect of a change in state taxes that affects General Fund revenues for less than the entire period of the 10 preceding fiscal years.

(B) Any proceeds of bonds authorized by subdivision (a) of Section 1.3.

(2) The amount forecast pursuant to paragraph (1) shall be increased or decreased, as applicable, to reflect the net current fiscal year General Fund revenue effect of a change in state taxes for which General Fund revenue effects were excluded pursuant to subparagraph (A) of paragraph (1).

PROPOSITION 1B

This amendment proposed by Assembly Constitutional Amendment 2 of the 2009–2010 Third Extraordinary Session (Resolution Chapter 2, 2009–2010 Third Extraordinary Session) expressly amends the California Constitution by adding a section thereto; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

PROPOSED AMENDMENT TO ARTICLE XVI

That Section 8.3 is added to Article XVI thereof, to read:

SEC. 8.3. (a) School districts and community college districts shall receive supplemental education payments in the total amount of nine billion three hundred million dollars ($9,300,000,000). These payments shall be in lieu of the maintenance factor amounts, if any, that otherwise would be determined pursuant to subdivision (d) of Section 8 for the 2007–08 and 2008–09 fiscal years. These payments are not subject to subdivision (e) of Section 8. These payments shall be made only from the Supplemental Education Payment Account, subject to the deposit into that account of the amounts necessary to make the payments. The operation of this section is contingent upon the establishment of the Supplemental Education Payment Account pursuant to subdivision (a) of Section 20.

(b) Commencing with the 2011–12 fiscal year, in addition to the amounts required to be allocated pursuant to subdivisions (b) and (e) of Section 8, the Legislature annually shall appropriate to school districts and community college districts the amount transferred to the Supplemental Education Payment Account pursuant to subdivision (h) of Section 20 in satisfaction of the supplemental education payments required by subdivision (a), until the full amount of the supplemental education payments required by subdivision (a) has been allocated pursuant to this section.

(c) (1) Of the appropriations made to school districts for the 2011–12 fiscal year pursuant to subdivision (b), an amount not exceeding two hundred million dollars ($200,000,000) shall be available only for the purposes set forth in Section 42238.49 of the Education Code as that section read on March 28, 2009, as determined pursuant to the funding formula set forth in that section.

(2) The remaining amount of the appropriations made to school districts for the 2011–12 fiscal year pursuant to subdivision (b), and all of the appropriations made to school districts pursuant to subdivision (b) for each subsequent fiscal year, shall be allocated as an adjustment to revenue limit apportionments, as specified by statute, in a manner that does not limit a recipient school district with regard to the purposes of the district for which the moneys may be expended.

(d) All amounts appropriated in a fiscal year pursuant to this section shall be deemed allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B for that fiscal year, for purposes of determining, in the following fiscal year, the amount required pursuant to paragraph (2) or (3), as applicable, of subdivision (b) of Section 8.

PROPOSITION 1C

This amendment proposed by Senate Constitutional Amendment 12 of the 2007–2008 Regular Session (Resolution Chapter 143, Statutes of 2008) and Assembly Bill 1654 of the 2007–2008 Regular Session (Chapter 764, Statutes of 2008) and Assembly Bill 12 of the 2009–2010 Third Extraordinary Session (Chapter 8, 2009–2010 Third Extraordinary Session) expressly amends the California Constitution by amending a section thereof and amends, adds and repeals sections of the Government Code and amends a section of the California State Lottery Act of 1984; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

PROPOSED AMENDMENT TO ARTICLE IV OF THE CALIFORNIA CONSTITUTION

That Section 19 of Article IV thereof is amended to read:

SEC. 19. (a) The Legislature has no power to authorize lotteries, and shall prohibit the sale of lottery tickets in the State.

(b) The Legislature may provide for the regulation of horse races and horse race meetings and wagering on the results.

(c) Notwithstanding subdivision (a), the Legislature by statute may authorize cities and counties to provide for bingo games, but only for charitable purposes.

(d) *(1)* Notwithstanding subdivision (a), there is authorized the ~~establishment of a~~ California State Lottery, *a lottery to be conducted by the State and operated for the purpose of increasing revenues to provide funds for the support of public education and other public purposes.*

(2) Notwithstanding any other provision of law or this Constitution to the contrary, the Legislature is hereby authorized to obtain moneys for the purposes of the California State Lottery through the sale of future revenues of the California State Lottery and rights to receive those revenues to an entity authorized by the Legislature to issue debt

obligations for the purpose of funding that purchase.

(e) The Legislature has no power to authorize, and shall prohibit, casinos of the type currently operating in Nevada and New Jersey.

(f) Notwithstanding subdivisions (a) and (e), and any other provision of state law, the Governor is authorized to negotiate and conclude compacts, subject to ratification by the Legislature, for the operation of slot machines and for the conduct of lottery games and banking and percentage card games by federally recognized Indian tribes on Indian lands in California in accordance with federal law. Accordingly, slot machines, lottery games, and banking and percentage card games are hereby permitted to be conducted and operated on tribal lands subject to those compacts.

~~(f)~~

(g) Notwithstanding subdivision (a), the Legislature may authorize private, nonprofit, eligible organizations, as defined by the Legislature, to conduct raffles as a funding mechanism to provide support for their own or another private, nonprofit, eligible organization's beneficial and charitable works, provided that (1) at least 90 percent of the gross receipts from the raffle go directly to beneficial or charitable purposes in California, and (2) any person who receives compensation in connection with the operation of a raffle is an employee of the private nonprofit organization that is conducting the raffle. The Legislature, two-thirds of the membership of each house concurring, may amend the percentage of gross receipts required by this subdivision to be dedicated to beneficial or charitable purposes by means of a statute that is signed by the Governor.

PROPOSED STATUTORY PROVISIONS

SECTION 1. More than 20 years having passed since the inception of the California State Lottery, the Lottery, as a state-owned asset, should be authorized to modernize its operations in order to improve its financial performance.

SEC. 2. Section 8880.1 of the Government Code is amended to read:

~~8880.1. Purpose and Intent~~

~~The~~

8880.1. The People of the State of California declare that the purpose of this Act is support for preservation of the rights, liberties and welfare of the people by providing additional ~~monies~~ *moneys* to benefit education *either directly or indirectly by providing funds to pay General Fund and infrastructure bond obligations* without the imposition of additional or increased taxes.

The People of the State of California further declare that it is their intent that the net revenues of the California State Lottery *that are allocated for public education* shall not be used as substitute funds but rather shall supplement the total amount of money allocated for public education in California.

It is further the intent of the People of California to permanently secure the contribution that the California State Lottery has made to funding public education by increasing the minimum guarantee set forth in Section 8 of Article XVI of the California Constitution.

SEC. 3. Section 8880.4 of the Government Code is amended to read:

8880.4. ~~Revenues~~ *For fiscal years prior to the 2009–10 fiscal year, total revenues* of the ~~state~~ lottery, *as defined in Section 8880.65,* shall be allocated as follows:

(a) Not less than 84 percent of the total annual revenues from the sale of state lottery tickets or shares shall be returned to the public in the form of prizes and net revenues to benefit public education.

(1) Fifty percent of the total annual revenues shall be returned to the public in the form of prizes as described in this chapter.

(2) At least 34 percent of the total annual revenues shall be allocated to the benefit of public education, as specified in Section 8880.5. However, for the 1998–99 fiscal year and each fiscal year thereafter, 50 percent of any increase in the amount calculated pursuant to this paragraph from the amount calculated in the 1997–98 fiscal year shall be allocated to school districts and community college districts for the purchase of instructional materials, on the basis of an equal amount per unit of average daily attendance, as defined by law, and through a fair and equitable distribution system across grade levels.

(3) All unclaimed prize money shall revert to the benefit of public education, as provided for in subdivision (e) of Section ~~8880.32~~ *8880.321.*

(4) All of the interest earned upon funds held in the State Lottery Fund shall be allocated to the benefit of public education, as specified in Section 8880.5. This interest is in addition to, and shall not be considered as any part of, the 34 percent of the total annual revenues that is required to be allocated for the benefit of public education as specified in paragraph (2).

(5) No more than 16 percent of the total annual revenues shall be allocated for payment of expenses of the lottery as described in this chapter. To the extent that expenses of the lottery are less than 16 percent of the total annual revenues, any surplus funds also shall be allocated to the benefit of public education, as specified in this section or in Section 8880.5.

(b) Funds allocated for the benefit of public education pursuant to subdivision (a) are in addition to other funds appropriated or required under existing constitutional reservations for educational purposes. No program shall have the amount appropriated to support that program reduced as a result of funds allocated pursuant to subdivision (a). Funds allocated for the benefit of public education pursuant to subdivision (a) shall not supplant funds committed for child development programs.

(c) None of the following shall be considered revenues for the purposes of this section:

(1) Revenues recorded as a result of a nonmonetary exchange. "Nonmonetary exchange" means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.

(2) Reimbursements received by the lottery for the cost of goods or services provided by the lottery that are less than or equal to the cost of the same goods or services provided by the lottery.

(d) Reimbursements received in excess of the cost of the same goods and services provided by the lottery, as specified in paragraph (2) of subdivision (c), are not a part of the 34 percent of total annual revenues required to be allocated for the benefit of public education, as specified in paragraph (2) of subdivision (a). However, this amount shall be allocated for the benefit of public education as specified in Section 8880.5.

SEC. 4. Section 8880.4.5 is added to the Government Code, to read:

8880.4.5. Commencing with the 2009–10 fiscal year, total revenues of the lottery, as defined in Section 8880.65, for each fiscal year shall be allocated as follows:

(a) Not less than 87 percent of the total revenues shall be returned to the public as follows:

(1) The commission shall determine the percentage of total revenues that shall be returned to the public in the form of prizes as set forth in this chapter, provided that the percentage shall not be less than 50 percent of the total revenues.

(2) One million dollars ($1,000,000) shall be allocated to the Office of Problem and Pathological Gambling within the State Department of Alcohol and Drug Programs for problem gambling awareness and treatment programs. No later than April 1 of each year, the Director of the Office of Problem and Pathological Gambling shall report to the commission on the effectiveness of problem gambling awareness and treatment efforts. The funding provided pursuant to this paragraph shall not replace or limit any other problem gambling awareness or treatment activity determined by the director to further the purposes of this chapter.

(3) The amount of net revenues designated by the Director of

Finance as lottery revenue assets subject to sale pursuant to Article 6.7 (commencing with Section 63048.91) of Chapter 2 of Division 1 of Title 6.7 shall be transferred to the Lottery Assets Fund, which is hereby established in the State Treasury, and, notwithstanding Section 13340, is continuously appropriated for the purposes of that article.

(4) Net revenues remaining after the allocations made pursuant to paragraphs (1) through (3) shall be transferred to the Debt Retirement Fund, which is hereby established in the State Treasury. The Debt Retirement Fund may be appropriated by the Legislature for the purpose of repaying General Fund budgetary obligations, infrastructure bond debts, and the Economic Recovery Bonds, including reimbursement to the General Fund for the costs of these debts.

(b) No more than 13 percent of the total revenues shall be allocated for payment of expenses of the lottery as described in this chapter. To the extent that expenses of the lottery are less than 13 percent of the total revenues, surplus funds may be carried over from year to year upon a determination by the commission that the carryover furthers the purposes of this chapter, except that the total revenues allocated for payment, plus carried over revenue, shall not exceed 16 percent of the total revenues for the year in which carried over revenue is available. Excess carried over revenue shall be allocated pursuant to subdivision (a).

(c) None of the following shall be considered revenues for the purposes of this section:

(1) Revenues recorded as a result of a nonmonetary exchange. "Nonmonetary exchange" means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.

(2) Reimbursements received by the lottery for the cost of goods or services provided by the lottery that are less than or equal to the cost of the same goods or services provided by the lottery.

SEC. 5. Section 8880.5 of the Government Code is amended to read:

~~8880.5. Allocations for education.~~

~~The~~

8880.5. The California State Lottery Education Fund is created within the State Treasury, and is continuously appropriated for carrying out the purposes of this chapter. ~~The~~ *For fiscal years prior to the 2009–10 fiscal year, the* Controller shall draw warrants on this fund and distribute them quarterly in the following manner, provided that the payments specified in subdivisions (a) to (g), inclusive, shall be equal per capita amounts.

(a) Payments shall be made directly to public school districts, including county superintendents of schools, serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law and adjusted pursuant to subdivision (*l*).

(b) Payments shall also be made directly to public school districts serving community colleges, on the basis of an equal amount for each unit of average daily attendance, as defined by law.

(c) Payments shall also be made directly to the Board of Trustees of the California State University on the basis of an amount for each unit of equivalent full-time enrollment. Funds received by the trustees shall be deposited in and expended from the California State University Lottery Education Fund, which is hereby created or, at the discretion of the trustees, deposited in local trust accounts in accordance with subdivision (j) of Section 89721 of the Education Code.

(d) Payments shall also be made directly to the Regents of the University of California on the basis of an amount for each unit of equivalent full-time enrollment.

(e) Payments shall also be made directly to the Board of Directors of the Hastings College of the Law on the basis of an amount for each unit of equivalent full-time enrollment.

(f) Payments shall also be made directly to the Department of the Youth Authority for educational programs serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law.

(g) Payments shall also be made directly to the two California Schools for the Deaf, the California School for the Blind, and the three Diagnostic Schools for Neurologically Handicapped Children, on the basis of an amount for each unit of equivalent full-time enrollment.

(h) Payments shall also be made directly to the State Department of Developmental Services and the State Department of Mental Health for clients with developmental or mental disabilities who are enrolled in state hospital education programs, including developmental centers, on the basis of an equal amount for each unit of average daily attendance, as defined by law.

(i) No Budget Act or other statutory provision shall direct that payments for public education made pursuant to this chapter be used for purposes and programs (including workload adjustments and maintenance of the level of service) authorized by Chapters 498, 565, and 1302 of the Statutes of 1983, Chapter 97 or 258 of the Statutes of 1984, or Chapter 1 of the Statutes of the 1983–84 Second Extraordinary Session.

(j) School districts and other agencies receiving funds distributed pursuant to this chapter may at their option utilize funds allocated by this chapter to provide additional funds for those purposes and programs prescribed by subdivision (i) for the purpose of enrichment or expansion.

(k) As a condition of receiving any moneys pursuant to subdivision (a) or (b), each district and county superintendent of schools shall establish a separate account for the receipt and expenditure of those moneys, which account shall be clearly identified as a lottery education account.

(*l*) Commencing with the 1998–99 fiscal year, and each year thereafter, for the purposes of subdivision (a), average daily attendance shall be increased by the statewide average rate of excused absences for the 1996–97 fiscal year as determined pursuant to the provisions of Chapter 855 of the Statutes of 1997. The statewide average excused absence rate, and the corresponding adjustment factor required for the operation of this subdivision, shall be certified to the State Controller by the Superintendent of Public Instruction.

(m) It is the intent of this chapter that all funds allocated from the California State Lottery Education Fund *and pursuant to Section 8880.5.5* shall be used exclusively for the education of pupils and students and no funds shall be spent for acquisition of real property, construction of facilities, financing of research, or any other noninstructional purpose.

SEC. 6. Section 8880.5.5 is added to the Government Code, to read:

8880.5.5. (a) Notwithstanding Section 13340 of the Government Code, commencing with the 2009–10 fiscal year and each fiscal year thereafter, the following annual appropriations are hereby made from the General Fund:

(1) To the State Department of Education, for allocation to school districts, county offices of education, and charter schools serving kindergarten and grades 1 to 12, inclusive, or any part thereof, on the basis of an equal amount for each unit of average daily attendance, as defined by law and adjusted pursuant to subdivision (l) of Section 8880.5, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (a) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in average daily attendance, as defined by law and adjusted pursuant to subdivision (l) of Section 8880.5, for school districts, county offices of education, and charter schools serving kindergarten and grades 1 to 12, inclusive, from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(2) To the Board of Governors of the California Community Colleges, for allocation to community college districts, on the basis of an equal amount for each full time equivalent student, as defined by law, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (b) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in full time equivalent students for community college districts from the second preceding fiscal year to the preceding fiscal year and then by applying a cost of living adjustment pursuant to paragraph (10) of this subdivision.

(3) To the Board of Trustees of the California State University, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (c) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in full-time equivalent students for the California State University system from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(4) To the Regents of the University of California, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (d) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in full-time equivalent students for the University of California system from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(5) To the Board of Directors of the Hastings College of the Law, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (e) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in full-time equivalent students for the Hastings College of the Law from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(6) To the California Department of Corrections and Rehabilitation, for educational programs serving kindergarten and grades 1 to 12, inclusive, or any part thereof, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (f) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in equivalent average daily attendance for the Department of Corrections and Rehabilitation Division of Juvenile Justice from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(7) To the State Department of Education, for support of the State Special Schools, an amount equal to the payments made during the 2008–09 fiscal year pursuant to subdivision (g) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in equivalent average daily attendance for the State Special Schools from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(8) To the State Department of Developmental Services, for clients with developmental disabilities who are enrolled in developmental center education programs, an amount equal to the payments made to the State Department of Developmental Services during the 2008–09 fiscal year pursuant to subdivision (h) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in equivalent average daily attendance for the State Department of Developmental Services from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(9) To the State Department of Mental Health, for clients with mental disabilities who are enrolled in state hospital education programs, an amount equal to the payments made to the State Department of Mental Health during the 2008–09 fiscal year pursuant to subdivision (h) of Section 8880.5, adjusted for inflation and attendance. The amount appropriated each year pursuant to this paragraph shall be determined by multiplying the amount appropriated in the preceding fiscal year by one plus the percent change in equivalent average daily attendance for the State Department of Mental Health from the second preceding fiscal year to the preceding fiscal year and then by applying a cost-of-living adjustment pursuant to paragraph (10) of this subdivision.

(10) The amounts appropriated pursuant to this subdivision shall be increased each year by the change in the cost-of-living determined pursuant to paragraph (1) of subdivision (e) of Section 8 of Article XIII B of the California Constitution.

(b) The amounts appropriated for the 2009–10 fiscal year pursuant to paragraphs (1), (2), (6), (7), (8), and (9) of subdivision (a) shall be in addition to the sums required by, and shall not be considered towards fulfilling the funding requirements of Section 8 of Article XVI of the California Constitution.

(c) The amounts appropriated for the 2009–10 fiscal year pursuant to paragraphs (1), (2), (6), (7), (8), and (9) of subdivision (a) shall not offset or in any way reduce the maintenance factor determined pursuant to subdivisions (d) and (e) of Section 8 of Article XVI of the California Constitution, and shall be in addition to the amount of maintenance factor allocated in the 2009–10 fiscal year pursuant to subdivision (e) of Section 8 of Article XVI of the California Constitution.

(d) Commencing with the 2010–11 fiscal year and each fiscal year thereafter, for the purposes of making the computations required by Section 8 of Article XVI of the California Constitution, the appropriations made by paragraphs (1), (2), (6), (7), (8), and (9) of subdivision (a) of this section for the prior fiscal year shall be deemed to be included within the "total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B," as defined in subdivision (e) of Section 41202 of the Education Code.

(e) Commencing with the 2010–11 fiscal year, the percentage determined pursuant to paragraph (1) of subdivision (b) of Section 8 of Article XVI of the California Constitution, as adjusted pursuant to Chapter 2 (commencing with Section 41200) of Part 24 of the Education Code, shall be increased by adding to it the number of percentage points determined by dividing the total amount allocated pursuant to subdivisions (a), (b), (f), (g), and (h) of Section 8880.5 for the 2008–09 fiscal year by the total General Fund revenues that may be appropriated pursuant to Article XIII B of the California Constitution for the 2008–09 fiscal year.

(f) Commencing with the 2009–10 fiscal year, references in law to lottery education funds, to funds allocated pursuant to Section 8880.5, to funds allocated from the California State Lottery Education Fund, or similar references in law to the proceeds of lottery revenues allocated for the benefit of public education to the entities described in subdivisions (a), (b), (f), (g), and (h) of Section 8880.5 shall be deemed to be references to the funds appropriated pursuant to this section. This subdivision shall be broadly construed to effectuate its

purpose.

SEC. 7. Section 8880.25 of the Government Code is amended to read:

~~8880.25. Operation of the Lottery~~

~~The~~

8880.25. The Lottery shall be ~~initiated and~~ operated so as to produce the maximum amount of net revenues ~~to supplement the total amount of money allocated for public education in California~~ *available for allocation pursuant to Sections 8880.4 and 8880.4.5.*

SEC. 12. Section 8880.56 of the Government Code is amended to read:

8880.56. (a) Notwithstanding *any* other ~~provisions~~ *provision of this chapter or* of *any other* law, the director ~~may purchase or lease goods and services as are necessary for effectuating the purposes of this chapter~~ *has express authority, subject only to commission approval, to make any and all expenditures that are necessary or reasonable for effectuating the purposes of this chapter, including, but not limited to, payment for the costs of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, consumer, retailer, and employee incentives, public relations, communications, compensation paid to the lottery game retailers, bonding for lottery game retailers, printing, distribution of tickets or shares, reimbursement of costs of services provided to the lottery by other governmental entities, and payment for the costs of any other goods and services necessary or reasonable for effectuating the purposes of this chapter*. The director may not contract with any private party for the operation and administration of the California State Lottery, created by this chapter. However, this section does not preclude procurements ~~which~~ *that* integrate functions such as game design, supply, advertising, and public relations. In all procurement decisions, the director shall, subject to the approval of the commission, award contracts to the responsible supplier submitting the ~~lowest and~~ best proposal that maximizes the benefits to the state in relation to the areas of security, competence, experience, and timely performance, shall take into account the particularly sensitive nature of the California State Lottery and shall act to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery and the objective of raising net revenues for the benefit of the public purpose described in this chapter. *With regard to employee incentives, the director shall exercise his or her authority consistent with the provisions of Chapter 10.3 (commencing with Section 3512) of Division 4 of Title 1.*

(b) Notwithstanding any other provision of this chapter, the following shall apply to contracts or procurement by the lottery:

(1) To ensure the fullest competition, the commission shall adopt and publish competitive bidding procedures for the award of any procurement or contract involving an expenditure of more than ~~one~~ *five* hundred thousand dollars ~~($100,000)~~ *($500,000)*. The competitive bidding procedures shall include, but not be limited to, requirements for submission of bids and accompanying documentation, guidelines for the use of requests for proposals, invitations to bid, or other methods of bidding, and a bid protest procedure. The director shall determine whether the goods or services subject to this paragraph are available through existing contracts or price schedules of the Department of General Services.

(2) The contracting standards, procedures, and rules contained in this subdivision shall also apply with respect to any subcontract involving an expenditure of more than ~~one~~ *five* hundred thousand dollars ~~($100,000)~~ *($500,000)*. The commission shall establish, as part of its bidding procedures for general contracts, subcontracting guidelines that implement this requirement.

(3) The provisions of Article 1 (commencing with Section 11250) of Chapter 3 of Part 1 of Division 3 apply to the commission.

(4) The commission is subject to the Small Business Procurement and Contract Act, as provided in Chapter 6.5 (commencing with Section 14835) of Part 5.5 of Division 3.

(5) In advertising or awarding any general contract for the procurement of goods and services exceeding five hundred thousand dollars ($500,000), the commission and the director shall require all bidders or contractors, or both, to include specific plans or arrangements to utilize subcontracts with socially and economically disadvantaged small business concerns. The subcontracting plans shall delineate the nature and extent of the services to be utilized, and those concerns or individuals identified for subcontracting if known.

It is the intention of the Legislature in enacting this section to establish as an objective of the utmost importance the advancement of business opportunities for these small business concerns in the private business activities created by the California State Lottery. In that regard, the commission and the director shall have an affirmative duty to achieve the most feasible and practicable level of participation by socially and economically disadvantaged small business concerns in its procurement programs.

By July 1, 1986, the commission shall adopt proposal evaluation procedures, criteria, and contract terms which are consistent with the advancement of business opportunities for small business concerns in the private business activities created by the California State Lottery and which will achieve the most feasible and practicable level of participation by socially and economically disadvantaged small business concerns in its procurement programs. The proposal evaluation procedures, criteria, and contract terms adopted shall be reported in writing to both houses of the Legislature on or before July 1, 1986.

For the purposes of this section, socially and economically disadvantaged persons include women, Black Americans, Hispanic Americans, Native Americans (including American Indians, Eskimos, Aleuts, and Native Hawaiians), Asian-Pacific Americans (including persons whose origins are from Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, the United States Trust Territories of the Pacific, Northern Marianas, Laos, Cambodia, and Taiwan), and other minorities or any other natural persons found by the commission to be disadvantaged.

The commission shall report to the Legislature by July 1, 1987, and by each July 1 thereafter, on the level of participation of small businesses, socially and economically disadvantaged businesses, and California businesses in all contracts awarded by the commission.

(6) The commission shall prepare and submit to the Legislature by October 1 of each year a report detailing the lottery's purchase of goods and services through the Department of General Services. The report shall also include a listing of contracts awarded for more than one hundred thousand dollars ($100,000), the name of the contractor, amount and term of the contract, and the basis upon which the contract was awarded.

~~The~~

(c) The lottery shall fully comply with the requirements of paragraphs (2) to (5), inclusive, *of subdivision (b),* except that any function or role which is otherwise the responsibility of the Department of Finance or the Department of General Services shall instead, for purposes of this subdivision, be the sole responsibility of the lottery, which shall have the sole authority to perform that function or role.

(d) Where a conflict exists between the provisions of this chapter and any other provision of law, the provisions of this chapter shall control.

SEC. 14. Section 8880.63 of the Government Code is repealed.

~~8880.63. As nearly as practical, 50 percent of the total projected revenue, computed on a fiscal-year basis, accruing from the sales of all lottery tickets or shares shall be apportioned for payment of prizes.~~

SEC. 15. Section 8880.64 of the Government Code is amended to read:

8880.64. (a) Expenses of the lottery shall include all costs incurred ~~in the operation and administration of the lottery and all costs resulting from any contracts entered into for the purchase or lease of goods and services required by the lottery, including, but not limited to, the costs~~

~~of supplies, materials, tickets, independent audit services, independent studies, data transmission, advertising, promotion, incentives, public relations, communications, compensation paid to the lottery game retailers, bonding for lottery game retailers, printing, distribution of tickets or shares, reimbursement of costs of services provided to the lottery by other governmental entities, and for the costs for any other goods and services necessary for effectuating the purposes of this chapter~~ *pursuant to Section 8880.56.* As a promotional expense, the commission may supplement the prize pool of a game or games upon its determination that a supplement will benefit the public purpose of this chapter.

~~(b) (1) Not more than 16 percent of the total annual revenues accruing from the sale of all lottery tickets and shares from all lottery games shall be expended for the payment of the expenses of the lottery.~~

~~(2)~~

(b) Expenses recorded as a result of a nonmonetary exchange shall not be considered an expense for the purposes of ~~Section~~ *Sections* 8880.4 *and 8880.4.5* and this section. "Nonmonetary exchange" means a reciprocal transfer, in compliance with generally accepted accounting principles, between the lottery and another entity that results in the lottery acquiring assets or services and the lottery providing assets or services.

SEC. 16. Section 8880.65 of the Government Code is amended to read:

~~8880.65. Transfer of Net Revenues~~

~~The funds remaining in the State Lottery Fund after accrual of all revenues to the State Lottery Fund, and after accrual of all obligations of the Lottery for prizes, expenses, and the repayment of any funds advanced from the temporary line of credit for initial startup costs and interest thereon shall be deemed to be the net revenues of the Lottery.~~

8880.65. (a) For the purposes of this chapter, the total revenues of the lottery shall include all revenue received by the California State Lottery, including, but not limited to, revenue from the sale of tickets or shares, merchandising revenue, advertising revenue, interest earnings on moneys in the State Lottery Fund, and unclaimed prizes returned to or retained by the State Lottery Fund. The net revenues of the lottery shall include total revenues remaining after accrual of all obligations of the lottery for prizes and expenses.

~~The~~

(b) For fiscal years prior to the 2009–10 fiscal year, the net revenues of the ~~Lottery~~ *lottery* shall be transferred from the State Lottery Fund not less than quarterly to the California State Lottery Education Fund.

(c) Commencing with the 2009–10 fiscal year, the net revenues of the lottery shall be transferred from the State Lottery Fund as required by Section 8880.4.5.

SEC. 17. Section 5 of the California State Lottery Act of 1984 is amended to read:

Sec. 5. ~~No provision~~ *The provisions* of this Act, *except Sections 8880.5 and 8880.5.5 which may be amended only by a vote of the People,* may be changed ~~except to further its purpose~~ *for the purpose of modernizing the California State Lottery or to further the purposes of this Act as set forth in Sections 8880.1 and 8880.25 of the Government Code* by a bill passed by a vote of two-thirds of the membership of both houses of the Legislature and signed by the Governor.

PROPOSITION 1D

This amendment proposed by Assembly Bill 17 of the 2009–2010 Third Extraordinary Session (Chapter 11, 2009–2010 Third Extraordinary Session) is submitted to the people in accordance with the provisions of Section 10 of Article II of the California Constitution.

This proposed law amends sections of the Health and Safety Code and amends a section of, and adds a section to, the Revenue and Taxation Code; therefore, provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Section 130105 of the Health and Safety Code is amended to read:

130105. The California Children and Families Trust Fund is hereby created in the State Treasury.

(a) The California Children and Families Trust Fund shall consist of moneys collected pursuant to the taxes imposed by Section 30131.2 of the Revenue and Taxation Code.

(b) All costs to implement this act shall be paid from moneys deposited in the California Children and Families Trust Fund.

(c) The State Board of Equalization shall determine within one year of the passage of this act the effect that additional taxes imposed on cigarettes and tobacco products by this act has on the consumption of cigarettes and tobacco products in this state. To the extent that a decrease in consumption is determined by the State Board of Equalization to be the direct result of additional taxes imposed by this act, the State Board of Equalization shall determine the fiscal effect the decrease in consumption has on the funding of any Proposition 99 (the Tobacco Tax and Health Protection Act of 1988) state health-related education or research programs in effect as of November 1, 1998, and the Breast Cancer Fund programs that are funded by excise taxes on cigarettes and tobacco products. Funds shall be transferred from the California Children and Families Trust Fund to those affected programs as necessary to offset the revenue decrease directly resulting from the imposition of additional taxes by this act. These reimbursements shall occur, and at any times, as determined necessary to further the intent of this subdivision.

(d) *The California Children and Families Trust Fund shall be used to provide direct health care services, human services, including services for at-risk families who are involved with the child welfare system administered by the county welfare department, and direct early education services, including preschool and child care.* Moneys shall be allocated and appropriated from the California Children and Families Trust Fund, *except as authorized in subparagraph (H) of paragraph (1), and Section 30131.45 of the Revenue and Taxation Code,* as follows:

(1) Twenty percent shall be allocated and appropriated to separate accounts of the state commission for expenditure according to the following formula:

~~(A) Six percent shall be deposited in a Mass Media Communications Account for expenditures for communications to the general public utilizing television, radio, newspapers, and other mass media on subjects relating to and furthering the goals and purposes of this act, including, but not limited to, methods of nurturing and parenting that encourage proper childhood development, the informed selection of child care, information regarding health and social services, the prevention and cessation of tobacco, alcohol, and drug use by pregnant women, the detrimental effects of secondhand smoke on early childhood development, and to ensure that children are ready to enter school.~~

~~(B)~~

(A) Five percent shall be deposited in an Education Account for expenditures to ensure that children are ready to enter school and for programs relating to education, including, but not limited to, the development of educational materials, professional and parental education and training, and technical support for county commissions in the areas described in subparagraph (A) of paragraph (1) of subdivision (b) of Section 130125.

~~(C)~~

(B) Three percent shall be deposited in a Child Care Account for expenditures to ensure that children are ready to enter school and for

programs relating to child care, including, but not limited to, the education and training of child care providers, the development of educational materials and guidelines for child care workers, and other areas described in subparagraph (B) of paragraph (1) of subdivision (b) of Section 130125.

~~(D)~~

(C) Three percent shall be deposited in a Research and Development Account for expenditures to ensure that children are ready to enter school and for the research and development of best practices and standards for all programs and services relating to early childhood development established pursuant to this act, and for the assessment and quality evaluation of those programs and services.

~~(E)~~

(D) One percent shall be deposited in an Administration Account for expenditures for the administrative functions of the state commission. Any funds not needed for the administrative functions of the state commission may be transferred to the Unallocated Account described in subparagraph ~~(F)~~ *(E)*, upon approval by the state commission.

~~(F) Two~~

(E) Eight percent shall be deposited in an Unallocated Account for expenditure by the state commission for any of the purposes of this act described in Section 130100 provided that none of these moneys shall be expended for the administrative functions of the state commission. *The Unallocated Account shall be used to ensure that every county commission has a base level of funding of at least four hundred thousand dollars ($400,000).*

~~(G)~~

(F) In the event that, for whatever reason, the expenditure of any moneys allocated and appropriated for the purposes specified in subparagraphs (A) to ~~(F)~~ *(E)*, inclusive, is enjoined by a final judgment of a court of competent jurisdiction, then those moneys shall be available for expenditure by the state commission for mass media communication emphasizing the need to eliminate smoking and other tobacco use by pregnant women, the need to eliminate smoking and other tobacco use by persons under 18 years of age, and the need to eliminate exposure to secondhand smoke.

~~(H)~~

(G) Any moneys allocated and appropriated to any of the accounts described in subparagraphs (A) to ~~(F)~~ *(E)*, inclusive, that are not encumbered or expended within any applicable period prescribed by law shall (together with the accrued interest on the amount) revert to and remain in the same account for the next fiscal period.

(H) Notwithstanding subparagraph (G), balances of up to three hundred forty million dollars ($340,000,000), but not less than two hundred seventy-five million dollars ($275,000,000) in the accounts described in subparagraphs (A) to (E), inclusive, that are not encumbered or expended by July 1, 2009, shall be redirected to support state health and human services programs for children up to five years of age. The state commission shall ensure that these reserves are available for this purpose. For purposes of this subparagraph, "state health and human services programs" includes, but is not limited to, early intervention and prevention services for infants and toddlers with developmental disabilities, child welfare services, adoption assistance, foster care, kinship guardianship assistance payments (Kin-GAP), and direct health care services.

(2) Eighty percent shall be allocated and appropriated to county commissions in accordance with Section 130140.

(A) The moneys allocated and appropriated to county commissions shall be deposited in each local Children and Families Trust Fund administered by each county commission, and shall be expended only for the purposes authorized by this act and in accordance with the county strategic plan approved by each county commission. *Notwithstanding any other provision of law and the designation of the local Children and Families Trust Fund as a trust fund, the local controller may use the money in the fund for loans to the local general fund. Any such loan shall be repaid from the general fund with interest computed at the Pooled Money Investment Account rate, with the interest commencing to accrue on the date the loan is made from the fund or account. This subparagraph does not authorize any transfer that will interfere with the carrying out of the object for which this fund or those accounts were created.*

(B) Any moneys allocated and appropriated to any of the county commissions that are not encumbered or expended within any applicable period prescribed by law shall (together with the accrued interest on the amount) revert to and remain in the same local Children and Families Trust Fund for the next fiscal period under the same conditions as set forth in subparagraph (A).

(e) All grants, gifts, or bequests of money made to or for the benefit of the state commission from public or private sources to be used for early childhood development programs shall be deposited in the California Children and Families Trust Fund and expended for the specific purpose for which the grant, gift, or bequest was made. The amount of any such grant, gift, or bequest shall not be considered in computing the amount allocated and appropriated to the state commission pursuant to paragraph (1) of subdivision (d).

(f) All grants, gifts, or bequests of money made to or for the benefit of any county commission from public or private sources to be used for early childhood development programs shall be deposited in the local Children and Families Trust Fund and expended for the specific purpose for which the grant, gift, or bequest was made. The amount of any such grant, gift, or bequest shall not be considered in computing the amount allocated and appropriated to the county commissions pursuant to paragraph (2) of subdivision (d).

SEC. 2. Section 130150 of the Health and Safety Code is amended to read:

130150. (a) *(1)* On or before October 15 of each year, each county commission shall conduct an audit of, and issue a written report on the implementation and performance of, its functions during the preceding fiscal year, including, at a minimum, the manner in which funds were expended, the progress toward, and the achievement of, program goals and objectives, and information on programs funded and populations served for all funded programs.

On or before November 1 of each year, each county commission shall submit its audit and report to the state commission for inclusion in the state commission's consolidated report required in subdivision (b). Each commission shall submit its report in a format prescribed by the state commission if the state commission approves that format in a public meeting prior to the fiscal year during which it is to be used by the county commissions. The state commission shall develop the format in consultation with the county commissions.

(2) The audits and reports of each county commission shall be transmitted to its respective board of supervisors, the county auditor, and to the state commission. The county auditor shall serve on the local county commission in an ex-officio capacity.

(b) The state commission shall, on or before January 31 of each year, do both of the following:

(1) Conduct an audit and prepare a written report on the implementation and performance of the state commission functions during the preceding fiscal year, including, at a minimum, the manner in which funds were expended and the progress toward, and the achievement of, program goals and objectives.

(2) Prepare a written report that consolidates, summarizes, analyzes, and comments on the annual audits and reports submitted by all of the county commissions and the Controller for the preceding fiscal year. The written report shall include a listing, by category, of the aggregate expenditures on program areas funded by the state and county commissions pursuant to the purposes of this act, according to a format prescribed by the state commission. This report by the state commission shall be transmitted to the Governor, the Legislature, and each county commission.

(3) In the event a county commission does not submit the information

prescribed in subdivision (a), the state commission may withhold funds that would otherwise have been allocated to the county commission from the California Children and Families Trust Fund pursuant to Section 130140 until the county commission submits the data as required by subdivision (a).

(c) The state commission shall make copies of each of its annual audits and reports available to members of the general public on request and at no cost. The state commission shall furnish each county commission with copies of those documents in a number sufficient for local distribution by the county commission to members of the general public on request and at no cost.

(d) Each county commission shall make copies of its annual audits and reports available to members of the general public on request and at no cost.

SEC. 3. Section 30131.4 of the Revenue and Taxation Code is amended to read:

30131.4. (a) All moneys raised pursuant to taxes imposed by Section 30131.2 shall be appropriated and expended only for the purposes expressed in the California Children and Families Act, and shall be used only to supplement existing levels of service and not to fund existing levels of service, *except as authorized in subparagraph (H) of paragraph (1) of subdivision (d) of Section 130105 of the Health and Safety Code and Section 30131.45*. No moneys in the California Children and Families Trust Fund shall be used to supplant state or local General Fund money for any purpose.

(b) Notwithstanding any other provision of law and the designation of the California Children and Families Trust Fund as a trust fund, the Controller may use the money raised pursuant to Section 30131.2 for the California Children and Families Trust Fund and all accounts created pursuant to subdivision (d) of Section 130105 of the Health and Safety Code *and Section 30131.45* for loans to the General Fund as provided in Sections 16310 and 16381 of the Government Code. Any such loan shall be repaid from the General Fund with interest computed at 110 percent of the Pooled Money Investment Account rate, with the interest commencing to accrue on the date the loan is made from the fund or account. This subdivision does not authorize any transfer that will interfere with the carrying out of the object for which this fund or those accounts were created.

SEC. 4. Section 30131.45 is added to the Revenue and Taxation Code, to read:

30131.45. Prior to the distribution of moneys from the California Children and Families Trust Fund as provided under Section 130105 of the Health and Safety Code, for state fiscal years 2009–10, 2010–11, 2011–12, 2012–13, and 2013–14, two hundred sixty-eight million dollars ($268,000,000) shall be transferred annually to the Proposition 10 Health and Human Services Fund, which is hereby created in the State Treasury, to support state health and human services programs for children up to five years of age. These funds shall be expended, upon appropriation by the Legislature, as part of the annual budget process or in another statute. For purposes of this section, "state health and human services programs" include, but is not limited to, early intervention and prevention services for infants and toddlers with developmental disabilities, child welfare services, adoption assistance, foster care, kinship guardianship assistance payments (Kin-GAP), and direct health care services.

PROPOSITION 1E

This amendment proposed by Senate Bill 10 of the 2009–2010 Third Extraordinary Session (Chapter 15, 2009–2010 Third Extraordinary Session) is submitted to the people in accordance with Section 10 of Article II of the California Constitution.

This proposed law amends sections of the Welfare and Institutions Code; therefore, provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Section 5891 of the Welfare and Institutions Code is amended to read:

5891. (a) The funding established pursuant to this act shall be utilized to expand mental health services. ~~These~~ *Except as authorized in paragraph (7) of subdivision (a) of Section 5892, these* funds shall not be used to supplant existing state or county funds utilized to provide mental health services. ~~The~~ *Except as authorized in paragraph (7) of subdivision (a) of Section 5892,* state shall continue to provide financial support for mental health programs with not less than the same entitlements, amounts of allocations from the General Fund and formula distributions of dedicated funds as provided in the last fiscal year which ended prior to the effective date of this act. The state shall not make any change to the structure of financing mental health services, which increases a county's share of costs or financial risk for mental health services unless the state includes adequate funding to fully compensate for such increased costs or financial risk. These funds shall only be used to pay for the programs authorized in Section 5892. These funds may not be used to pay for any other program. These funds may not be loaned to the state General Fund or any other fund of the state, or a county general fund or any other county fund for any purpose other than those authorized by Section 5892.

(b) Notwithstanding subdivision (a), the Controller may use the funds created pursuant to this part for loans to the General Fund as provided in Sections 16310 and 16381 of the Government Code. Any such loan shall be repaid from the General Fund with interest computed at 110 percent of the Pooled Money Investment Account rate, with interest commencing to accrue on the date the loan is made from the fund. This subdivision does not authorize any transfer that would interfere with the carrying out of the object for which these funds were created.

SEC. 2. Section 5892 of the Welfare and Institutions Code is amended to read:

5892. (a) In order to promote efficient implementation of this act allocate the following portions of funds available in the Mental Health Services Fund in 2005–06 and each year thereafter:

(1) In 2005–06, 2006–07, and in 2007–08 10 percent shall be placed in a trust fund to be expended for education and training programs pursuant to Part 3.1.

(2) In 2005–06, 2006–07 and in 2007–08 10 percent for capital facilities and technological needs distributed to counties in accordance with a formula developed in consultation with the California Mental Health Directors Association to implement plans developed pursuant to Section 5847.

(3) Twenty percent for prevention and early intervention programs distributed to counties in accordance with a formula developed in consultation with the California Mental Health Directors Association pursuant to Part 3.6 (commencing with Section 5840) of this division. Each county's allocation of funds shall be distributed only after its annual program for expenditure of such funds has been approved by the Mental Health Services Oversight and Accountability Commission established pursuant to Section 5845.

(4) The allocation for prevention and early intervention may be increased in any county which the department determines that such increase will decrease the need and cost for additional services to severely mentally ill persons in that county by an amount at least commensurate with the proposed increase. The statewide allocation for prevention and early intervention may be increased whenever the Mental Health Services Oversight and Accountability Commission determines that all counties are receiving all necessary funds for services to severely mentally ill persons and have established prudent reserves and there are additional revenues available in the fund.

(5) The balance of funds shall be distributed to county mental health programs for services to persons with severe mental illnesses pursuant to Part 4 (commencing with Section 5850), for the children's system of care and Part 3 (commencing with Section 5800), for the adult and older adult system of care.

(6) Five percent of the total funding for each county mental health program for Part 3 (commencing with Section 5800), Part 3.6 (commencing with Section 5840), and Part 4 (commencing with Section 5850) of this division, shall be utilized for innovative programs pursuant to an approved plan required by Section 5830 and such funds may be distributed by the department only after such programs have been approved by the Mental Health Services Oversight and Accountability Commission established pursuant to Section 5845.

(7) Prior to the distribution of funds under paragraphs (1) to (5), inclusive, effective July 1, 2009, the sum of two hundred twenty-six million seven hundred thousand dollars ($226,700,000) shall be redirected to support the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program as administered by the State Department of Mental Health for the 2009–10 fiscal year. For the 2010–11 fiscal year prior to the distribution of funds under paragraphs (1) to (5), inclusive, effective July 1, 2010, the sum of two hundred twenty-six million seven hundred thousand dollars ($226,700,000) shall be redirected to support the EPSDT program, except that this amount may be adjusted to fund caseload as appropriate in the EPSDT program, but the total amount redirected for the 2010–11 fiscal year shall not exceed the sum of two hundred thirty-four million dollars ($234,000,000). This paragraph shall become inoperative on July 1, 2011.

(b) In any year after 2007–08, programs for services pursuant to Part 3 (commencing with Section 5800), and Part 4 (commencing with Section 5850) of this division may include funds for technological needs and capital facilities, human resource needs, and a prudent reserve to ensure services do not have to be significantly reduced in years in which revenues are below the average of previous years. The total allocation for purposes authorized by this subdivision shall not exceed 20 percent of the average amount of funds allocated to that county for the previous five years pursuant to this section.

(c) The allocations pursuant to subdivisions (a) and (b) shall include funding for annual planning costs pursuant to Section 5848. The total of such costs shall not exceed 5 percent of the total of annual revenues received for the fund. The planning costs shall include funds for county mental health programs to pay for the costs of consumers, family members and other stakeholders to participate in the planning process and for the planning and implementation required for private provider contracts to be significantly expanded to provide additional services pursuant to Part 3 (commencing with Section 5800), and Part 4 (commencing with Section 5850) of this division.

(d) Prior to making the allocations pursuant to subdivisions (a), (b) and (c), the department shall also provide funds for the costs for itself, the California Mental Health Planning Council and the Mental Health Services Oversight and Accountability Commission to implement all duties pursuant to the programs set forth in this section. Such costs shall not exceed 5 percent of the total of annual revenues received for the fund. The administrative costs shall include funds to assist consumers and family members to ensure the appropriate state and county agencies give full consideration to concerns about quality, structure of service delivery or access to services. The amounts allocated for administration shall include amounts sufficient to ensure adequate research and evaluation regarding the effectiveness of services being provided and achievement of the outcome measures set forth in Part 3 (commencing with Section 5800), Part 3.6 (commencing with Section 5840), and Part 4 (commencing with Section 5850) of this division.

(e) In 2004–05 funds shall be allocated as follows:

(1) 45 percent for education and training pursuant to Part 3.1 (commencing with Section 5820) of this division.

(2) 45 percent for capital facilities and technology needs in the manner specified by paragraph (2) of subdivision (a).

(3) 5 percent for local planning in the manner specified in subdivision (c) and

(4) 5 percent for state implementation in the manner specified in subdivision (d).

(f) Each county shall place all funds received from the State Mental Health Services Fund in a local Mental Health Services Fund. The Local Mental Health Services Fund balance shall be invested consistent with other county funds and the interest earned on such investments shall be transferred into the fund. The earnings on investment of these funds shall be available for distribution from the fund in future years.

(g) All expenditures for county mental health programs shall be consistent with a currently approved plan or update pursuant to Section 5847.

(h) Other than funds placed in a reserve in accordance with an approved plan, any funds allocated to a county which have not been spent for their authorized purpose within three years shall revert to the state to be deposited into the fund and available for other counties in future years, provided however, that funds for capital facilities, technological needs or education and training may be retained for up to 10 years before reverting to the fund.

(i) If there are still additional revenues available in the fund after the Mental Health Services Oversight and Accountability Commission has determined there are prudent reserves and no unmet needs for any of the programs funded pursuant to this section, including all purposes of the Prevention and Early Intervention Program, the commission shall develop a plan for expenditures of such revenues to further the purposes of this act and the Legislature may appropriate such funds for any purpose consistent with the commission's adopted plan which furthers the purposes of this act.

PROPOSITION 1F

This amendment proposed by Senate Constitutional Amendment 8 of the 2009–2010 Regular Session (Resolution Chapter 3, Statutes of 2009) expressly amends the California Constitution by amending a section thereof; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

PROPOSED AMENDMENT TO SECTION 8 OF ARTICLE III

SEC. 8. (a) The California Citizens Compensation Commission is hereby created and shall consist of seven members appointed by the Governor. The commission shall establish the annual salary and the medical, dental, insurance, and other similar benefits of state officers.

(b) The commission shall consist of the following persons:

(1) Three public members, one of whom has expertise in the area of compensation, such as an economist, market researcher, or personnel manager; one of whom is a member of a nonprofit public interest organization; and one of whom is representative of the general population and may include, among others, a retiree, homemaker, or person of median income. No person appointed pursuant to this paragraph may, during the 12 months prior to his or her appointment, have held public office, either elective or appointive, have been a candidate for elective public office, or have been a lobbyist, as defined by the Political Reform Act of 1974.

(2) Two members who have experience in the business community, one of whom is an executive of a corporation incorporated in this State which ranks among the largest private sector employers in the State based on the number of employees employed by the corporation in this State and one of whom is an owner of a small business in this State.

(3) Two members, each of whom is an officer or member of a labor organization.

(c) The Governor shall strive insofar as practicable to provide a balanced representation of the geographic, gender, racial, and ethnic diversity of the State in appointing commission members.

(d) The Governor shall appoint commission members and designate a chairperson for the commission not later than 30 days after the effective date of this section. The terms of two of the initial appointees shall expire on December 31, 1992, two on December 31, 1994, and three on December 31, 1996, as determined by the Governor. Thereafter, the term of each member shall be six years. Within 15 days of any vacancy, the Governor shall appoint a person to serve the unexpired portion of the term.

(e) No current or former officer or employee of this State is eligible for appointment to the commission.

(f) Public notice shall be given of all meetings of the commission, and the meetings shall be open to the public.

(g) On or before December 3, 1990, the commission shall, by a single resolution adopted by a majority of the membership of the commission, establish the annual salary and the medical, dental, insurance, and other similar benefits of state officers. The annual salary and benefits specified in that resolution shall be effective on and after December 3, 1990.

Thereafter, at or before the end of each fiscal year, the commission shall, by a ~~single~~ resolution adopted by a majority of the membership of the commission, adjust ~~the annual salary and~~ the medical, dental, insurance, and other similar benefits of state officers. The ~~annual salary and~~ benefits specified in the resolution shall be effective on and after the first Monday of the next December.

Thereafter, at or before the end of each fiscal year, the commission shall adjust the annual salary of state officers by a resolution adopted by a majority of the membership of the commission. The annual salary specified in the resolution shall be effective on and after the first Monday of the next December, except that a resolution shall not be adopted or take effect in any year that increases the annual salary of any state officer if, on or before the immediately preceding June 1, the Director of Finance certifies to the commission, based on estimates for the current fiscal year, that there will be a negative balance on June 30 of the current fiscal year in the Special Fund for Economic Uncertainties in an amount equal to, or greater than, 1 percent of estimated General Fund revenues.

(h) In establishing or adjusting the annual salary and the medical, dental, insurance, and other similar benefits, the commission shall consider all of the following:

(1) The amount of time directly or indirectly related to the performance of the duties, functions, and services of a state officer.

(2) The amount of the annual salary and the medical, dental, insurance, and other similar benefits for other elected and appointed officers and officials in this State with comparable responsibilities, the judiciary, and, to the extent practicable, the private sector, recognizing, however, that state officers do not receive, and do not expect to receive, compensation at the same levels as individuals in the private sector with comparable experience and responsibilities.

(3) The responsibility and scope of authority of the entity in which the state officer serves.

(4) Whether the Director of Finance estimates that there will be a negative balance in the Special Fund for Economic Uncertainties in an amount equal to or greater than 1 percent of estimated General Fund revenues in the current fiscal year.

(i) Until a resolution establishing or adjusting the annual salary and the medical, dental, insurance, and other similar benefits for state officers takes effect, each state officer shall continue to receive the same annual salary and the medical, dental, insurance, and other similar benefits received previously.

(j) All commission members shall receive their actual and necessary expenses, including travel expenses, incurred in the performance of their duties. Each member shall be compensated at the same rate as members, other than the chairperson, of the Fair Political Practices Commission, or its successor, for each day engaged in official duties, not to exceed 45 days per year.

(k) It is the intent of the Legislature that the creation of the commission should not generate new state costs for staff and services. The Department of Personnel Administration, the Board of Administration of the Public Employees' Retirement System, or other appropriate agencies, or their successors, shall furnish, from existing resources, staff and services to the commission as needed for the performance of its duties.

(*l*) "State officer," as used in this section, means the Governor, Lieutenant Governor, Attorney General, Controller, Insurance Commissioner, Secretary of State, Superintendent of Public Instruction, Treasurer, member of the State Board of Equalization, and Member of the Legislature.

PROPOSITION **1A**

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

OFFICIAL TITLE AND 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.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Higher state tax revenues of roughly $16 billion from 2010–11 through 2012–13 to help balance the state budget.
- In many years, increased amounts of money in state "rainy day" reserve fund.
- Potentially less ups and downs in state spending over time.
- Possible greater state spending on repaying budgetary borrowing and debt, infrastructure projects, and temporary tax relief. In some cases, this would mean less money available for ongoing spending.

FINAL VOTES CAST BY THE LEGISLATURE ON ACA 1 (PROPOSITION 1A)

Senate:	Ayes 30	Noes 8
Assembly:	Ayes 74	Noes 6

FINAL VOTES CAST BY THE LEGISLATURE ON SCA 13 (PROPOSITION 1A)

Senate:	Ayes 39	Noes 0
Assembly:	Ayes 64	Noes 6

ANALYSIS BY THE LEGISLATIVE ANALYST

OVERVIEW OF THE PROPOSAL

Measure Changes the State's Budgeting. This measure would make major changes to the way in which the state sets aside money in one of its "rainy day" reserve accounts and how this money is spent. As a result, Proposition 1A could have significant impacts on the state's budgeting practices in the future. The measure would tend to increase the amount of money set aside in the state's rainy day account by increasing how much money is put into this account and restricting the withdrawal of these funds.

Measure Results in Tax Increases. If this measure is approved, several tax increases passed as part of the February 2009 budget package would be extended by one to two years. State tax revenues would increase by about $16 billion from 2010–11 through 2012–13.

BACKGROUND

Restrictions on Annual State Budget

Currently, the State Constitution has two main provisions related to the state's overall level of spending:

- ***Spending Limit.*** There is a limit on the amount of tax revenues that the state can spend each year. In recent years, however, the limit has been well above the state's level of spending and has not been a factor in budgeting decisions.
- ***Balanced Budget.*** In March 2004, the state's voters passed Proposition 58. Among other changes, the measure requires that the Legislature pass a balanced budget each year.

Outside of these requirements, the Legislature and Governor are generally able to decide how much General Fund money to spend in a given year.

Rainy Day Reserve Funds

When the state passes its annual budget, it estimates the amount of revenues that it expects to receive in the upcoming year. Typically, the state sets aside a portion of these revenues into one of two rainy day reserve funds. Money in these reserves is set aside to pay for unexpected expenses, cover any drops in tax receipts, or save for future years. The two funds are described below.

- ***Special Fund for Economic Uncertainties (SFEU).*** The SFEU is the state's traditional reserve fund. Funds can be spent for any purpose with approval by the Legislature. Any unexpected monies received during a year are automatically deposited into the SFEU.
- ***Budget Stabilization Account/Budget Stabilization Fund (BSA/BSF).*** The state's voters created the BSA/BSF through the passage of Proposition 58 in 2004. (Under current law, this reserve is known as the BSA. Proposition 1A would rename it the BSF. For simplicity, we refer to the reserve as the BSF throughout this analysis.) Each year, 3 percent of estimated General Fund state revenues are transferred into the BSF. The Governor, however, can stop the transfer in any year by issuing an executive order. For instance, the transfer this year was stopped due to the state's budget problems. Similarly, it is expected that the transfers will be suspended over the next few years as the state continues to face budget problems. In addition, the annual transfers are not made once the balance of the BSF reaches a specified "target"—the higher amount of $8 billion or 5 percent of revenues (currently about $5 billion). By passing a law, the state can transfer funds out of the BSF and use the funds for any purpose. (Currently, this is accomplished through the annual budget act, which allows transfers out of the BSF each year.)

Economic Recovery Bonds (ERBs). In 2004, the state's voters passed Proposition 57, which allowed the state to issue $15 billion in ERBs. These bonds were used to pay off budgetary debt that had accumulated in the early part of this decade. A portion of the sales and use tax (SUT) is the primary mechanism to pay off the ERBs. However, one-half of the funds deposited into the BSF—up to a total of $5 billion—are used to make extra payments on the ERBs to pay them off faster. To date, $1.5 billion in BSF funds have been used in this manner.

Authority to Reduce Spending

Once the annual budget has been approved by the Legislature and the Governor, the Governor has only limited authority to reduce spending during the year without legislative approval.

Recent Tax Increases

As discussed in the "Overview of the State Budget" section of this guide, the Legislature and Governor passed a plan in February 2009 to balance the state's 2008–09 and 2009–10 budgets. The plan included a number of tax increases that are scheduled to remain in effect for about two years (unless the voters approve this measure). Specifically:

- ***Sales and Use Tax.*** The SUT is charged on the purchase of goods. The budget package raised the tax by one cent for every dollar of goods purchased. This raised the average SUT rate in the state from about 8 percent to 9 percent through 2010–11.

For text of Proposition 1A, see page 46.

- *Vehicle License Fee (VLF).* The VLF is based on the value of a vehicle and is paid annually as part of an owner's registration. The budget package raised the tax rate from 0.65 percent to 1.15 percent of a vehicle's value through 2010–11.
- *Personal Income Tax (PIT).* The PIT is based on an individual's income. Tax rates range from 1 percent to 10.3 percent depending on a taxpayer's income. Higher tax rates are charged as income increases. Numerous exemptions and credits may be applied to an individual's income to lower the amount of the tax owed. The budget package raises each tax rate by a 0.25 percentage point. (This rate increase will be reduced by one-half if it is determined by April 1, 2009 that the state will receive a certain level of federal funds to help balance the state budget.) For instance, the 9.3 percent tax rate was raised to 9.55 percent. The package also reduces the value of the credit for having a dependent (such as a child) by about $210. These changes would affect the 2009 and 2010 tax years.

PROPOSAL

This measure amends the Constitution to change the state's budgeting practices. Based on other components of the 2009–10 budget package, passage of this measure would also give the Governor more authority to cut spending and would extend recent tax increases by up to two years.

Use of Extra Revenues in Certain Years

Proposition 1A establishes a process to determine which revenues are "unanticipated." The measure generally defines unanticipated revenues to mean those that exceed the amount expected based on the revenues received by the state over the past ten years. The ten-year trend would be adjusted to exclude the impact of shorter-term tax changes. (In other cases, unanticipated revenues could be defined as any revenues above the amount needed to pay for spending equal to the prior year's level of spending grown for changes in population and inflation.) Beginning in 2010–11, any extra revenues would be directed to the following purposes (in priority order):

- Meet funding obligations under the Constitution for K–14 education not already paid. (An existing formula established by Proposition 98 determines how much of higher revenues go to education.)
- Transfer to the BSF to fill the reserve up to its target.
- Pay off any budgetary borrowing and debt, such as certain loans and ERBs.

Once all of these types of payments were made, any other extra revenues could be spent on a variety of purposes, including further building up of the BSF, paying for infrastructure (such as constructing roads, schools, or state buildings), providing one-time tax relief, or paying off unfunded health care liabilities for state employees.

Revenues Into the BSF

Increased Reserve Target. This measure increases the amount of the BSF reserve target to 12.5 percent of state revenues. This percentage is currently equal to about $12 billion, but would grow over time. This compares to the existing target of the higher of $8 billion or 5 percent of revenues.

Suspension of Transfers More Restricted. Under the measure, the circumstances in which the Governor may stop a transfer to the BSF would be limited. Beginning in the 2011–12 fiscal year, the Governor could only stop the BSF transfer in years when the state did not have enough revenues to pay for state spending equal to the prior year's level of spending grown for changes in population and inflation.

Extra Revenues to Reserve in Certain Years. As noted above, one of the priorities for extra revenues would be to build up the BSF.

Spending Out of the BSF

New Spending Requirements. As described above, funds in the BSF currently can be transferred out of the fund to the General Fund for spending for any purpose through the passage of a law. Under this measure, some revenues in the BSF would be spent on particular purposes:

- *Increased Education Spending, if Proposition 1B Passes.* If both Proposition 1A and Proposition 1B on this ballot pass, the state would be required to pay K–12 schools and community colleges $9.3 billion in supplemental funds to address recent funding reductions. This measure establishes the way in which these payments would be made. Each year beginning in 2011–12, 1.5 percent of state revenues (currently about $1.5 billion) would be taken from the BSF and paid to schools and colleges until the entire $9.3 billion was paid. Regardless of the state's financial situation, these payments could not be suspended by the Governor. As a result, at least 1.5 percent of General Fund revenues would be transferred into the BSF every year until the entire amount was paid.

- ***Spending on Infrastructure and State Bond Debt.*** After the $9.3 billion in educational payments were made (or if Proposition 1B does not pass), 1.5 percent of state revenues each year would be dedicated to paying for infrastructure or state bond debt. These payments could be used to reduce obligations that would otherwise fall on the General Fund.

Smaller Payments to Pay Off ERBs. Under current law, one-half of transfers into the BSF—up to $5 billion total—is used to make extra ERB payments. This measure excludes the supplemental education funding transfers from this calculation. In years when transfers are made into the BSF (assuming Proposition 1B passes), therefore, the extra ERB payments would be smaller than otherwise.

Limits on Other Withdrawals. The ability of the state to transfer funds out of the BSF for other purposes would be significantly limited under the measure. Specifically, transfers out of the BSF would be limited to the following two situations:

- Funds in the BSF could be used to cover any costs associated with an emergency, such as a fire, earthquake, or flood.
- If revenues were not high enough to cover state spending equal to the prior year's level of expenses (grown for population and inflation), then BSF funds could be used to meet that level of spending.

Governor's Authority to Reduce Spending

If Proposition 1A passes, the Governor would be given new authority to reduce certain types of spending during a fiscal year without additional legislative approval. (This authority is included in a part of a new law that will only go into effect if Proposition 1A passes.) Specifically, the Governor could reduce:

- Many types of spending for general state operations (such as equipment purchases) or capital outlay by up to 7 percent.
- Cost-of-living adjustments (COLAs)—provided to account for inflation—for any programs specified in the annual budget. This would not apply to any increases for most state employees' salaries.

Tax Increases Extended

If Proposition 1A passes, the tax increases included in the February 2009 budget package would be extended for one or two additional years. (The extensions of the tax increases are included in a part of a law that will only go into effect if Proposition 1A passes.) The SUT increase of 1 cent would be extended for one year through 2011–12. The VLF tax increase would be extended for two years through 2012–13. The PIT-related tax increases would also be extended for two more years, through the 2012 tax year.

FISCAL EFFECTS

Uncertainty About the Effect of the Measure

The fiscal effects of Proposition 1A are particularly difficult to assess. This is because the measure's effects would depend on a variety of factors that will change over time and cannot be accurately predicted. Consequently, the measure's effects may be very different from one year to the next. The key factors determining the impact of Proposition 1A in any given year are:

- ***Future Budget Decisions by the Legislature and Governor.*** Key decisions made on the annual budget include the total level of

For text of Proposition 1A, see page 46.

spending and the mix of spending between one-time and ongoing purposes. These decisions would affect the state's fiscal condition and how much money is deposited or withdrawn from the BSF in a given year.

- ***Revenue Trends and Volatility.*** The level of revenues available for spending in a given year would depend on the previous ten years of revenue growth. The state's revenues are very volatile and can have big swings from year to year. Using the trend from ten years of revenues would reduce—but not eliminate—year-to-year changes.

Despite this uncertainty, we describe the more likely outcomes of the measure below—focusing first on nearer-term effects and then on a longer-term outlook.

Nearer-Term Budgets

Proposition 1A would have major effects on the state budget over the next few years. Although Proposition 1A was passed as part of the package to balance the 2009–10 budget, it would not significantly affect this year's budget. Most of its provisions go into effect starting with the 2010–11 budget or later, as described below.

Increased Tax Revenues. If Proposition 1A is approved, tax increases adopted as part of the 2009–10 budget package would be extended by one to two years. In total, this extension of higher taxes is projected to increase revenues by a total of roughly $16 billion from 2010–11 through 2012–13. (This total would be about $2.5 billion lower if a certain level of federal stimulus funds is available to the state.)

Governor's Ability to Reduce Some Spending. Effective upon passage of this measure, the Governor would have new authority to unilaterally reduce some spending for state operations and capital outlay and eliminate some COLAs. This authority could potentially be used to reduce spending within a fiscal year if the budget goes out of balance after it is passed.

Higher Payments to Education. If Proposition 1B also passes, the state would divert 1.5 percent of annual General Fund revenues beginning in 2011–12 to make supplemental payments for education. These payments would be made until a total of $9.3 billion had been spent, likely in five or six years. These payments could not be suspended. The fiscal effect of these payments is discussed in more detail in the analysis of Proposition 1B.

Altered Pay Off of ERBs. As described above, this measure could alter the speed at which the state pays off its outstanding ERBs (bonds related to prior budgetary debt). In years when the only transfers made into the BSF were the base 3 percent of revenues (and assuming Proposition 1B also passes), the measure would reduce the amount of the extra ERB payments made from the BSF by one-half (reducing state costs in that year by more than $700 million). On the other hand, to the extent that additional transfers to the BSF were made related to unanticipated revenues, extra BSF payments to ERBs could be made compared to current law. These changes would affect the timing of the final payoff of the ERBs. Once the ERBs are paid off, the state would experience reduced General Fund costs on an annual basis.

Limited Ability to Suspend BSF Transfers. Under current law, the Governor may suspend BSF transfers in any year and, therefore, allow 3 percent of revenues to be available to help balance a budget immediately. In contrast, beginning in 2011–12 (if Proposition 1B also passes), this measure would eliminate the ability to suspend one-half of the transfer related to supplemental educational payments. For the remaining amount of the transfer, the transfer could only be suspended in more restricted cases.

Transfer of Extra Revenues to BSF. Beginning in 2010–11, this measure would require transfers of General Fund revenues into the BSF of amounts that exceed the ten-year revenue trend. It is difficult to predict what this calculation would require in future years. It is possible, however, that this provision would require billions of dollars in the next few years to be transferred to the BSF.

Net Result of These Factors. Some of these factors—such as the higher tax revenues—would make it easier to balance the state budget in the coming years. Other factors—such as the limited ability to suspend the annual transfers to the BSF—could make it more difficult. The net result of these factors is difficult to determine in any particular year. In 2011–12, the size of the tax increases

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

connected to this measure would likely make that year's budget easier to balance. In other years, however, the effect of the measure on the ability of the state to balance the budget is unknown.

Longer-Term Outlook

As described above, this measure has a number of effects that would last for less than a decade—including higher taxes, supplemental payments to education, and altered payoff of the ERBs. Once these effects have run their course, Proposition 1A could continue to have a substantial effect on the state's budgeting practices. In this section, we describe the possible long-term effects of this measure.

Restrictions on Revenues and Spending. In any given year, Proposition 1A does not strictly limit the amount of revenues that could be collected by the state or the amount of spending that could occur. The measure does not restrict the ability of the Legislature and the Governor to approve tax increases to collect on top of existing revenues. Regarding spending, while the measure could make it harder to approve spending increases in some years by restricting the access to revenues, it would not cap the total level of spending that could be authorized in any year if alternative revenues were approved.

More Money in the BSF. In some years, the measure could lower the amount of money in the BSF rainy day reserve by allowing 1.5 percent of General Fund revenues to be spent on infrastructure. In many other cases, however, the measure would increase the amount of money in the state's BSF rainy day reserve by:

- Restricting the ability of the Governor to stop the annual transfer into the reserve.
- Restricting the purposes for which funds can be taken out.
- Requiring revenues above a decade-long trend to be deposited into the fund.
- Raising the target cap on funds in the BSF (from 5 percent or $8 billion) to 12.5 percent of revenues.

On net, we expect that the balance of the BSF would be greater than under current law in many future years. The net amount of additional money in the BSF would depend on a number of factors, including future budgeting decisions by the Legislature and Governor and the rate and volatility of revenue growth.

Effect on State Budgeting. The precise effect of having more rainy day funds is unknown. However, it could lead to the following primary types of results:

- ***Revenues Determined by Prior Ten Years.*** Currently, the state's revenues available for spending in a year is determined by the state's economic condition at that point in time. A poor economy means less revenues, and a booming economy means extra revenues. Under the measure, however, revenues available generally would be based on the past decade. As a result, the amount of revenues available may no longer reflect the state's economy at that time.
- ***Smoother State Spending.*** The level of state spending would be reduced to the extent the BSF was built up to a higher level than would exist under current law. These funds would then be available in later years when revenues fell short. This could help cushion the level of spending reductions in lower-revenue years. Over time, this measure could help limit the ups and downs of state spending and smooth out spending from year to year.
- ***Changes in Types of Spending.*** The state would spend money on different types of programs than otherwise would be the case. The measure, for example, could increase spending on a variety of one-time activities—such as repaying budgetary borrowing and debt, infrastructure projects, and temporary tax relief. In some cases, this would mean less money was available to spend on ongoing spending increases.

For text of Proposition 1A, see page 46.

FISCAL EFFECTS

This measure's fiscal effect would depend on a number of key factors, including:

- ***Interpretation of Current Law.*** Because there is uncertainty over how the Constitution would be interpreted in its current form, it is unknown how Proposition 98 funding would work in the future under current law. As a result, it is difficult to know how this measure would change the state's finances.
- ***Economic and Revenue Outlook.*** The Proposition 98 minimum guarantee changes each year in large part due to changes in the state's economy and revenues. Thus, shifts in the economy and revenues can change the minimum guarantee by billions of dollars.
- ***Passage of Proposition 1A.*** If Proposition 1A is not approved by the state's voters, this measure would have no fiscal effect. Funding for Proposition 98 would be determined by interpreting the Constitution in its current form.

While these factors are uncertain, we describe below the likely effects of this measure for both the near- and the longer-term, assuming that Proposition 1A also passes.

Savings in Near Term. In 2009–10 and 2010–11, the measure could result in annual savings. This is because the measure could postpone maintenance factor payments that otherwise would have been made in these years. Any such savings could be up to several billion dollars each year. Under other interpretations of current law, however, this measure would result in no savings in 2009–10 and/or 2010–11.

Costs in Long Term. In 2011–12, the state would begin making supplemental payments. The $9.3 billion in payments likely would be paid over a five-to-six year period. As noted above, the long-term effect of these payments is subject to considerable uncertainty. Under most situations, however, costs for K–14 education likely would be higher than under current law—potentially by billions of dollars each year.

For text of Proposition 1B, see page 48.

Supplemental Payments in Place of Maintenance Factor Payments. These payments would replace any payments that the state would otherwise be required to make under current law for maintenance factor obligations created in 2007–08 and 2008–09. The measure, however, does not clarify the uncertainty regarding maintenance factor in Test 1 years for the future.

Distribution of Funds. The measure gives discretion to the Legislature and the Governor regarding how these payments would be distributed between K–12 education and community colleges. For any funds provided to K–12 education, the measure requires that the payments be made for revenue limits. Of the 2011–12 payment, up to $200 million can be provided to school districts with low per-pupil revenue limit amounts to equalize revenue limit payments among districts. All other K–12 payments would be distributed based on districts' per-pupil revenue limit rates. The measure makes no specific requirements on how any money provided to community colleges is to be used.

Measure Linked to Proposition 1A. The funding mechanism for making the supplemental payments established in this measure is provided in Proposition 1A, also on this ballot. That measure establishes a Supplemental Education Payment Account and requires the state to annually deposit 1.5 percent of General Fund revenues into the account, beginning in 2011–12. These funds would be put into the account annually until the entire $9.3 billion in supplemental payments had been provided. If Proposition 1A is not approved by the voters, the provisions of this measure would not go into effect, and there would be no obligation to make $9.3 billion in supplemental payments.

Unclear How the Constitution Would Be Interpreted

Two issues have arisen over how the maintenance factor is supposed to work in Test 1 years—how it is created and how it is paid back.

Maintenance Factor Obligation in 2008–09 Is Unknown. The first issue relates to whether the state creates a maintenance factor obligation in a year when Test 1 is applied. Historically, a maintenance factor obligation generally has been created when *Test 3* applies. It is unclear whether a maintenance factor is created when *Test 1* applies and is lower than Test 2. Some believe a maintenance factor is created in this situation. If so, this could result in an additional maintenance factor obligation of $7.9 billion being created in 2008–09 (for a total outstanding maintenance factor obligation of $9.3 billion). Others believe that no maintenance factor is generated under this situation.

Method of Paying Maintenance Factor Also Unclear. The second issue relates to how the maintenance factor (from previous years) is paid in a Test 1 year. One interpretation is that maintenance factor payments are to be made on top of the Test 1 level. A second interpretation is that maintenance factor payments are to be made on top of the Test 2 level. Because the Test 1 level is expected to be significantly higher than the Test 2 level in 2009–10, the first interpretation could result in a significantly higher minimum guarantee in 2009–10.

Legislature Can Override Tests. The test that applies in any particular year depends upon a number of factors. The Legislature and the Governor, however, can override these tests and provide *less* than otherwise required. They can do so by suspending Proposition 98, which requires a two-thirds vote of each house of the Legislature and the approval of the Governor. As part of the regular state budget process, the Legislature and the Governor also can provide *more* than otherwise required.

Maintenance Factor

A Future Funding Obligation Is Created in Certain Proposition 98 Situations. Historically, Proposition 98 has created a future funding obligation—commonly called a maintenance factor—in two specific situations. It has created a maintenance factor when (1) the minimum guarantee is determined under Test 3 or (2) Proposition 98 has been suspended. In both cases, the state keeps track of the difference between the higher Proposition 98 amount that otherwise could have been required and the amount of funding actually provided to K–14 education in that year. As of the end of 2007–08, the state has an outstanding maintenance factor obligation of $1.4 billion.

Maintenance Factor Payments Based on Growth in General Fund Revenues. Proposition 98 requires the state to provide additional payments in future years until the maintenance factor (or funding gap) has been closed. Historically, education funding has been built up in future years to the level it would have otherwise reached (absent the previous decisions to spend below the Test 2 level or suspend). The minimum amount of maintenance factor that must be paid in one year depends on how quickly state revenues grow. When state revenues grow quickly, larger payments are made, and the obligation is paid off in a shorter period of time. These maintenance factor payments become part of the base for calculating the next year's Proposition 98 minimum guarantee.

Different Interpretations of Test 1 Years. Based on revenue estimates at the time this analysis was prepared, the minimum guarantee would be determined by Test 1 in 2008–09 and 2009–10. Other than the first year under Proposition 98 (1988–89), the state has always calculated the minimum guarantee using either Test 2 or Test 3. Two issues have arisen over how the maintenance factor is supposed to work under Test 1 years. These issues are described in more detail in the nearby box. Much disagreement exists over these issues, with different interpretations potentially resulting in very different Proposition 98 funding requirements.

K–12 Revenue Limits

Revenue Limits Provide Per-Pupil Funding for General Education Purposes. Approximately two-thirds of Proposition 98 funding for school districts is used for K–12 revenue limits. Revenue limits provide funding for general education purposes—that is, few requirements are attached to this funding. Districts decide how specifically to use the funds. School districts receive a funding amount per student (as measured by average daily attendance). Revenue limit amounts were initially based on each district's per-pupil funding level in the 1970s, which varied significantly among districts. Since then, the Legislature has provided additional revenue limit funding specifically for the purpose of "equalization." This funding has gone to those districts with the lowest per-pupil revenue limit amounts in order to reduce funding differences among school districts.

PROPOSAL

Proposition 1B amends the California Constitution related to Proposition 98, as described below.

Creates $9.3 Billion "Supplemental Education" Obligation. This measure requires the state to make a total of $9.3 billion in supplemental payments to K–14 education. The payments would be made in annual installments, beginning in 2011–12. They would become part of the base budget when calculating the following year's Proposition 98 minimum guarantee.

For text of Proposition 1B, see page 48.

PROPOSITION

1B EDUCATION FUNDING. PAYMENT PLAN.

OFFICIAL TITLE AND SUMMARY

EDUCATION FUNDING. PAYMENT PLAN.

- Requires supplemental payments to local school districts and community colleges to address recent budget cuts.
- Annual payments begin in 2011–12.
- Payments are funded from the state's Budget Stabilization Fund 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 programs.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Fiscal impact would depend on how current constitutional provisions would otherwise be interpreted.
- Potential state savings of up to several billion dollars in 2009–10 and 2010–11.
- Potential state costs of billions of dollars annually thereafter.

FINAL VOTES CAST BY THE LEGISLATURE ON ACA 2 (PROPOSITION 1B)

Senate:	Ayes 28	Noes 10
Assembly:	Ayes 68	Noes 11

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

This measure contains provisions relating to Proposition 98 "tests," the "maintenance factor," and K–12 "revenue limits." We provide basic information on each of these issues below.

Proposition 98 Tests

Proposition 98 Establishes Minimum Funding Level. Proposition 98, passed by voters in 1988 and modified in 1990, requires the state to provide a minimum level of funding each year for kindergarten through twelfth grade (K–12) education and community colleges. Together, these schools and colleges are commonly referred to as K–14 education. The Proposition 98 requirement is met using both state General Fund and local property tax revenues. In 2008–09, the state budget includes $51 billion in Proposition 98 funding. Of this total, about $35 billion is from the state's General Fund, with the other $16 billion from local property tax revenues.

"Minimum Guarantee" Determined by One of Three Tests. The minimum funding level—commonly known as the minimum guarantee—is determined by one of three funding formulas. The first formula, known as "Test 1," requires the state to provide roughly 40 percent of General Fund revenues for K–14 education. This test has been applied only once (1988–89). To date, the most common funding formula has been "Test 2" (applied 13 of the last 20 years). Under Test 2, the prior-year Proposition 98 funding level is adjusted based on changes in school attendance and the state's economy (as measured by per capita personal income). The final formula, known as "Test 3," adjusts prior-year Proposition 98 funding based on changes in attendance and the state's tax revenues. It has been applied in 6 of the last 20 years—generally in years when the state is experiencing slow growth or a decline in revenues. Test 3 permits the state to provide less Proposition 98 funding than required under Test 2.

on tickets.) Currently, the lottery may spend no more than 16 percent of its ticket sales on lottery operating expenses. The law dedicates lottery profits—the funds remaining after payment of prizes and lottery operating expenses—to educational institutions. These payments to educational institutions must equal at least 34 percent of the funds generated from lottery ticket sales each year.

Under Current Law, Lottery Funds Benefit Education. Currently, state officials have no ability to use lottery funds to help balance the General Fund budget. As described below, lottery profits currently benefit educational institutions and are paid directly to schools, community colleges, and universities. The state now has no ability to borrow from future lottery profits.

Current Lottery Funding for Education

Lottery Payments Are a Small Part of Education Funding. In the 2007–08 fiscal year, the lottery sold over $3 billion of tickets, paid out $1.6 billion in prizes, and spent $380 million on operating expenses. This left about $1.1 billion in lottery profits, which were distributed to public educational entities based on their number of students. This amount represents only a small part of the overall budget of California's public educational institutions. For kindergarten through twelfth grade (K–12) schools, for example, lottery funds made up just over 1 percent of all revenues in 2007–08. In recent years, lottery payments to education have grown slowly. Between 1997–98 and 2007–08, these payments grew at an average rate of 2.8 percent per year—slightly less than the rate of inflation. In addition, as shown in Figure 1, lottery payments to education have gone up and down over time, including drops in each of the last two fiscal years. By contrast, funding provided under Proposition 98—which makes up about three-fourths of K–12 education budgets—grew at an average rate of 5.6 percent per year between 1997–98 and 2007–08. Prior to the current fiscal year, Proposition 98 funding had increased every year during the last decade.

PROPOSAL

This measure modifies both the State Constitution and other state laws. It makes major changes in lottery operations and the allowed uses of lottery funds. These changes also would allow the state to borrow from future lottery profits. These changes also would affect both the funding of educational institutions and the state General Fund. Figure 2 summarizes key parts of this measure and how they compare with existing law.

Changes to Lottery Operations

More Flexibility for Lottery in Its Prize Payouts. This measure gives the lottery the flexibility to increase the percentage of lottery funds returned to players as prizes. Higher prize payouts can attract more spending for lottery tickets and increase lottery profits. Under this measure, the lottery commission could set prize payouts above 50 percent of lottery sales—at the level it determines will produce the maximum amount of lottery profits each year.

Selected Terms Used in This Analysis

Borrowing. The type of state borrowing allowed under this measure involves selling an asset to investors through a bond transaction. The asset—in this case, future lottery profits—then pays back the investors, with interest, over time. Through this borrowing, the state can receive benefit from future lottery profits "upfront"—by converting a stream of future annual payments into a large, "lump sum" amount realized now. This type of borrowing—referred to as securitization—is somewhat different from most other types of state borrowing in that it involves no legal commitment to use General Fund tax revenues to pay investors.

Educational Institutions. These are the public educational entities that now receive payments from the lottery, including kindergarten through twelfth grade (K–12) school districts, community college districts, the California State University system, and the University of California system.

General Fund. The state government's main operating account, the General Fund, now receives over $90 billion per year in taxes and other revenues. Its funds can be used by the Legislature for any purpose.

Lottery Operating Expenses. These are the costs to run the lottery. Currently, most of these expenses are sales commissions, bonuses, and other payments to retailers that sell lottery tickets—such as convenience stores, liquor stores, and supermarkets.

Lottery Profits. These are the lottery revenues that remain after payment of (1) prizes and (2) lottery operating expenses. They are currently about one-third of total sales.

Proposition 98. Approved by voters in 1988, Proposition 98 provides a minimum level of guaranteed funding each year to K–12 school districts and community college districts. This funding level, which is supported by the state General Fund and local property taxes, makes up about three-quarters of total revenues for these districts.

For text of Proposition 1C, see page 48.

PROPOSITION
1C LOTTERY MODERNIZATION ACT.

OFFICIAL TITLE AND SUMMARY

LOTTERY MODERNIZATION ACT.

- Allows the state lottery to be modernized to improve its performance with increased payouts, improved marketing, and effective management.
- Requires the state to maintain ownership of the lottery and authorizes additional accountability measures.
- Protects funding levels for schools currently provided by lottery revenues.
- Increased lottery revenues will be used to address current budget deficit and reduce the need for additional tax increases and cuts to state programs.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Impact on 2009–10 State Budget: Allows $5 billion of borrowing from future lottery profits to help balance the 2009–10 state budget.
- Impact on Future State Budgets: Debt-service payments on the lottery borrowing and higher payments to education would likely make it more difficult to balance future state budgets. This impact would be lessened by potentially higher lottery profits. Additional lottery borrowing would be allowed.

FINAL VOTES CAST BY THE LEGISLATURE ON AB 12 (PROPOSITION 1C)

Senate:	Ayes 30	Noes 8
Assembly:	Ayes 70	Noes 8

FINAL VOTES CAST BY THE LEGISLATURE ON SCA 12 (PROPOSITION 1C)

Senate:	Ayes 27	Noes 9
Assembly:	Ayes 63	Noes 14

ANALYSIS BY THE LEGISLATIVE ANALYST

OVERVIEW OF THE PROPOSAL

Measure Allows State to Borrow From Lottery Profits. As discussed in the "Overview of the State Budget" section, this measure is one of the major components of the plan approved by the Legislature and the Governor in February 2009 to balance the state budget. The measure makes major changes to the 1984 voter initiative that created the California Lottery. These changes could increase lottery ticket sales and allow the state to borrow $5 billion in the 2009–10 fiscal year from future lottery profits. In addition to borrowing this $5 billion, the state also could borrow more from lottery profits in future years. Under the measure, lottery profits now dedicated to schools and colleges would be used to pay back the borrowing. The measure would increase state payments to education from the state General Fund to make up for the loss of these lottery payments. (See the nearby box for definitions of terms used in this analysis.)

BACKGROUND

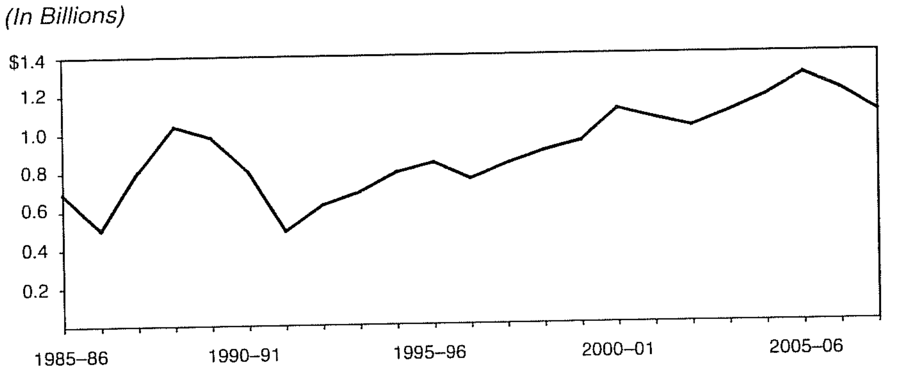
Existing Lottery Laws

Lottery Created by a Voter-Approved Measure. California voters approved Proposition 37 in 1984. Proposition 37 authorized creation of the lottery and dedicated lottery profits to education. It created the California State Lottery Commission (commission), which consists of five persons appointed by the Governor and confirmed by the State Senate. The commission oversees the approximately 600-person state department that administers the lottery.

Laws Governing Use of Lottery Funds. Proposition 37 directs the use of funds generated from sales of lottery tickets. It requires that 50 percent of these funds be returned to lottery players as prizes. (This means that, on average, a lottery player in California claims about 50 cents in prizes for every dollar spent

Figure 1

Annual Lottery Payments to Education Have Gone Up and Down Over Time



More Flexibility for Lottery Operating Expenses. Existing laws give the lottery more flexibility than most other state departments to spend funds for operating expenses, including contracts with private entities. Proposition 1C expands this flexibility in some ways. For instance, the measure further limits the number of contracts with private entities that the commission must submit for competitive bidding. The measure also reduces the maximum amount of lottery operating expenses from 16 percent of lottery funds each year to 13 percent of these funds. (Since the lottery currently spends under 13 percent of lottery funds—less than the maximum now allowed—on its expenses, this change probably would have no immediate effect on lottery operations.) The measure, however, gives the lottery new flexibility to carry over unused operating funds to a future year.

No Changes to Laws on Lottery Games and Devices or State Operation of the Lottery. This measure includes no changes to existing laws about the types of technologies the lottery may use in its games or the machines it may use to dispense lottery tickets. In addition, this measure continues to require the lottery to be conducted by the state and not by a private company.

Use of Lottery Profits

Profits Would No Longer Be Dedicated to Education. Under Proposition 1C, lottery profits no longer would be paid to educational institutions beginning in 2009–10. Instead, as described below, payments to educational institutions from the state General Fund would increase to make up for the loss of the lottery payments.

Borrowing From Future Lottery Profits. If voters approve this measure, the state would be able to borrow from future lottery profits and receive a large payment or payments now from investors. The state budget plan for 2009–10—approved by the Legislature and the Governor in February 2009—relies on the state receiving $5 billion from such a borrowing. Future lottery profits would be used to repay the investors—with interest—over time. There is no limit in the measure on how much state officials may borrow in 2009–10 and future years.

Profits Would Be Available for State Debt Payments or Budget Obligations. Under this measure, lottery profits not needed to pay off lottery borrowing would be transferred to a new state government account called the Debt Retirement Fund (DRF). Funds in the DRF could be used by the Legislature to pay the following state expenses:

- Debt-service costs on bonds issued by the state to fund roads, schools, prisons, and other infrastructure projects.
- Debt-service costs on Economic Recovery Bonds (ERBs). (The ERBs were approved by voters in Proposition 57 in 2004 to address state budget deficits from earlier in this decade.)
- Other debts incurred by the General Fund (such as amounts borrowed from other state funds) to help address budgetary shortfalls, as well as other General Fund budgetary obligations.

Payments for Problem Gambling Programs. The measure requires the lottery to direct $1 million of its funds each year to the state's existing Office of Problem Gambling for its awareness and treatment programs. Currently, the lottery commits about $250,000 per year to this office to help pay for the state's 1-800-GAMBLER problem gambling telephone line.

Funding for Educational Institutions

Increased State General Fund Payments. This measure requires the state to increase payments to educational institutions from the General Fund beginning in 2009–10. This would make up for the loss of lottery payments to education. Specifically, the measure requires the General Fund to make payments to educational institutions in 2009–10 equal to (1) the amount of lottery profits paid to these institutions in 2008–09 plus (2) an adjustment for growth in the number of students and the cost of living. For K–12 schools and community colleges, the measure states that these General Fund payments in 2009–10 are in addition to those already required under the Proposition 98 funding guarantee. In future years, the new General Fund payments for K–12 schools and community colleges would become part of their annual Proposition 98 funding. Future General Fund payments to educational institutions would continue to be adjusted each year for growth in the number of students, as well as cost of living. Like the payments under the existing lottery law, these General Fund payments would be distributed to educational institutions based on their number of students.

Future Amendments

Legislature Would Have More Flexibility to Amend the Law Later. Currently, two-thirds of Members in each house of the Legislature can vote to amend the lottery law to further the purposes of Proposition 37, the original lottery law passed in 1984. This measure gives the Legislature (with a two-thirds vote) more flexibility to amend the lottery law in the future. For example, such amendments could authorize new operating rules, games, or devices that increase the lottery's ability to generate profits for public purposes. The Legislature, however, would not be able to amend the parts of this measure that increase state General Fund payments to educational institutions without approval of the voters.

FISCAL EFFECTS

This measure would affect the finances of (1) the state General Fund, (2) the lottery, and (3) educational institutions.

Fiscal Effects on the General Fund

Lottery Borrowing Is a Key Part of the State's 2009–10 Budget Plan. In February 2009, the Legislature and the Governor approved major spending reductions and revenue increases to address the state General Fund shortfall. This budget plan assumed that the state would receive $5 billion from future lottery profits in 2009–10. Under current revenue forecasts, the $5 billion is necessary in order for the 2009–10 budget to be in balance. Therefore, if voters reject Proposition 1C, the Legislature and the Governor probably will have to agree to billions of dollars of additional spending cuts, tax increases, and/or other solutions in order to balance the 2009–10 state budget.

Lottery Profits Would Pay Off the Borrowing and Cover Some General Fund Costs. If the state successfully borrows about $5 billion from future lottery profits in 2009–10, annual debt-service payments to investors could total between $350 million and $450 million each year for 20 to 30 years. Lottery profits first would go to make these debt-service payments. Any remaining lottery profits then would be deposited to the DRF for use in paying various General Fund expenses. Accordingly, lottery profits not needed to pay debt-service costs would benefit the General Fund.

Figure 2

Key Parts of Proposition 1C and How They Compare With Current Law

	Current Law	Proposition 1C
State borrowing from future lottery profits	Not allowed.	Allows $5 billion in borrowing to help balance the state's 2009–10 budget. Additional borrowing allowed in the future. Repayment from future lottery profits.
Lottery prize payouts	Fixed at 50 percent of lottery sales.	Flexibility given to California State Lottery Commission to set prizes at a level above 50 percent that generates the most profits.
Use of lottery profits	Paid to public schools, community colleges, and universities.	Not paid to educational institutions. Proceeds instead are used first to repay state borrowing described above. Remaining profits would be available to benefit the state General Fund by paying state debts and budgetary obligations.
School and community college district funding	Annual minimum funding guarantee established by Proposition 98.	An increased Proposition 98 guarantee to make up for districts' loss of payments from lottery profits.

For text of Proposition 1C, see page 48.

Future Strain on the General Fund. Proposition 1C requires increased General Fund payments to education. As described below, this measure's changes to lottery operations probably would allow the lottery to grow its sales and profits above what they would be under existing law. Nevertheless, 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.

Future Lottery Borrowing Also Could Affect the General Fund. While the Legislature and the Governor have assumed the state will borrow $5 billion in 2009–10, the measure allows the state to borrow more from future lottery profits at any time in the future. If officials decided to do this, the state General Fund would benefit from the borrowing in a future year—just as the General Fund would benefit from the $5 billion borrowing in 2009–10. Additional borrowings, however, would increase debt-service costs even more. These increased costs would reduce further the portion of lottery profits available to cover the General Fund's higher payments to education. Accordingly, if state officials decide to borrow more than $5 billion from future lottery profits, budgetary decisions of the Legislature could be more difficult in the years after that borrowing.

Financial Crisis Creates Near-Term Uncertainty About the $5 Billion Borrowing. In 2008, the steep fall of the housing market led to insolvency or other fiscal troubles for many major financial institutions. This led to a global "credit crunch" that reduced the ability and willingness of investors to lend money to many individuals, companies, and governments, including the state. The credit crunch has eased in recent months. At the time this analysis was prepared, however, there remained a possibility that California would not be able to achieve all of the planned $5 billion lottery borrowing in 2009–10.

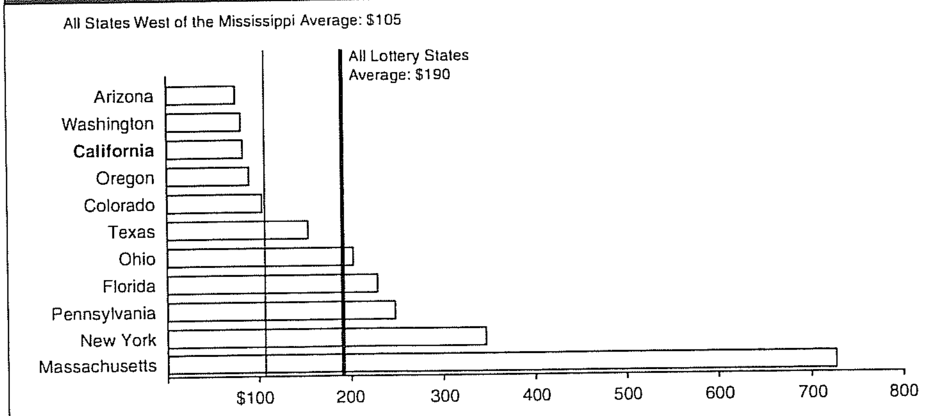
Fiscal Effects if State Never Borrows From Lottery Profits. While the state budget plan assumes $5 billion of lottery borrowing in 2009–10, this measure does not require the state to undertake such a borrowing. In the event no lottery borrowing ever takes place, voter approval of Proposition 1C would allow the other changes to lottery operations, the uses of lottery funds, and funding for educational institutions discussed in this analysis to go into effect. In other words, if voters approve Proposition 1C and the state never borrows from future lottery profits, all lottery profits would flow to the DRF and be available to cover General Fund costs, including the required payments to education under this measure. In this case, it is possible that increased lottery profits under this measure would roughly offset the General Fund's increased payments to education over the long term.

Fiscal Effects on the Lottery

Increased Prize Payouts Are Likely to Increase Lottery Sales and Profits. Each Californian currently spends an average of $83 each year on lottery tickets—considerably less than the average resident of other states with a lottery, as shown in Figure 3. There are probably many reasons why this is so, including the other entertainment and gambling options available for residents here. California's relatively low lottery prize

Figure 3

2007–08 Lottery Sales Per Resident in Selected States



Excludes video lottery terminal sales.

payouts (about 50 cents in prizes for every dollar spent on lottery tickets) likely also contributes to the lottery's relatively weak sales. Higher prize payouts appear to attract more players and greater spending for lottery tickets. For example, the Massachusetts State Lottery—one of the leading lotteries in sales per resident—returns over 70 percent of its funds to players as prizes. In 2002, the Florida Legislature authorized that state's lottery to grow its prize payouts. Within five years, Florida Lottery sales grew substantially. Based on the evidence from other states, we conclude that if voters approve this measure, sales and profits of the California Lottery could grow significantly compared to how much they would grow under existing law. This growth could result in future lottery sales being somewhere between 30 percent and 80 percent higher. Because a greater share of lottery funds would be given back to players as prizes, lottery *profits* would grow by a smaller percentage. We estimate that lottery profits would increase by hundreds of millions of dollars per year compared to what they would be under current law.

Choices by Consumers, Lottery Officials, and Legislators Would Affect Growth. While lottery sales and profits could grow substantially if this proposal is approved, the precise effects of this measure cannot be predicted. The amount of sales and profit growth would depend on how California consumers react to the products offered by the lottery in the future. In addition, the lottery's financial performance would depend on many decisions made by the commission and lottery staff. They would decide, among other things, the level of lottery prize payouts, how lottery games will be marketed to the public, and how lottery retailers throughout California will be encouraged to sell lottery tickets. The Legislature also would be able to pass additional changes to the lottery law to further increase lottery profits.

Fiscal Effects for Educational Institutions

State General Fund Payments to Make Up for Loss of Lottery Funds. Currently, educational institutions are the only entities that receive lottery profits. These profits totaled $1.1 billion in 2007–08 and appear likely to be somewhat lower in 2008–09 based on recent lottery sales trends in California and other states (due in part to the recession). Under this measure, the lottery payments to schools, community colleges, and universities would stop at the end of the 2008–09 fiscal year. Beginning in 2009–10, payments from the state General Fund would increase to make up for the loss of lottery payments. These payments would grow each year in line with the growth of students and the cost of living. For K–12 schools and community college districts, the payments would become a part of their Proposition 98 funding. Over the long term, these General Fund payments to educational institutions likely would grow faster and more consistently than the payments that the schools now receive from the lottery.

Other Fiscal Effects

Effects on Other Governmental Revenues and Expenditures. Under this measure, it is likely that California consumers would spend more of their income on the lottery. This means that Californians would spend less on other goods and services, including, perhaps, other gambling activities. State and local governments receive revenues as a result of consumer spending in these areas. Increases in lottery sales, therefore, would be partially offset by declines in other state and local revenues. The projected increase in lottery gambling activity also may contribute to more Californians having gambling problems. This could result in increased demands for services from publicly funded health and social services programs.

Summary of Fiscal Effects

This measure would affect finances of the state General Fund, the lottery, and educational institutions:

- ***State General Fund.*** This measure would allow the state to borrow $5 billion from future lottery profits in 2009–10 to help balance the 2009–10 state budget. The measure also would allow more borrowing from lottery profits in the future. While the General Fund would benefit in the future from lottery profits not needed to pay off the borrowing, these lottery profits probably would not be enough to cover higher payments to education required by this proposition. This means the state would have to identify new revenues or spending reductions to make these higher payments to education in the future.
- ***Lottery.*** If voters approve this measure, lottery profits probably would increase by hundreds of millions of dollars per year compared to what they would be under current law.
- ***Educational Institutions.*** Schools, community colleges, and universities would no longer receive payments from the lottery. Instead, these institutions would receive higher payments from the state General Fund. These payments would grow over time—likely faster and in a more consistent way than the schools' existing lottery payments.

For text of Proposition 1C, see page 48.

State Commission. Proposition 10 established a state commission—the California Children and Families Commission—that is responsible for state-level administration of the early childhood development program. Twenty percent of available Proposition 10 revenues is allocated to the state commission, to be spent for the purposes detailed in Figure 1. The state commission funds many programs, including:

- ***School Readiness,*** which targets children up to age five and their families in schools with a low academic performance score.
- ***Health Access,*** which provides outreach and enrollment services for existing state-supported health programs, as well as expanded coverage for those children who lack health insurance but do not qualify for state-supported health programs.
- ***Information Kit for New Parents,*** which provides expecting and new parents with a resource kit to improve their parenting skills.

Figure 1

Allocation of Proposition 10 Revenues to the State Commission

Purpose	Allocation
Mass media communications	6%
Education	5
Child care	3
Research	3
Administration	1
General program purposes	2
Total Allocation	**20%**

County Commissions. The remaining 80 percent of Proposition 10 revenues is allocated annually to 58 county commissions (consisting of five to nine members appointed by the county board of supervisors). The local commissions implement programs in accordance with local plans to support and improve early childhood development in their county. While the programs vary from county to county, each local commission provides services in the following three areas:

- ***Family Functioning,*** including adult education for parents; behavioral, substance abuse, and mental health services; and the provision of basic family needs (food, clothing, and housing).
- ***Child Development,*** including preschool for three- and four-year olds, kindergarten transition services, and targeted intensive intervention for children identified with special needs.
- ***Child Health,*** including health coverage and access services, home visitations for newborns, and prenatal care.

Unspent Fund Balances. Proposition 10 provides that any revenues to the state and local commissions not spent during a fiscal year are carried over for use in subsequent fiscal years. As of June 30, 2008, the local commissions had a total of about $2.1 billion in unspent funds, and the state commission had about $400 million in unspent funds.

Auditing and Reporting Requirements. The state and local commissions conduct independent annual audits of their expenditures and issue reports on these audits. Local commissions must submit these financial reports to the state commission, while the state commission must

For text of Proposition 1D, see page 53.

PROPOSITION

1D PROTECTS CHILDREN'S SERVICES FUNDING. HELPS BALANCE STATE BUDGET.

OFFICIAL TITLE AND SUMMARY

PROTECTS CHILDREN'S SERVICES FUNDING. HELPS BALANCE STATE BUDGET.

- Provides more than $600 million to protect children's programs in difficult economic times.
- Redirects existing tobacco tax money to protect health and human services for children, including services for at-risk families, services for children with disabilities, and services for foster children.
- Temporarily allows the redirection of existing money to fund health and human service programs for children 5 years old and under.
- Ensures counties retain funding for local priorities.
- Helps balance state budget.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- State General Fund savings of up to $608 million in 2009–10 and $268 million annually from 2010–11 through 2013–14, from temporarily redirecting a portion of funds from the California Children and Families Program in place of state General Fund support of health and human services programs for children up to age five.
- Corresponding reductions in funding for early childhood development programs provided by the California Children and Families Program.

FINAL VOTES CAST BY THE LEGISLATURE ON AB 17 (PROPOSITION 1D)

Senate:	Ayes 37	Noes 0
Assembly:	Ayes 75	Noes 3

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

First 5 Programs

Proposition 10, otherwise known as the California Children and Families Act, was enacted by the voters of California in the November 1998 election. The initiative created the California Children and Families Program (now commonly known as the First 5 program) to expand early development programs for children up to age five.

First 5 Programs Funded With Tobacco Taxes. The First 5 program is funded by revenues from a state excise tax on cigarettes (50 cents per pack) and other tobacco products. (An additional 37 cents per pack in state excise taxes is imposed for other state purposes unrelated to First 5.) Revenues generated by the First 5 tax are deposited into the California Children and Families Trust Fund and are appropriated on an ongoing basis for First 5 programs. Thus, none of these funds are subject to appropriation by the Legislature. Proposition 10 requires that these funds be added to, rather than replace, the funding for existing programs.

We estimate that Proposition 10 revenues in 2009–10 will be about $500 million. Based on our analysis of trends in tobacco consumption, we estimate Proposition 10 revenues will decrease by about 3 percent annually in the future.

submit its reports to the Governor, the Legislature, and each county commission.

Other State Health and Human Services Programs for Children

The state currently administers a variety of health and human services programs that serve children, many of whom are age five or younger. Examples of these state-supported health and human services programs include foster care, health coverage services like Medi-Cal and Healthy Families, state preschool, and child care. These programs currently are largely operated separately of the First 5 programs and are supported by the state General Fund.

PROPOSAL

This measure temporarily redirects a significant portion of Proposition 10 funds to achieve budgetary savings and makes permanent changes to state and local commission operations, as discussed below.

Temporary Redirections of Funding to State Programs for Children. This measure amends the California Children and Families Act to temporarily allow Proposition 10 revenues to be used to fund other state health and human services programs for children up to age five. In effect, these Proposition 10 revenues would be used to offset *existing* state General Fund costs, thereby achieving savings to help address the state's current budgetary problem. The measure achieves these state General Fund savings in two ways:

- By redirecting up to $340 million of available unspent reserves held by the state commission as of July 1, 2009.
- By temporarily redirecting a portion of future Proposition 10 revenues. Specifically, from 2009–10 through 2013–14, this measure would divert annually $268 million in Proposition 10 funds. Of the redirected funds, $54 million would come from state commission funds and $214 million from local commission funds. During these five years, the redirected funds would be subject to appropriation by the Legislature.

Permanent Changes. This measure makes various other changes:

- ***New Requirements for Distribution of Audits and Reports.*** The measure requires that the county commissions also submit their annual audits and reports of their expenditures to the county board of supervisors and the county auditor. In addition, it requires that each county auditor serve on the local First 5 commission.
- ***Changes in Allocation of State Commission Funds.*** This measure also amends the allocation requirements for the state commission's 20 percent of Proposition 10 revenues. Specifically, it deletes the allocation now provided for mass media communications (now 6 percent) and increases the allocation for general program purposes (from 2 percent to 8 percent). Under the measure, the state commission must also ensure that every county commission receives at least $400,000 each year.
- ***County Borrowing of First 5 Funds.*** Finally, it allows a county controller to borrow local commission funds for that county's general fund, unless the transfer would interfere with local commission activities. Any borrowed funds must be repaid with interest.

FISCAL EFFECTS

The measure would have the following fiscal effects on state and local governments.

Reduction in Funding Available for Existing State and Local Commission Programs. This measure would reduce state commission funding by up to $340 million on a one-time basis in 2009–10 by redirecting the state commission's reserve funds. In addition, this measure would reduce funding for the state and local commissions by $268 million annually from 2009–10 through 2013–14.

State General Fund Savings. This measure would achieve state savings of up to $608 million in 2009–10 and $268 million annually from 2010–11 through 2013–14. This results from using a portion of Proposition 10 funds in place of state General Fund for state-supported health and human services programs for children up to age five.

Other Potential Fiscal Effects. The reduction in state and local First 5 commission funding could result in other costs to the state and local agencies (primarily counties and schools). This would occur to the extent that some children and families rely on other health and human services programs instead of those now provided under First 5. However, absent this measure, other budget reductions or revenue increases would be needed to address the state's severe fiscal problems. The fiscal effects of these alternative budget-balancing solutions on state and local programs and state revenues are unknown.

For text of Proposition 1D, see page 53.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

Figure 1

Major Program Activities Supported With Proposition 63 Funding

- ***Community Services.*** Expansion of "systems of care" for seriously emotionally disturbed children and adults with a serious mental illness, including both mental health treatment and services such as housing to assist patients.
- ***Mental Health Workforce Education and Training.*** Stipends, loan forgiveness, scholarship programs, and other incentives to address existing shortages of mental health staffing in community programs and ensure a sufficient workforce to meet future demand.
- ***Capital Facilities and Technology.*** New programs to allocate funding to counties for technology improvements and capital facilities for the provision of mental health services.
- ***Prevention and Early Intervention.*** State and local prevention and early intervention programs to identify persons showing early signs of mental illness and place them into treatment quickly before their illness becomes more severe.
- ***Innovation Programs.*** New programs to experiment with ways to improve access to mental health services (including underserved groups), to improve program quality, or to promote interagency collaboration in the delivery of services to clients.

Restrictions on Use of Proposition 63 Funds. Proposition 63 imposes various restrictions on the state and counties regarding spending on mental health programs. For example, Proposition 63 revenues must be used to expand mental health services and cannot be used for other purposes. The state is specifically barred from reducing General Fund support for mental health services below the levels provided in 2003–04.

Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program

The EPSDT is a federally mandated program that requires states to provide a broad range of screening, diagnosis, and medically necessary treatment services—including mental health services—to Medi-Cal beneficiaries under age 21. The DMH administers the mental health services required under the EPSDT program generally through county contracts. These services include group and individual counseling and assistance in stabilizing children and young adults who experience a mental health crisis.

Total expenditures for EPSDT specialty mental health services now exceed $1 billion annually. The federal government provides about one-half of the funding, with most of the remaining cost borne by the state and a small portion borne by the counties.

PROPOSAL

This measure allows for the temporary redirection of some Proposition 63 funds to support EPSDT mental health services. Specifically, $226.7 million in Proposition 63 funds would be redirected in 2009–10, and between $226.7 million and $234 million would be redirected in 2010–11, to support EPSDT. In effect, these Proposition 63 revenues would be used to offset state costs that would otherwise be borne by the General Fund, thereby achieving savings to help address the state's current budgetary problem.

FISCAL EFFECTS

Funding Redirection From Proposition 63 Programs to EPSDT

This measure would result in state General Fund savings of about $230 million a year for two years (2009–10 and 2010–11) from redirecting a portion of Proposition 63 funds to state-supported EPSDT mental health services. It would result in an equivalent reduction in Proposition 63 funding.

Other Potential Fiscal Effects

Additional Potential Fiscal Effects Due to Redirection of Proposition 63 Funds. The proposed temporary redirection in Proposition 63 funding would make less money available for mental health programs. To the extent that such programs are reduced, state and local governments could incur added costs for homeless shelters, social services programs, medical care, law enforcement, and county jail and state prison operations. The extent of these potential costs is unknown and would depend upon the specific programmatic changes that resulted from the redirection of Proposition 63 funding.

Potential Decrease in Federal Funds. As noted earlier, some Proposition 63 funds are used to draw down federal matching funds through the Medi-Cal Program. Thus, the redirection of Proposition 63 funds proposed in this measure could result in a decrease in federal financial support. The amount of any reduction is unknown, and would depend on how the state and counties choose to adjust their programs in response to this redirection.

Impact of Alternative Budget Actions. Absent this measure, other budget reductions or revenue increases might need to be adopted to address the state's severe fiscal problems. The fiscal effects of these alternative budget-balancing solutions on state and local programs and state revenues are unknown.

For text of Proposition 1E, see page 55.

PROPOSITION

1E MENTAL HEALTH SERVICES FUNDING. TEMPORARY REALLOCATION. HELPS BALANCE STATE BUDGET.

OFFICIAL TITLE AND SUMMARY

MENTAL HEALTH SERVICES FUNDING. TEMPORARY REALLOCATION. HELPS BALANCE STATE BUDGET.

- Amends Mental Health Services Act (Proposition 63 of 2004) to transfer funds, for a two-year period, from mental health programs under that act to pay for mental health services for children and young adults provided through the Early and Periodic Screening, Diagnosis, and Treatment Program.
- Provides more than $225 million in flexible funding for mental health programs.
- Helps balance state budget during this difficult economic time.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- State General Fund savings of about $230 million annually for two years (2009–10 and 2010–11) from redirecting a portion of Proposition 63 funds to an existing state program in place of state General Fund support.
- Corresponding reduction in funding available for Proposition 63 community mental health programs.

FINAL VOTES CAST BY THE LEGISLATURE ON SB 10 (PROPOSITION 1E)

Senate:	Ayes 36	Noes 2
Assembly:	Ayes 76	Noes 4

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

County Mental Health Services

Counties are the primary providers of mental health care in California communities for persons who lack private coverage for such care. Both children and adults are eligible to receive such assistance. Counties provide a range of psychiatric, counseling, hospitalization, and other treatment services to patients. These services are intended to help improve the health and functionality of individuals with mental illness while also minimizing their potential for disability, homelessness, criminal activity, and hospitalization.

County mental health programs are paid for with a mix of state, local, and federal funds. Counties spend about $5 billion annually from these sources on these programs. Some support for county mental health programs is provided through the state budget act and thus is subject to annual actions by the Legislature and Governor. Some state revenues, however, are automatically set aside for the support of these programs.

Proposition 63

Mental Health Programs Funded With Personal Income Tax Surcharge. In November 2004, California voters approved Proposition 63, also known as the Mental Health Services Act. Proposition 63 provides state funding for certain new or expanded mental health programs through a personal income tax surcharge of 1 percent on the portion of a taxpayer's taxable income in excess of $1 million. Revenues generated by the surcharge are dedicated to the support of specified mental health programs and, with some exceptions, are not appropriated by the Legislature through the annual budget act. Full-year annual Proposition 63 revenues to date have ranged from about $900 million to $1.5 billion, and could vary significantly in the future.

Program Activities Supported From Proposition 63. Proposition 63 funding is generally provided for five major purposes: (1) expanding community services, (2) providing workforce education and training, (3) building capital facilities and addressing technological needs, (4) expanding prevention and early intervention programs, and (5) establishing innovative programs. Figure 1 provides additional detail on these major program activities, which are currently at different stages of planning and implementation.

How Proposition 63 Programs Are Administered. The state Department of Mental Health (DMH), in coordination with certain other agencies, has the lead role at the state level in implementing most of the programs specified in the measure—generally through contracts with the counties. Counties draft and submit for state review and approval their plans for the delivery of certain mental health services funded under Proposition 63. Some Proposition 63 funds are used in combination with matching federal funding to provide mental health services for persons eligible under the Medi-Cal health care program. (Medi-Cal provides health care services to qualified low-income persons, primarily consisting of families with children and the aged or disabled.)

PROPOSITION

1F ELECTED OFFICIALS' SALARIES. PREVENTS PAY INCREASES DURING BUDGET DEFICIT YEARS.

OFFICIAL TITLE AND SUMMARY

ELECTED OFFICIALS' SALARIES. PREVENTS PAY INCREASES DURING BUDGET DEFICIT YEARS.

- Encourages balanced state budgets by preventing elected Members of the Legislature and statewide constitutional officers, including the Governor, from receiving pay raises in years when the state is running a deficit.
- Directs the Director of Finance to determine whether a given year is a deficit year.
- Prevents the Citizens Compensation Commission from increasing elected officials' salaries 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.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Minor state savings related to elected state officials' salaries in some cases when the state is expected to end the year with a budget deficit.

FINAL VOTES CAST BY THE LEGISLATURE ON SCA 8 (PROPOSITION 1F)

Senate:	Ayes 39	Noes 0
Assembly:	Ayes 80	Noes 0

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

Voter-Created Commission Sets State Official Pay and Benefits. Proposition 112—approved by voters in June 1990—amended the State Constitution to create the California Citizens Compensation Commission. The commission includes seven members appointed by the Governor, none of whom can be a current or former state officer or state employee. The commission establishes the annual salary, as well as medical insurance and other benefits, for the following elected state officials:

- The Legislature (120 Members).
- The Governor.
- The Lieutenant Governor.
- The Attorney General.
- The Controller.
- The Insurance Commissioner.
- The Secretary of State.
- The Superintendent of Public Instruction.
- The Treasurer.
- The Board of Equalization (4 Members).

While the commission has control over most pay and benefits received by these state officials, there are certain exceptions. For example, Members of the Legislature are eligible to receive per diem payments to cover lodging, meals, and other expenses for each day of attendance at legislative sessions. The level of per diem payments is set by another state board and not by the commission. In addition, under Proposition 140 (approved by voters in November 1990), Members of the Legislature have been prohibited from earning state retirement benefits since November 1990. Accordingly, the commission has no control over these retirement benefits.

Factors the Commission Considers When Setting State Officials' Pay and Benefits. Proposition 112 requires the commission to consider the following factors when it adjusts the annual salary and benefits of state officials:

- How much time is required to perform official duties, functions, and services.
- The annual salary and benefits for other elected and appointed officials in California with similar responsibilities, including judicial and private-sector officials.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

- The responsibility and scope of authority of the state official.

Currently, the Constitution does not list the financial condition of the state as a factor the commission must consider when setting the pay and benefits of these officials. In addition, Proposition 6—approved by voters in November 1972—prohibits the reduction of elected state officials' salaries during their terms of office.

Current Salaries of Elected State Officials. Based on past commission decisions, elected state officials are currently eligible to receive annual salaries ranging from $116,000 (for legislators) to $212,000 (for the Governor).

PROPOSAL

This proposition amends the Constitution to prevent the commission from approving increases in the annual salary of elected state officials in certain cases when the state General Fund is expected to end the year with a deficit.

Official Certification of a Deficit Would Be Required. On or before June 1 of each year, the state Director of Finance (who is appointed by the Governor) would be required to notify the commission in certain cases when the state's finances have weakened. Specifically, the Director would notify the commission if the Special Fund for Economic Uncertainties (SFEU) is expected to have a negative balance equal to or greater than 1 percent of the annual revenues of the state General Fund on June 30 (the last day of the state's fiscal year). As described in the analysis of Proposition 1A (also on this ballot), the SFEU is the state's traditional rainy day reserve fund. Currently, 1 percent of General Fund revenues is almost $1 billion.

Certification of the Deficit Would Prevent Raises for Elected State Officials. In years when the commission chooses to adjust state officers' pay and benefits, it already is required to pass a resolution to do this before June 30. These pay and benefit adjustments take effect beginning in December. Under this measure, if the Director of Finance certifies that the SFEU will end the month of June with a deficit of 1 percent or more of General Fund revenues, state officials will not be eligible to receive a salary increase to take effect in December of that year.

FISCAL EFFECTS

Cost Savings From State Officials' Salaries During Certain Deficit Years. This measure would prevent the commission from approving pay increases for state officials in certain cases when the state General Fund is expected to end the year with a deficit. Under current practice, the commission might have otherwise approved pay increases in those years. The commission does not grant pay increases every year, and the level of pay increases granted by the commission is not always the same. Since January 2000, the commission has raised the pay of elected officials four times. Over this period, the total pay increases for each official have been equal to or less than the rate of inflation. Currently, a 1 percent raise for the elected state officials costs the state about $160,000 per year. If, for example, the commission were inclined to grant the officials a 3 percent raise but were prevented from doing so under this measure, the state would save less than $500,000 that year. Consequently, savings in any year would be minor.

May Contribute to Different Budget Decisions by the Legislature and Governor. The Constitution already requires the Legislature and the Governor to adopt a balanced budget each year. When the budget falls substantially out of balance during the course of a fiscal year, the Constitution allows the Governor to declare a fiscal emergency and call the Legislature into a special session to address the emergency. The Constitution, however, does not require the budget to *end* the year in balance. This measure may have the effect of influencing the Legislature and the Governor to make different budgetary decisions—decisions, for example, that reduce a projected state deficit or make it less likely a deficit emerges in the first place. These impacts, however, are not possible to estimate.

For text of Proposition 1F, see page 56.

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March 5, 2009

To: CSAC Executive Committee

From: CSAC Government Finance and Operations Policy Committee
CSAC Health and Human Services Policy Committee

Re: **Measures on May 19 Special Election Ballot**

Joint Policy Committee Recommendation. The CSAC Government Finance and Operations and Health and Human Services Policy Committees jointly recommend to the CSAC Executive Committee a position of "neutral" on the package of ballot measures slated for the May 19^{th} ballot. Propositions 1A through 1F represent integral components of the budget agreement recently achieved in the Legislature and signed into law by Governor Schwarzenegger.

The Policy Committees met jointly on March 5 to discuss the measures as a package and adopted the staff recommendation of "neutral." After some discussion the committees also moved forward with considering the measures as a package, rather than individually.

Staff Comments. The staff recommendation of "neutral" was not considered lightly. After lengthy discussion about the merits of each individual measure and the political risks involved in taking affirmative or negative positions on each, staff believes that the association is unlikely to achieve consensus among its membership for a "support" or "oppose" position. In fact, we believe that for counties, along with many other affected stakeholders, the package was meant to be difficult to support or oppose in its entirety; these measures were delicately negotiated to achieve a result that would pass muster with legislators and with voters, but would also deter well-funded opposition. (We have outlined the measures' known supporters and opponents in the analysis that follows.)

Background. The 17-month budget agreement that the Governor recently signed into law includes as an integral part a special election on May 19, 2009. This election will give Californians the chance to decide several important issues before the beginning of the next fiscal year. The statewide ballot will include the six measures that the Legislature passed as part of the negotiated budget agreement; an additional measure was scheduled to be included, but has since been pushed back to the June 2010 election.

The six measures agreed to as part of the long-awaited budget compromise are:

- Proposition 1A – Creates a new, larger rainy day fund and puts new limits on state spending growth.
- Proposition 1B – Alters repayment schedule for Proposition 98 funds arguably owed by the state to K-14 districts, totaling $9.3 billion.
- Proposition 1C – Allows state to borrow money for the General Fund, securitized by future revenue from the California Lottery.
- Proposition 1D – For five years, shifts between half and two-thirds of cigarette taxes away from the First 5 Program (Proposition 10) and into the General Fund.
- Proposition 1E – Amends the Mental Health Services Act (Proposition 63) to shift revenue funds from local programs to the benefit of the state General Fund.
- Proposition 1F – Forbids the California Citizens Compensation Commission from raising legislators' and state officers' salaries when the state is running a deficit.

The measure moved to June 2010 is:

- Proposition 13 – Excludes from reassessment structures retrofitted to better sustain earthquakes.

The six negotiated measures are closely tied to the whole budget agreement. Some of them, Propositions 1C, 1D, and 1E, provide money directly to the General Fund. Proposition 1A was a long-standing demand from both Republican caucuses for any type of budget agreement that included taxes; also, if this measure fails, the duration of the budget's tax hikes (personal income tax, sales and use tax, and vehicle license fee) is shortened to two years. Proposition 1B heads off legal and political challenges from the education community.

CSAC's Adopted Policies and Procedures
The CSAC Policy and Procedure Manual states that the CSAC Officers will assign qualified propositions to appropriate policy committees when they fall within existing policy as outlined in CSAC's Legislative Platform or pose a direct impact on county government. The officers have referred these measures to this joint meeting of the Government Finance and Operations and Health and Human Services Policy Committees. If the joint policy committees recommend a position on any measures, then those measures proceed to the CSAC Executive Committee for debate and action. If the Executive Committee votes to recommend a position on any measures, they move to the full Board of Directors for action. Any Board member can request the Board's consideration of a ballot measure not otherwise slated for discussion.

Policy Considerations.

The Measures Are a Package
Propositions 1A through 1F are an inextricable part of the budget agreement that the Governor signed earlier this month. There is no need to rehash here the long and

tortuous route that led to the agreement, except to note that the atmosphere inside the Capitol remains rancorous and the agreement is precarious. The Legislature placed these six measures on the ballot as part of the budget agreement, and they should therefore be considered as a package.

Due to CSAC's support for a balanced solution, and repeated urging to pass a budget as soon as possible to avoid fiscal meltdowns at the local level, a decision to support or oppose individual measures from this package could be taken badly by some of the legislators who negotiated and voted for the agreement. At the same time, some of the policies that the measures would implement would have a direct negative impact on counties; like all other budget stakeholders, counties did not come through the budget process unscathed.

Over this past year of budget-related wrangling, CSAC has refrained from opposing any but the most egregious proposals, with the understanding that pushing in one area merely causes another, possibly worse, proposal to surface elsewhere. In fact, CSAC indicated its support of a balanced solution several times to the Governor and legislative leaders throughout the process. The six measures described below are part of that balanced solution.

Proposition 1A

This measure changes the state's savings account from a year-to-year contingency fund to a rainy day fund that could smooth out revenue volatility. In doing so, it would cap General Fund spending increases in any year to the average growth of revenues over the previous ten years.

The rainy day fund, called the Budget Stabilization Fund (or BSF), would be filled by annual, automatic deposits of 3 percent of the state's General Fund revenue. The BSF would be considered full when it reached 12.5 percent of the General Fund.

Money could only be spent out of the BSF in certain circumstances. First, when revenues are not high enough to maintain the previous year's spending level, adjusted for population and inflation, the Legislature could appropriate enough of the BSF to reach that level. Second, BSF money could also be used to address an emergency like an earthquake.

Revenues above the growth rate of the previous ten years would have to be used in particular ways, which the measure prioritizes. They would first be used to pay funds required by Proposition 98, second to fill the BSF up to 12.5 percent of General Fund revenues, and third to pay off budgetary borrowing (such as loans authorized by local government's Proposition 1A) or other debt. If none of these are necessary, the Legislature can choose to use the money for either shoring up the BSF further, paying for infrastructure, one-time tax relief, or funding retiree liabilities like OPEBs.

The state can only avoid the automatic annual payment to the BSF if there was not enough revenue to maintain the previous year's spending level, adjusted for population and inflation. However, if Proposition 1B passes, half of the automatic annual payment would go to schools to make up for recent budget cuts. After that, the Legislature could decide to use half of the payments to pay for infrastructure or state bond debt, possibly benefiting the General Fund.

If Proposition 1A passes, the Governor would gain new authority to make mid-year cuts without the Legislature's approval. He could reduce COLAs for any programs specified in the annual budget, though not for most state employees' salaries. He would also be allowed to reduce many types of spending for general state operations or capital outlay by up to seven percent.

Last, but certainly not least controversial, voter approval of Proposition 1A would extend three tax increases by either one or two years. The one cent sales and use tax increase would extend through 2011-12 instead of 2010-11; the VLF increase would extend through 2012-13 instead of 2010-11; and the personal income tax surcharge would extend through the 2012 tax year instead of 2010.

A portion of the VLF increase, 0.15% of the car's value, is dedicated to local public safety programs that were previously funded through the General Fund. These programs include COPS, JJCPA (juvenile justice grants), booking fees, Small and Rural County Sheriffs grants, juvenile probation, juvenile camps and ranches, and various local public safety assistance programs administered through Cal EMA (formerly OES). Of course, removing the appropriations for these programs from the General Fund, and therefore from the annual budget process, results in greater stability for their funding.

CSAC had concerns with previous versions of a cap on state spending. The chief issue has been with the fact that a spending cap does not adequately account for nearly a decade of state underappropriation for county-run social service programs. This Human Services Funding Deficit now reaches approximately $1 billion per year, and those services would likely remain perpetually underfunded if spending is capped at current levels, absent a tax increase or significant restructuring of other state spending.

However, Proposition 1A would likely have beneficial effects in the long-term. For one thing, with a rainy day fund available for bad budget years, the Legislature would not likely be tempted to borrow property taxes as allowed by 2004's Proposition 1A. The measure would also be likely to reduce the volatility of General Fund revenues through economic cycles, providing more predictability for the state and the programs the state funds.

Two groups, Health Access and the Howard Jarvis Taxpayers Association, have filed a lawsuit claiming that the official summary of the measure is misleading, specifically that it does not mention the tax extensions associated with Proposition 1A's passage.

California Budget Reform Now, www.cabudgetreformnow.com, (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs), as well as the California State Sheriffs' Association (a CSAC affiliate), have come out in support of the measure. The budget reform group is currently leading the "Yes" campaign for all six budget-related special election ballot measures.

The argument against the measure is signed by representatives from the Congress of California Seniors, the California Faculty Association, and the Consumer Federation of California. The rebuttal to the argument for the measure is signed by representatives from Health Access California, the United Nurses Associations of California/Union of Health Care Professionals, and the Older Women's League of California.

Proposition 1A - Title & Summary
Proposition 1A - Legislative Analysis
Proposition 1A - Argument in Favor
Proposition 1A - Rebuttal to Argument in Favor
Proposition 1A - Argument Against
Proposition 1A - Rebuttal to Argument Against
Proposition 1A - Text of Proposed Law

Proposition 1B
This measure would direct a total of $9.3 billion to K-14 districts over five years beginning in 2011-12, but only if Proposition 1A also passes. The money would be paid using funds that the Controller would otherwise deposit into the rainy day fund, as described above. Some claim that the state owes schools this much as a Proposition 98 'maintenance factor' for recent cuts.

California Budget Reform Now, www.cabudgetreformnow.com, an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, has come out in support of the measure. The group is currently leading the "Yes" campaign for all six budget-related special election ballot measures. The California Teachers Association also supports this measure.

No one submitted an argument against the measure.

Proposition 1B - Title & Summary
Proposition 1B - Legislative Analysis
Proposition 1B - Argument in Favor
Proposition 1B - Argument Against
Proposition 1B - Text of Proposed Law

Proposition 1C
This measure would allow the state to borrow against future lottery revenues (securitization) and changes the allocation of Lottery proceeds. It would also make changes to the Lottery Director's authority and the amount required to be paid to prizes.

California Budget Reform Now, www.cabudgetreformnow.com, (an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs), as well as the California State Sheriffs' Association (a CSAC affiliate), have come out in support of the measure. The budget reform group is currently leading the "Yes" campaign for all six budget-related special election ballot measures.

The argument against the measure is signed by State Senator Bob Huff, as is the rebuttal to the argument for it.

Proposition 1C - Title & Summary
Proposition 1C - Legislative Analysis
Proposition 1C - Argument in Favor
Proposition 1C - Rebuttal to Argument in Favor
Proposition 1C - Argument Against
Proposition 1C - Rebuttal to Argument Against
Proposition 1C - Text of Proposed Law

Proposition 1D
This measure would redirect between half and two-thirds of the annual Proposition 10 (First 5) revenue for the fiscal years 2009-10 through 2013-14, to the benefit of the General Fund. The annual redirection would be $268 million, for a five-year total of about $1.4 billion. (Local First 5 commissions generally receive eighty percent of First 5 funds.) The measure states that the redirected funding would be applied to existing state early intervention and prevention services for infants and toddlers with developmental disabilities, child welfare services, adoption assistance, foster care, kinship guardianship assistance payments (Kin-GAP), and direct health care services upon appropriation by the Legislature as part of the annual budget process or in another statute. It would also transfer state First 5 reserves that are unencumbered as of July 1, 2009 to benefit the General Fund. The measure ensures that each county commission continues to receive at least $400,000 annually.

While the annual sweep of local commission funding could be detrimental to local community programs, the funding will be directed by the state to similar – albeit existing – state-funded purposes. Furthermore, if the measure does not pass, the state may employ other methods, including additional cuts to child welfare services and health services, to address the budget crisis.

California Budget Reform Now, www.cabudgetreformnow.com, an alliance of business interests including the California Chamber of Commerce, California Business Roundtable, and the California Alliance for Jobs, has come out in support of the measure. The group is currently leading the "Yes" campaign for all six budget-related special election ballot measures.

As for opposition to the measure, the First 5 Association of California (a CSAC affiliate) has submitted a "No" statement for inclusion in the voter's guide. There is a Web site under development, www.NoOnProposition1D.com, that is expected to be live by early next week. The original supporters of Proposition 10 are expected to fund the opposition. The First 5 Association of California's board will meet March 13 to take a formal position on the measure.

Proposition 1D - Title & Summary
Proposition 1D - Legislative Analysis
Proposition 1D - Argument in Favor
Proposition 1D - Rebuttal to Argument in Favor
Proposition 1D - Argument Against
Proposition 1D - Rebuttal to Argument Against
Proposition 1D - Text of Proposed Law

Proposition 1E

This measure would redirect $460.7 million of revenue from Proposition 63 (the Mental Health Services Act) over two fiscal years, 2009-10 and 2010-11. The money would pay for Early and Periodic Screening, Diagnosis and Treatment (EPSDT) services, which the state otherwise pays out of the General Fund. The EPSDT program provides mental health services to Medi-Cal eligible children and youth. Counties have begun providing new programs with revenue from Proposition 63, and now face the prospect of much of that money disappearing for two years. The Department of Finance estimates that Proposition 63 will generate $981 million in fiscal year 2008-09 and $887 million in 2009-10. The vast majority of these funds are allocated to counties by Proposition 63 to support local mental health programs and provide a broad continuum of prevention, early intervention, and other service needs, as well as the necessary infrastructure, technology, and training that support the system.

The two-year sweep of Proposition 63 funding to support state costs for the EPSDT program will be detrimental to local mental health programs. However, if the measure does not pass, the state may employ other methods, including additional cuts to local mental health funding streams, to address the budget crisis. The EPSDT program is a federal entitlement and has a legal history in California; these factors would make it difficult to cut funding for it.

Supporters of the measure include Senate President pro Tempore Darrell Steinberg and California Budget Reform Now, www.cabudgetreformnow.com, an alliance of business interests including the California Chamber of Commerce, California

Business Roundtable, and the California Alliance for Jobs. The group is currently leading the "Yes" campaign for all six budget-related special election ballot measures.

Opponents of the measure include Senator Lou Correa and the California Council of Community Mental Health Agencies (CCCMHA), who have created the following Web site: www.noprop1e.com.

In addition to leading the "No on Proposition 1E" campaign, the CCCMHA, along with Mental Health America of Los Angeles, filed a lawsuit on February 27 seeking changes to the official descriptions of the measure in the voter's guide, citing "misleading" language that may give voters the impression that passage of the measure "would protect hundreds of millions of dollars' worth of mental health programs, when in fact it cuts programs by that amount." On March 5, the parties settled on a new title and summary, as follows.

Original Ballot Title	Ensures Funding For Children's Mental Health Services. Helps Balance State Budget.
New Ballot Title	Mental Health Funding. Temporary Reallocation. Helps Balance State Budget.
Original Ballot Summary	MENTAL HEALTH FUNDING BUDGET. Helps balance the state budget and preserve funding for children's mental health services by providing temporary flexibility in the Mental Health Services Act to fund the Early and Periodic Screening, Diagnosis, and Treatment Program for children. Fiscal Impact: State General Fund savings of about $230 million annually for two years (2009-10 and 2010-11). Corresponding reduction in funding available for Mental Health Services Act programs.
New Ballot Summary	MENTAL HEALTH FUNDING: TEMPORARY REALLOCATION. Helps balance state budget by amending the Mental Health Services Act (Proposition 63 of 2004) to transfer funds, for two years, to pay for mental health services provided through the Early and Periodic Screening, Diagnosis and Treatment program for children and young adults. Fiscal impact: State General Fund savings of about $230 million annually for two years (2009-10 and 2010-11). Corresponding reduction in funding available for Mental Health Services Act programs.

Proposition 1E - Title & Summary
Proposition 1E - Legislative Analysis
Proposition 1E - Argument in Favor
Proposition 1E - Rebuttal to Argument in Favor
Proposition 1E - Argument Against

Proposition 1E - Rebuttal to Argument Against
Proposition 1E - Text of Proposed Law

Proposition 1F
This measure would prohibit pay increases for state constitutional officers and legislators in years that the Director of Finance forecasts the Special Fund for Economic Uncertainties to end the year with a negative balance.

California Budget Reform Now, www.cabudgetreformnow.com, supports the measure, as they do all of the others. The argument against is signed by an author named Pete Stahl.

Proposition 1F - Title & Summary
Proposition 1F - Legislative Analysis
Proposition 1F - Argument in Favor
Proposition 1F - Rebuttal to Argument in Favor
Proposition 1F - Argument Against
Proposition 1F - Rebuttal to Argument Against
Proposition 1F - Text of Proposed Law

Overarching Impacts. The state programs funded in the 2009-10 budget and beyond are hinged to the passage of this package; if any one of them fails, the state's budget pressures only increase, exacerbating an already difficult budget situation, putting county programs funded by the state at risk, and potentially extending the state's cash crisis.

For example, if Proposition 1A passes, the tax measures in the budget package will be extended for either an additional one or two years (varies with each revenue source). Obviously, Proposition 1A fails there will be revenue shortfalls in future years. The following chart details the revenue impacts linked to Proposition 1A.

Revenue	Estimated Amount Generated in 2009-10	Expiration Date if Proposition 1A Passes	Expiration Date if Proposition 1A Fails
1¢ sales and use tax increase	$4.5 billion	2011-12	2010-11
0.50% increase in VLF	$1.7 billion	2012-13	2010-11
Personal income tax rate increase of 0.25%*	$3.65 billion	Through the 2012 tax year	Through the 2010 tax year
Reduce tax credit for dependents from $309 to $99	$1.4 billion	Through the 2012 tax year	Through the 2010 tax year

**Also tied to the federal economic stimulus trigger*

Additionally if Proposition 1A fails, then Proposition 1B – which provides additional funding to schools – would also fail.

If Proposition 1C fails and the state is unable to secure future lottery revenues, it would create a $5 billion shortfall in the budget.

If Proposition 1D (First 5 revenue redirection) and Proposition 1E (Mental Health Services Act redirection) also fail, the state will be forced to revisit cuts – likely in health and human services programs. First 5 funds would offset $268 million per year in state General Fund expenditures for five years and Mental Health Services Act funds would be directed to cover approximately $230 million in General Fund spending on mental health.

Well over $20 billion in revenues, borrowing, potential cuts, and increases in education spending are tied to the six May ballot measures. The package is intended to be complex. Clearly, there are elements in the package for counties to dislike – and some things to like.

Action Requested. Recommend to the CSAC Board of Directors a position of "neutral" on the entire package of measures, Proposition 1A through Proposition 1F.

First 5
SANTA BARBARA COUNTY

Proposition 1D
Impact of Prop 1D on First 5 Programs Serving Children & Families

About Proposition 1D

Proposition 1D is a ballot initiative that changes how Proposition 10 (First 5) tobacco tax revenues are allocated to and administered by First 5 California, First 5 Santa Barbara County and the other 57 county First 5 commissions across California. If passed, Proposition 1D would do the following:

- Redirect $268 million annually from First 5 local, county commissions to the state General Fund for five years to be appropriated by the State legislature
- Take more than 50% of First 5 revenues – possibly as much as 65% or 70% by the fourth and fifth years
- Redirect an estimated $1.6 Billion from First 5's throughout the state over the next five years
- Give the Legislature complete authority over how to spend the redirected First 5 revenues

California voters will decide on Prop 1D at a special election scheduled for **May 19, 2009**

The Statewide Impact of 1D

Local health, education, early intervention and basic needs services for young children and their families throughout California will be cut and possibly eliminated. Locally designated Proposition 10 dollars that are currently administered by local community leaders, and used to meet local community needs, will be shifted to the State General Fund to be spent by the legislature.

The Impact of 1D on First 5 Programs for Children and Families in Santa Barbara County

▶ Fiscal Climate

The current economic climate has brought a documented increase in needs for children 0-5 and their families. First 5 Santa Barbara County funds a variety of "safety net" services including: access to health insurance, dental care, mental health services, family support services and information for families in crisis that will be cut or eliminated with reductions in local First 5 dollars.

In fiscal year 2007-2008, more than 4,400 children age 5 and under, nearly 3,300 family members and nearly 1,000 professional providers were served locally through First 5 funded programs.

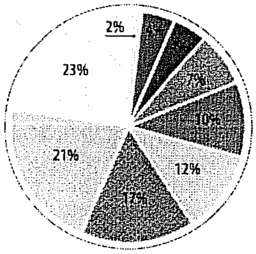
Radical decreases in funding will impact communities who need support services the most. In addition to serious programmatic cuts, it is important to recognize that many public and non-profit agency staff will lose employment through the termination of these programs.

▶ Current Funding

Currently, First 5 Santa Barbara County receives an allocation of Proposition 10 tobacco tax of approximately **$5 million per year**. Through additional public and private partnerships, First 5 Santa Barbara County has an overall budget of **$7.6 million.**

First 5 Santa Barbara County currently receives **more than $800,000** from First 5 California for targeted initiatives such as School Readiness, Children's Health Insurance premiums, and Child Care Workforce Development. Proposition 1D would eliminate State First 5 funding reserve balances and redirect these funds to the State's General Fund, therefore significantly impacting future funding for these initiatives in Santa Barbara County.

2007 - 2008 Community Investment $ 4,581,367



NEWBORN HOME VISITING	23%	$ 1,015,000
FAMILY SUPPORT	21%	$ 963,543
EARLY CARE & EDUCATION**	17%	$ 788,829
EARLY MENTAL HEALTH & SPECIAL NEEDS	12%	$ 525,107
SCHOOL READINESS INITIATIVE*	10%	$ 458,888
EARLY ORAL HEALTH	7%	$ 325,000
HEALTHY KIDS	4%	$ 200,000
ONE YEAR GRANTS	4%	$ 200,000
SPRUCE UP FOR KIDS DAY	2%	$ 105,000

* These funds come from First 5 California for the School Readiness Initiative
** A percentage of these funds come from the First 5 California CARES Program

►Declining Revenue

It is estimated that First 5 counties will receive approximately a 10% decrease in funding through the impact of the new federal tobacco tax instituted in the reauthorization of State Children's Health Insurance Program (SCHIP). Additionally, Proposition 10 is experiencing an approximate annual 3.8% decrease in revenue through ongoing decline in the sale of tobacco products.

In addition to the funding that First 5 is able to generate internally, the agencies funded by First 5 are able to generate over **$2,211,749** in State, Federal and private dollars directly supporting programs for young children. Much of these dollars would be decreased if Santa Barbara County's allocation is impacted.

First 5 Santa Barbara County has utilized extensive long range fiscal planning to maximize sustainability of programs through decreased funding. Providing fiscally prudent planning, program oversight and leveraging of funding has allowed First 5 to create a system of care that focuses on local long term investments in young children in our county

►Proposed Redirection

Through the proposed 50% decrease in revenue through Proposition 1D, the additional reduction in funding to Santa Barbara County would be over **$2.5 million.**

Over the five year period, the impact to Santa Barbara County would be a **loss of approximately $12.6 Million.** Proposition 1D would significantly impact existing programs and the ability to draw down funding through matching state, federal and private grants.

►The Effect on Local Programs and Services

Passage of 1D would result in significant impacts on the variety of locally determined programs available to children from birth to five years old in Santa Barbara County.

A five-year redirection of funding will most likely result in the local loss of programs, services, staff positions, and the infrastructure that First 5 Santa Barbara County has built, in partnership with the community, over the last 10 years.