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August 24, 2012

To: Members: Revenue and Taxation Policy Committee

From: Jose Cisneros (Chair), Treasurer, San Francisco
Dan Carrigg, League Staff (916) 658-8222

Re: **POLICY COMMITTEE MEETING — Annual Conference**
DATE: Wednesday, September 5, 2012
TIME: 9:00 a.m. – 10:30 a.m.
PLACE: San Diego Marriott Marquis & Marina Hotel
333 West Harbor Drive, San Diego

Attached is the agenda for the upcoming Revenue and Taxation Policy Committee meeting. Included is the Annual Conference Resolutions No. 1 that has been assigned to this committee, as well as the background information.

Also included are the two November ballot measures that have been referred to this committee by the Board of Directors.

Annual Conference registration is not required to attend a policy committee and since lunch is not provided at this meeting, an RSVP is not necessary.

On behalf of Vice Chair Cheryl Cox, League Staff and myself, we wish to thank each of you for your participation as a member of the Revenue and Taxation Policy Committee during 2012.

We hope to see you in San Diego!

REVENUE & TAXATION POLICY COMMITTEE

Wednesday, September 5

9:00 a.m. – 10:30 a.m.

Room: Marina Salon G

San Diego Marriott Marquis and Marina

A G E N D A

I. Welcome and Introductions

II. Public Comment

III. Annual Conference Resolution (Attachment A)

Action Items

- Resolution #1. Fines and Forfeitures.

IV. November 2012 Ballot Measures (Attachments B & C)

Action Items

- Proposition 31. California Forward Initiative, “The Government Performance and Accountability Act”
*Speaker in Support –
*Speaker in Opposition –
- Proposition 30. The Governor’s Tax Initiative, “The School and Local Public Safety Protection Act of 2012”
*Speaker in Support –
*Speaker in Opposition –

V. Adjourn

*The campaigns from both the proponents and opponents of Propositions 30 & 31 have been invited and have agreed to send a representative. As of the date of this mailing, we have not received the names and titles of the representatives. An updated agenda with the names and titles will be available at the meeting.

REMINDER: The 2012 policy committee appointments will end at the close of the Annual Conference; appointments for 2013 can be requested thereafter. Members seeking appointments for 2013 are urged to contact their incoming department, division, or affiliate president immediately following the Annual Conference to request reappointment. A presidential appointment from the League’s incoming president may also be requested, although members are encouraged to first exhaust appointment opportunities through their division or department presidents. These requests should be sent c/o Meg Desmond, 1400 K Street, Sacramento, CA 95814 or via e-mail: mdesmond@cacities.org. Please include a brief bio. If you have questions regarding the appointment process, please call (916) 658-8224, send an e-mail to mdesmond@cacities.org, or visit our website: www.cacities.org/polcomm

Brown Act Reminder: The League of California Cities’ Board of Directors has a policy of complying with the spirit of open meeting laws. Generally, off-agenda items may be taken up only if:

- 1) *Two-thirds of the policy committee members find a need for immediate action exists and the need to take action came to the attention of the policy committee after the agenda was prepared (Note: If fewer than two-thirds of policy committee members are present, taking up an off-agenda item requires a unanimous vote); or*
- 2) *A majority of the policy committee finds an emergency (for example: work stoppage or disaster) exists.*

A majority of a city council may not, consistent with the Brown Act, discuss specific substantive issues among themselves at League meetings. Any such discussion is subject to the Brown Act and must occur in a meeting that complies with its requirements.

RESOLUTION REFERRED TO PUBLIC SAFETY AND REVENUE & TAXATION POLICY COMMITTEES

- ◆1 **A RESOLUTION CALLING UPON THE GOVERNOR AND LEGISLATURE TO ENACT LEGISLATION THAT WOULD CORRECT INEFFICIENCIES IN THE AUDIT SYSTEM, DISTRIBUTION SYSTEM AND INEQUITIES IN THE FORMULAS FOR DISTRIBUTING COURT ORDERED ARREST AND CITATION FINES, FEES AND ASSESSMENTS GENERATED BY LOCAL GOVERNMENT.**

Source: City of Glendora

Referred to: Public Safety and Revenue & Taxation Policy Committee

Recommendation to General Resolutions Committee:

WHEREAS, the primary purpose of criminal and traffic laws is to improve safety for the public, where the cost involved to implement enforcement falls primarily upon local law enforcement agencies throughout the State; and

WHEREAS, if State laws are to be effectively enforced then local cities must have a fair revenue structure to pay the cost of making arrests and issuing citations for criminal and traffic violators; and

WHEREAS, the significant inequity in the amount cities receive in relation to the full cost of a citation and/or arrest results in an unfair distribution of revenue to cities that are generated by court fines, fees, surcharges, penalties and assessments levied on offenders; and

WHEREAS, the current inefficiencies in the system makes it practically impossible for cities to insure transparency and effectively audit, administer and manage public funds that are generated by cities and distributed by the State and County; and

WHEREAS, to adequately protect and serve the public during this time of declining revenue and deteriorating services the inequities in the system needs to be changed; and

WHEREAS, court-ordered debt collection and revenue distribution is a complex system where there are few audits, if ever, done to determine if cities are receiving their fair share of disbursements; and

WHEREAS, once a debt has been collected, in whole or in part, distributing the money is not simple as there are over 150 ways collection entities are required to distribute revenue collected from traffic and criminal court debts. Depending on the fine, fee, surcharge or penalty assessment imposed by the court has more than 3,100 separate court fines, fees, surcharges, penalties and assessments levied on offenders that appear in statutes spanning 27 different state code sections; and

WHEREAS, the current system makes it practically impossible for cities to effectively administer and manage public funds that are generated by cities. Because of the complex system cities cannot determine if they are receiving their fair share of the fines collected; and

WHEREAS, Counties and the State have statutory responsibility and power to conduct their audits, while cities do not currently have clear legal standing to demand access to court records for purposes of conducting audits in a thorough and transparent manner which further shrouds the understanding of when and how revenue is distributed; and

WHEREAS, in December 2011 at the request of the Glendora Police Department the Los Angeles Superior Court conducted a sample audit of 15 Glendora Police Department-issued citations from 2010. The results of the sample audit revealed the City of Glendora received about 12% (\$253) of the \$2,063 in paid fines for the 12 of the 15 citations submitted. Three (3) of the citations in the audit were sent to collection or warrants. Based on those results, the city received an average of \$21, while the State and County received an average of \$172 for each of the 12 citations. The percentage breakdown for the city was 12.25% as compared to the State and County's share of 86.75%; and

WHEREAS, issuing a typical vehicle code violation citation can involve up to an hour of the issuing officer's time and the time of a records clerk tasked with entering citations into the database costing approximately \$82 per hour. If the citation is challenged the cost increases another \$135 to cover the cost of court time and handling of the notices associated with such an appeal. Therefore, the cost incurred to issue a citation currently is between \$82 and \$217, while the sample audit reveals the city is receiving about \$21 in cost recovery; and

WHEREAS, officials with Superior Court openly admit that similar results would be expected for almost every jurisdiction in the State issuing citations due to the complexity and "Priority of Distribution" they must follow from the State of California. "Priority Distribution" is triggered when a court reduces a fine for a citation. This process prohibits Judges from reducing penalty assessments and thus the only discretion Judges have in reducing fines, fees and costs is to reduce the base fine, or city portion, of the total fine. This process has a significant impact on the amount of money cities issuing the citation will receive. Rarely is the reduction in the fine taken from other stakeholders. Cities are one of the lowest priorities on the distribution list and often find themselves receiving significantly less share-or no share after deducting State and County fees and surcharges; and now there let it be

RESOLVED by the General Assembly of the League of California Cities, assembled in San Diego on September 7, 2012, that the League of California Cities calls upon the State Legislature and Governor to:

1. Create an efficient system to provide cities with a clear authority to audit the distribution of fines, fees, assessments and administrative costs for criminal and traffic violations;
2. Enact legislation that changes the "Priority Distribution" mandate so cities receive the total cost of issuing, processing and testifying in court on criminal cases and traffic violations; and
3. That any reduction in fines, fees, assessments or costs should be equally distributed from the total fine imposed, not just from the city base fine.

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Background Information on Resolution No. 1

Source: City of Glendora

Background:

Court-ordered debt collection and revenue distribution is a complex system where there are few audits, if ever, done to determine if cities are receiving their fair share of disbursements. The current system makes it practically impossible for cities to effectively administer and manage public funds that are generated by cities. Because of the complex system cities cannot determine if they are receiving their fair share of the fines collected.

Once a debt has been collected, in whole or in part, distributing the money is not simple as there are over 150 ways collection entities are required to distribute revenue collected from traffic and criminal court debts, depending on the fine, fee, surcharge or penalty assessment imposed by the court and California has more than 3,100 separate court fines, fees, surcharges, penalties and assessments levied on offenders that appear in statutes spanning 27 different government code.

County and state have statutory responsibility and power to conduct their audits, while cities do not currently have clear legal standing to demand access to court records for purposes of conducting audits in a thorough and transparent manner which further shrouds the understanding of when and how revenue is distributed.

At the request of the City of Glendora, in December 2011, the Los Angeles Superior Court conducted a sample audit of 15 Glendora Police Department-issued citations from 2010. The results of the sample audit revealed the Glendora received about 12% (\$253) of the \$2,063 in paid fines for the 12 of the 15 citations submitted. Three (3) of the citations in the audit had been sent to collection or warrants. Based on those results, the city received an average of \$21, while the state and county received an average of \$172 for each of the 12 citations. The percentage breakdown for the city was 12.25% as compared to the state and county's share of 86.75.%

Issuing a typical vehicle code violation citation can involve up to an hour of the issuing officer's time and the records clerk tasked with entering citations into the database costing approximately \$82 per hour. If the citation is challenged the cost increases another \$135 to cover the cost of court time and handling of the notices associated with such an appeal. Therefore, the cost incurred to issue a citation that is currently between \$82 about \$217, while the sample audit reveals the city is receiving about \$21 in cost recovery.

Officials with Superior Court openly admit that similar results would be expected for almost every jurisdiction in the state because when a court reduces a fine it triggers a process called "Priority Distribution." This process prohibits Judges from reducing penalty assessments imposed by the county and state and thus the only discretion that Judges have in reducing fines is to reduce the Base Fine (City Portion) of the total fine. This mandate has a significant impact on the amount of money cities issuing the citation receive. Rarely is the reduction in the fine taken from other stakeholders. Cities are one of the lowest priority on the distribution so often they find themselves receiving significantly less share-or no share after deducting state and county fees and surcharges.

The primary cost to implement enforcement falls upon local law enforcement agencies throughout the state. This Resolution calls upon the State Legislature and Governor to create an efficient system to provide cities with a clear authority to audit the distribution of fines, fees, assessments and administrative costs for criminal and traffic violations. In addition, legislation should be developed and passed that changes the "Priority Distribution" mandate so the cities receive the total cost of issuing, processing and testifying in court on criminal cases and traffic violations and that any reduction in fines, fees, assessments or costs should be equally distributed from the total fine imposed.

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League of California Cities Staff Analysis on Resolution No. 1

Staff: Dorothy Holzem, Assoc. Legislative Representative, (916) 658-8214
Committee: Public Safety Policy Committee

Staff: Dan Carrigg, Legislative Representative, (916) 658-8222
Committee: Revenue and Taxation Policy Committee

Summary:

This Resolution urges the League of California Cities, through legislative or administrative means, to clarify the authority for cities to audit the distribution of court imposed fines, fees, penalty assessments and administrative costs for criminal and traffic violations.

It also urges the League to seek legislative changes to the “Priority Distribution” statutory formula so that cities receive the total cost of issuing, processing and testifying in court on criminal cases and traffic violations. The current statutory formula allows reductions to the base fine but maintains the same level of penalty assessments, based upon the full penalty charge.

Finally, any reductions that may occur in fines, fees, assessments or costs determinations should be equally distributed from the total fine imposed, not just from the city base fine.

This Resolution raises several policy questions:

- 1) Should cities have the authority to request audits and receive reports from a county or the state on the local share of revenue resulting from criminal and traffic violation penalties?
- 2) Should cost-recovery be a driving factor in setting monetary penalties for criminal or traffic violations?
- 3) Should reductions (as ordered by a judge) to the fines owed by violators be taken just out of the base fine, or should the base fine and related penalty assessments be reduced proportionately?

Background:

In California, criminal offenders may have additional penalty assessments made to their base fines. These penalty assessments are based on the concept of an “abusers fee,” in which those who break certain laws will help finance programs related to decreasing those violations. For example, drug and alcohol offenses and domestic violence offenses are enhanced by special assessments on fines that directly fund county programs designed to prevent the violations. All other criminal offenses and traffic violations are subject to penalty assessments that are used to fund specific state programs.

According to the Resolution sponsor, the City of Glendora, the court-ordered collection of penalty fines and additional assessments, as well as the subsequent revenue distribution, is a complex system where few audits are conducted to determine if cities are receiving their share of collections. The current system makes it practically impossible for cities to effectively administer and manage public funds that are generated by cities.

The League recently held in-depth policy discussions related to audit authority in light of the misconduct charges against the City of Bell in 2011. The League convened a technical working group to review audit legislation and administrative efforts by the State Controller’s Office. Following the work of this group, the League Board adopted principles supporting transparent, accurate financial and performance information. (See “Existing Policy” section below.) However, these principles did not address expanding cities’ audit authority over the state, counties, or other public agencies.

The sponsors state that there are over 150 ways collection entities are required to distribute revenue collected from traffic and criminal court debts. Depending on the fine, fee, surcharge or penalty assessment imposed, there are more than 3,100 separate court fines, fees, surcharges, penalties and assessments levied on offenders that appear in statutes spanning 27 different state code sections.

Generally, the base fines for criminal and traffic citations are significantly lower than the additional penalty assessments levied by the state and counties. In some instances, the penalty assessment for state and local

programs can be three or four times the amount collected by the city or county agency that issued the citation through their local enforcement authority. The amount each program account receives is based on a statutory formula. For example, if a driving under the influence (DUI) fine is \$1000, specific dollar amounts proportionate to the base fine are added under six different code sections for a total price tag of \$3,320 for the offense.

Some examples of program accounts receiving penalty assessment revenues include Peace Officer Standards and Training (POST), victim witness protection and services, court security, court construction, forensic laboratories for DNA identification, and automated fingerprint identification. The impact of programs largely funded, if not solely funded, by penalty assessment revenue casts a wide net of stakeholders including counties, sheriffs, district attorneys, public defenders, fish and game wardens, victim advocates, and access to the judicial system advocates. Cities are also partial benefactors of penalty assessment funded programs related to law enforcement.

For the last three decades, this policy area has been under great scrutiny and study but with little reform taking place. The recommendations from past studies and reports to consolidate penalty assessment accounts or their collections efforts, which would require legislative action, have likely not gained traction because of the inevitable loss of revenue for the specific programs and the affected interest groups.

In 1986, the Legislature enacted Senate Concurrent Resolution 53, requiring the Legislative Analyst Office (LAO) to study the statutory penalty assessments that are levied by the courts on offenders and the state programs that the funds support. The completed 1988 study found a complicated system of collection and distribution of penalty funds. The LAO was unable to fully identify the source offenses that generated penalty revenues because of limitations in most county collection systems.

In 2005, the California Research Bureau issued a report for the Assembly Public Safety Committee on county penalty assessments that drew similar conclusions. They stated the complexity of the system means poor revenue collection, disproportionate justice for debtors, and undermines the usefulness of fines as a punishment or deterrent. They recommended efforts to streamline and consolidate collections, funding, and appropriations.

After some delay, the state created the Administrative Office of the Court's Court-Ordered Debt Task Force, which is charged with evaluating and exploring means to streamline the existing structure for imposing and distributing criminal and traffic fines and fees. This Task Force has been asked to present preliminary recommendations to the Legislature regarding the priority in which court-ordered debt should be satisfied and the use of comprehensive collection programs. Currently, the League of California Cities has two appointments to the Task Force. However, the Task Force has been put on hiatus and has not met for approximately 12 months due to significant state cuts to the court budget in recent years.

Currently, legislation was introduced this year to address the issue of cities not recouping the costs of issuing citations. The response has been to increase the base fine and not change penalty assessments. Assembly Bill 2366 (Eng) would increase the base fine of "fix-it" tickets from \$10 to \$25 dollars. This has largely been successful in the legislative fiscal committees because with every increase to the base fine for the issuing agency, so increases the state and county share of penalty assessments proportionately.

Lastly, in most instances when the legislature takes into consideration a fine increase, be it for manufacturer product responsibility or criminal acts, the legislature focuses on how the increased fine will alter behavior, not on recovering the costs of enforcing that violation.

Fiscal Impact:

Unknown. Potential additional revenue received by cities, if any, would vary based on total citations issued and collected.

Existing League Policy:

Related to this Resolution, existing policy offers:

- Cities and the League should continue to emphasize efficiency and effectiveness, encouraging and assisting cities to achieve the best possible use of city resources.
- The League supports efforts to preserve local authority and accountability for cities, state policies must ensure the integrity of existing city revenue sources for all cities, including the city share and situs allocation, where applicable, of property tax, sales tax, vehicle license fee, etc.

Audit Principles Adopted by the League Board

- Given the State already has substantial authority to examine local government financial practices, and recognizes the significant resources required by auditors and local governments to complete audits, additional authority should only be granted to a State agency when there are documented insufficiencies in its existing authority.
- Governmental financial audits and performance audits ensure financial integrity and promote efficient, effective and accountable local government.
- Transparent, accurate financial and performance information is necessary for citizens to have confidence that their interests are being served, and for decision makers to be accountable for ensuring that public funds are spent appropriately and effectively.
- Public trust is inspired when auditors perform their work with independence, objectivity and integrity, remaining free from personal, external and organizational impairments to that independence, both in fact and in appearance.
- Public confidence in government is maintained and strengthened when financial and performance information is collected, managed and reported in accordance with nationally recognized professional accounting and auditing standards.

The League’s Mission Statement is “to expand and protect local control for cities through education and advocacy to enhance the quality of life for all Californians.”

In addition, the Strategic Priorities for 2012, as adopted by the League Board of Directors, are to:

- 1) **Support Sustainable and Secure Public Employee Pensions and Benefits:** Work in partnership with state leaders and other stakeholders to promote sustainable and secure public pensions and other post-employment benefits (OPEBs) to help ensure responsive and affordable public services for the people of our state and cities.
- 2) **Promote Local Control for Strong Cities:** Support or oppose legislation and proposed constitutional amendments based on whether they advance maximum local control by city governments over city revenues, land use, redevelopment and other private activities to advance the public health, safety and welfare of city residents.
- 3) **Build Strong Partnerships for a Stronger Golden State:** Collaborate with other public and private groups and leaders to reform the structure and governance, and promote transparency, fiscal integrity, and responsiveness of our state government and intergovernmental system.

**Revenue and Taxation Policy Committee
Proposition 31, Proposed November Ballot Measure
August, 2012**

Staff: Lobbyist: Dan Carrigg (916) 658-8222

1. Proposition 31: The Government Performance and Accountability Act¹

http://ag.ca.gov/cms_attachments/initiatives/pdfs/i1011_11-0068_%28government_performance%29.pdf

Summary: The measure would declare voter intent on the shared purpose of state and local government, alter both state and local budget practices and make other changes affecting the state legislative and budget-adoption process. The measure's sponsor is California Forward, a non-profit organization focused on improving California governance. A copy of the official ballot pamphlet language for Proposition 31 is attached, including the LAO analysis as well as the arguments of supporters and opponents

Initiative Summary:

- 1) Voter Intent: The Act's stated purpose is to bolster results and accountability to taxpayers by improving the budget process for State and local governments and encouraging local governments to work together. One consistent theme is that State and local governments would be more efficient, effective and transparent through a budget process that examines progress toward program goals. The Act declares that *"the shared purpose of State and local governments is to promote a prosperous economy, a quality environment, and community equity."* This purpose is advanced *"by achieving at least the following goals: increasing employment, improving education, decreasing poverty, decreasing crime, and improving health."*
- 2) Findings: The Act's findings about California government (both state and local) include:
 - government has lost the confidence of its citizens and is not meeting their needs;
 - government at all levels must be transparent, willing to listen and accountable for results;
 - government must have a shared vision of public purpose, must collaborate regionally, and must work together to provide public services effectively and efficiently; and
 - a primary purpose of public budgets is to link dollars to goals and communicate progress toward goals.
- 3) New Local Government Budgeting Requirements: Beginning with budget year 2014-15, this measure will require all local government budgets to include all the following:
 - A statement of how the budget will promote, *"as applicable to a local government entity's functions, role, and locally-determined priorities, a prosperous economy, quality environment, and community equity, by working to achieve at least the following goals: increasing employment; improving education; decreasing poverty, decreasing crime; and improving health, and other community priorities."*

¹ Given that California Forward was engaged in outreach to city officials, this ballot measure was referred to both the League's Revenue and Taxation and Administrative Services policy committees, where discussions occurred at both the January and March meetings. Final action at the June meetings was deferred, when California Forward officials were negotiating a possible alternative version of this proposal in the Legislature. If such a Legislative alternative was to be developed, the League Board authorized League staff to pursue amendments to remove provisions affecting local government. Since a legislative alternative to this measure was not agreed to, California Forward opted to submit gathered signatures and qualify this measure for the November ballot.

Does Prop. 31 Restrict the Purpose of Cities?

Today the purpose of a city is determined by its city council when it enacts ordinances and adopts its budget. The California Constitution provides that a city "...may make and enforce within its limits all local, police, sanitary and other ordinances and regulations that do not conflict with the general laws [of the state]." The word "police" is actually derived from the Greek word "polis" meaning "city," and in its original meaning refers to the "...right to adopt regulations designed to promote the public convenience or the general prosperity, as well as regulations designed to promote the public health, the public morals, or the public safety." This power of a city is as broad as that of the state legislature and is subject only to the limitations of general (and federal) law. Moreover, it is elastic and in keeping with the growth of knowledge and the need for its application. Source: *California Municipal Law Handbook*, §§1.15/1.16 (2012).

When a city council adopts a budget, it authorizes the expenditure of public funds for a variety of programs and services. The expenditure of public funds must be confined to a public purpose, and the city council determines whether a proposed expenditure serves a public purpose through duly enacted legislation. The courts will not disturb a determination of what constitutes a public purpose so long as that determination has a legislative basis. Therefore, under existing law, the "purposes" of city government spending decisions is a matter of local determination, subject only to state and federal restrictions.

Proposition 31 declares the "shared purpose" of state and local governments: to promote a prosperous economy, a quality environment, and community equity. These purposes may be similar to the purposes of some cities' expenditures and different than the purposes of others. League attorneys advise that Prop. 31 could affect a fundamental shift in the law, narrowing the purpose of city governments and cities' allowable expenditures. At a minimum, by requiring that cities focus their budgets on one three-part purpose and five specific goals, where applicable, Prop. 31 may provide a platform to challenge the use of city funds for being inconsistent with these purposes (particularly "community equity") and goals. A shared State-Local purpose also opens the door to state legislation defining terms such as "community equity" and directing the way in which city funds can be used without the need for mandate reimbursement.

Note: On October 25, 2011 the League advised CA Forward in writing that a failure to address these serious concerns could cause the League and cities to oppose Prop. 31.

- A description of outcome measurements to assess progress toward the local government's goals and community priorities;
- A statement of the outcome measurement for each major expenditure and its relationship to the overall goals established by the local government entity;
- A statement of how the local government will align its expenditures and investments of public resources to achieve the established goals; and
- A public report on progress in achieving goals and an evaluation of the effectiveness in achieving the outcomes according to the measurements set in the prior year's budget.

Each local government must also develop and implement an open and transparent process to encourage public participation in developing its budget, including identifying community priorities.

- 4) Community Strategic Action Plans. Provides incentive funds for the creation of Community Strategic Action Plans by counties as follows:
 - (a) Dedicates 0.035% of the State sales and use tax (approximately \$180 million) annually to create the Performance and Accountability Trust Fund to provide incentives for adopting Plans. These funds are represented a byproduct of "realignment savings." Beginning in FY 2014-15, each county that has adopted a Plan and submitted it to the Controller will receive a portion of funds based on the county's percentage of the total population for all of the eligible Plans. If the State reduces the sales and use tax bases and the Fund receives less revenue than in FY 2013-14, the difference shall be provided by the General Fund. The way this measure is drafted it appears that all of the funds will be allocated to those counties which elect to adopt a Plan. If that is the case, then there will likely be pressure on counties to adopt a Plan rather than see their "share" of these funds distributed to other counties. Since the language allocating the funding to counties is statutory rather than an amendment to the Constitution, the Legislature could clarify this area of law with a statute requiring a two-thirds vote.
 - (b) Authorizes a county board of supervisors to develop a Community Strategic Action Plan ("Plan") to deliver public services more effectively and efficiently. Requires other local governments in the county with services in the Plan's anticipated scope to be invited

to participate. Local governments may also petition the county to be included in the planning process, to initiate or amend a Plan. The Plan is to be drafted through an open and transparent process that encourages participation. Intent language at the beginning of the measure declares that it is the purpose of these Plans “for advancing community priorities that they (local agencies) cannot achieve by themselves.”

- (c) Requires the Plan to include outcomes, measurements, reporting methods and statements that:
 - outline how it will achieve the stated purposes and goals;²
 - describe services to be delivered and the roles and responsibilities of participating entities;
 - explain why those services will be delivered more effectively and efficiently under the Plan;
 - provide for resource allocation to support the Plan, including any funds received from the Performance and Accountability Trust Fund;
 - consider disparities within communities served; and
 - explain how the Plan is consistent with budgets adopted by participating entities.³
 - include a method for regularly reporting outcomes to the public and to the state.
- (d) Requires at least a majority of the entities “providing municipal services...to at least a majority of a county’s residents” (counts both population within cities and unincorporated area residents), and one or more school districts serving at least a majority of the pupils in the county, must participate in the Plan. The Plan (and amendments) must be approved by a majority vote of the county and each participating local government and school district. *The Plan shall not apply to any local government that does not approve it.*⁴
- (e) Prohibits a school district from receiving funds under the Plan from the Performance and Accountability Trust Fund. Funds paid to a school district can be from any other source determined by the participating entities.⁵
- (f) Authorizes counties, cities, and other local government entities, including school districts and community college districts that are parties to a Plan to enter into contracts to apportion their shares of ad valorem property taxes, provided the contract is approved by each entity’s governing board by a two-thirds vote. *(Cities and counties can already agree to share sales tax revenue with a two-thirds vote of their governing bodies.)*
- (g) Authorizes entities that adopt Plans to be granted statutory, regulatory and funding flexibility for administering state financed programs,⁶ as follows:

² The Plan must achieve the listed purposes and goals. Will the Legislature remain content to fund plans with diverging interpretations of what these purposes and goals mean or adopt uniform criteria?

³ This requirement to specify in a Plan how the budgets adopted by participating local agencies are consistent with the Plan could affect the discretion of an individual agency to adopt a budget that matches its community’s priorities. For instance, if a city supported an effort by its county Plan to spend its state incentive funds on health care, does that mean that the city must also spend its own funds on health care?

⁴ A regional approach to public safety funding under the “reduced crime” goal could be one possible focus of a Plan which matches a traditional interest of cities, and possibly schools, and tracks with the state’s realignment of corrections’ responsibilities to counties. “A prosperous economy” and “increasing employment” could be interpreted as a regional economic development effort. Much depends on how the state—which has significant other budget leverage over counties and schools—interprets the goal of this tool.

⁵ The initial allocation of incentive funds to counties and prohibiting schools from accessing those funds raises significant questions over where additional revenue would come from to support a Plan. Counties are likely to be underfunded from realignment. Schools have incurred significant cuts to their funding. Special districts and cities are the only other entities of local government these funds could come from.

- Plan adoptees may integrate state or local funds to provide Plan services and advance Plan goals.
- If parties to a Plan believe that a state law or regulation impedes Plan progress, they may propose provisions that are *“functionally equivalent.”* They must describe the intended state objective, explain how the rule is an obstacle, and describe the proposed community rule and how it will improve outcomes. These “functionally equivalent” provisions are required to be submitted to the Legislature with the Plan; if within 60 days the Legislature takes no action to disapprove it, the provision is deemed operative and in compliance with the state statute. Regulatory agencies have 60 days to disapprove equivalent provisions or they are deemed in compliance. *(Legislative or administrative review does not appear to be required if no alternatives to state laws and regulations are proposed in the Plan)*
- Authorizes the state to contract with local governments participating in a Plan “to perform any function that the contracting parties determine can be more efficiently and effectively performed at the local level.”

(h) Requires Counties to evaluate the effectiveness of Plans at least once every four years. The evaluation must include public comments and is to be used to improve the Plan and by the public to assess government performance. Four years after the first allocation of funds, the Legislative Analyst will evaluate the extent to which adopted Plans have improved the efficiency and effectiveness of service delivery or reduced the demand for State-funded services.

- 5) State Incentives For Collaborative Regional Planning: A separate provision requires the state to consider and determine how it can support *“through financial and regulatory incentives”* local entities’ efforts to address challenges and resolve problems that they have *“voluntarily and collaboratively determined”* are best addressed at a regional scale to advance *a prosperous economy, quality environment, and community equity*. The State is required to give priority for “state-administered” funds for infrastructure and human services, “as applicable”, to local entities that have voluntarily developed a regional collaborative plan and are making progress toward its goals.⁷

Fiscal Impact on Cities: Unknown but potentially significant fiscal impact; unknown costs, savings and revenues due to:

- New processes required for budgeting increase local costs (Note: LAO estimates this could cost millions to tens of millions for state and local governments).
- Revenue sharing of property taxes is permitted; unclear whether local agencies would participate and net impact to cities.
- Local agencies that adopt approved Plans might receive budgetary benefits from regional approaches to public safety, economic development or infrastructure.

⁶ This option appears to be limited to programs operated by counties and schools, but programs such as COPS could come under a “state-financed” definition. From a political standpoint, if there is consensus in the Legislature or administrative agency to allow a functionally equivalent interpretation it may be easier, and less legally risky, to clarify this by statute.

⁷ This is a completely separate provision that is not connected to the adoption of a Plan. The enactment of this legislation could inspire legislation to further develop what this provision means. The “voluntary and collaborative” language may protect local agencies from attempts at state leverage. A clear constitutional priority is provided for “state-administered” funds for infrastructure and human services to support these regional efforts. It is unclear which funds these provisions will be interpreted to apply, but given the condition of the state budget, there are unlikely to be any new funds in the near future. Any reallocation of existing funds is bound to be controversial.

- 6) State Budget Requirements: Changes in the State budget and legislative process comprise the majority of the Act. Most importantly, the Act:
- (a) Requires a biennial (two-year) performance-based State budget consistent with the new purposes and goals outlined above in paragraph 1 and containing the following seven elements:
 - i. Estimate of total resources available for expenditures for the budget and succeeding fiscal year;
 - ii. Projection of anticipated expenditures and revenues for the three succeeding fiscal years;
 - iii. “A statement of how the budget will promote the purposes of achieving a prosperous economy, quality environment, and community equity, by working to achieve at least the following goals: increasing employment; improving education; decreasing poverty, decreasing crime; and improving health.”
 - iv. Performance standards and outcome measures to assess and report program progress;
 - v. Outcome measures for each major expenditure and their relationship to the purposes and goals listed above in paragraph (iii).
 - vi. A statement of how the State will align its expenditures with those of other government entities that implement State programs on its behalf to achieve the purposes and goals listed in paragraph (iii).
 - vii. A public report on progress and effectiveness in achieving the purposes and goals in paragraph (iii) according to the prior year’s outcome measures.
 - (b) Requires the State to fully implement these budgeting changes by the 2015-16 fiscal year.
- 7) Legislative Oversight: Requires legislative oversight once every five years of the performance of State-funded programs whether implemented by the State or by local agencies. Performance standards will be set in statute and the budget. Oversight includes a review of local Community Strategic Actions Plans to: a) consider amending or repealing any locally-identified State obstacles, and b) assess whether the Action plans have improved delivery and effectiveness of services in all parts of the community.
- 8) Governor’s Budget, \$25 Million Threshold: Requires the Governor’s budget to propose offsetting state program reductions or equivalent additional revenue if the Governor’s Budget⁸ includes a proposal to either:
- (a) Reduce state tax revenues by more than \$25 million in that fiscal year or succeeding fiscal year.⁹
 - (b) Establish a new state program or expand an existing state program, including a state mandated program, the effect of which would increase state costs by more than \$25 million, in that fiscal year or succeeding fiscal year. Numerous exemptions are provided. The following exemptions are not counted as expanding the scope of an existing State program:
 - Restoring funding that was reduced in any fiscal year after 2008-09 to balance the budget;
 - Increases in funding to fund existing responsibilities, including increases in cost of living or workload and any increase authorized by a memorandum of understanding (MOU) approved by the Legislature;
 - Growth in State funding as required by federal law or a law in effect as of the Act’s effective date;

⁸ This provision applies to proposals included in the Governor’s budget. It is not clear what application, if any, this limitation would have to the final budget bill approved by the Legislature and sent to the Governor.

⁹ None of the exemptions which apply to proposals to expand spending apply to a proposal to reduce revenues. Thus, there is more flexibility to expand state spending than to adopt tax reduction proposals that would decrease revenue.

- Funding to cover one-time expenditures; and
- Funding to repay the costs of state mandates related to local government employees.
- Also exempted from the definition of “state costs” are payments of principal and/or interest on a (existing or new) State general obligation bond.
- “*Additional revenue*” is defined to include, but is not limited to, revenue resulting from specific changes to federal or State law that the State agency responsible for collecting the revenue has quantified and determined to be a “sustained increase”.

9) *Unclear Effect on “Rainy Day” Reserve Fund (ACA 4)*: The definitions listed above also apply to a provision included in both this measure and ACA 4, the “Rainy Day” state reserve fund constitutional amendment placed on the ballot as part of the 2009 budget agreement. Should this measure pass, it would require Legislative Counsel to rewrite ACA 4 to harmonize with this Act. ACA 4 requires up to 3% annually in General Fund revenues, and revenues exceeding a 20-year state revenue trend to be allocated to fund a reserve account. Last year, the Legislature—with a majority vote – passed a statute that moved ACA 4 from the June 2011 to the November 2014 ballot.¹⁰

10) *Changes to a Governor’s Ability to Address a Fiscal Emergency*: This measure makes several changes enacted by Proposition 58, approved at the March, 2004, statewide ballot. Prop. 58 established a process whereby the Governor could declare a fiscal emergency as a result of a substantial decline in revenues or increase in expenditures in a previously approved state budget. In such an event, the Governor is authorized to issue a proclamation declaring a fiscal emergency, call the Legislature into special session, and provide the Legislature with proposed legislation to address the emergency. If the Legislature fails to pass and send a bill or bills to address the fiscal emergency within 45 days, the Legislature may not act on any other bill or adjourn for a joint recess until those bills have been passed and sent to the governor. Requires a bill addressing the fiscal emergency to contain a statement to that effect.

This measure changes that process in the following way:

- Authorizes the Legislature to present a bill or bills to the Governor in response to the governor’s proclamation declaring a fiscal emergency. States that such a bill shall mean “conclusively” that the bill addresses the fiscal emergency.
- Requires a bill sent to the Legislature by the Governor within 45 days containing a statement that the bill is addressing a fiscal emergency to take immediate effect. (This allows urgency measures to be adopted with a majority vote rather than two-thirds)
- States that if the Legislature fails to act within 45 days¹¹, the Governor can issue an executive order reducing or eliminating any General Fund appropriation for that fiscal year not prohibited by federal law or the state Constitution.
- Provides the ability of the Legislature to override an executive order with a two-thirds vote.¹²

¹⁰ Establishing a state “Rainy Day” reserve fund was important to Republican legislators who negotiated the 2009 budget agreement. Legislative Democrats moved that measure to the November 2014 ballot, SB 202 (Hancock), over Republican opposition. Having Legislative Counsel, rather than the Legislature, rewrite the terms of a ballot measure that has been previously approved to be placed on the ballot may raise disputes about delegating policy issues to that office.

¹¹ From a practical standpoint it is unlikely that a Governor could exercise this authority. The Legislature can pass a measure by majority vote to blunt these powers.

¹² This proposal enhances legislative over executive power. In the waning years of the Schwarzenegger Administration, legal battles emerged over the Governor’s authority to impose furloughs on state employees. After declaring a fiscal emergency and proposing various budget cuts to the Legislature, the Governor was dissatisfied with the level of legislative response and sought to make cuts through executive order. Ultimately, those decisions were upheld by the courts.

- 11) **New Three-Day Print Rule:** Prohibits the Legislature from acting on bills and the budget—other than bills in a special session addressing a natural disaster or terrorist attack—unless the measures with amendments have been in print and available to the public for at least three days.¹³

Existing League Policy There is some consistency between League policies and the Act’s intentions; the League’s 2012 Strategic Goals and specific League policies do encourage regional collaboration and support transparency and State government reforms. For example:

The League’s Revenue and Taxation policies also support some of the Act’s proposed reforms of State legislative and budget processes, including a two-year spending plan, oversight hearings for program review, and an emphasis on efficiency and effectiveness. In the State-local government relationship the following League policies advocate for accountability, incentives-based approaches and regional collaboration:

- “Inherent in these recommendations is the underlying principle that meaningful fiscal reform should allow each level of government to adequately finance its services responsibilities, with each being accountable to taxpayers for its own programs.”
- State policies should “offer incentives to reward cities achieving program goals rather than withhold or reduce revenues to accomplish targets.”
- “In cases where regional issues, programs and services are identified, multi-jurisdictional revenues should then be identified and implemented.”

At the 2011, Annual Conference the League membership supported a resolution calling for improved legislative transparency.

The League’s adopted Smart Growth Principles include support for coordinated planning: “Coordinate planning with neighboring cities, counties, and other governmental entities so that there are agreed-upon regional strategies and policies for dealing with regional impacts of growth...” They also encourage full community participation to “foster an open and inclusive community dialogue and promote alliances and partnerships to meet community needs.” Finally, the League’s policies on Open Meeting Law states: “The League supports legislation that recognizes the need to conduct the public’s business in public.”

While some League policies conceptually support the direction of several of this Act’s proposals, the details and language of this proposal does matter. The Act’s intent sections acknowledge in that “many governmental services are best provided at the local level,” yet the question remains whether or not that principle is sufficiently embedded in the structure, language and direction of this measure. For example, the language that speaks to a new joint purpose for state and local government and various goals raises questions about the Act’s conformance with the League’s mission to “expand and protect local control.”

Background on California Forward: California Forward describes itself as “a nonpartisan, nonprofit organization working to bring government closer to the people.” California Forward was launched by five foundations to propose changes to the way California government operates. Its Leadership Council includes former State

Professional Engineers in California Government v. Schwarzenegger, 50 Cal. 4th 989. The changes in this Act provide more authority to the Legislature in these situations by allowing urgency measures to be approved with a majority vote and stating that legislation shall mean “conclusively” that the bill addresses the fiscal emergency.

¹³ As a stand-alone provision, this proposal could clearly be supported by the League. City officials were very upset in 2011 with the lack of transparency with SB 89 (Budget) which swept \$130 million in city VLF funds with little legislative review, and the League passed a resolution at its 2011 annual conference supporting such transparency.

policymakers and representatives of business, labor and academia,¹⁴ selects and guides the organization's projects.

In order to understand its proposed solutions, it helps to see California Forward's view of the problem. California Forward believes that the State lacks a unified vision and strategy to achieve statewide goals in the biggest areas of General Fund spending—education, public safety and health and human services. While local governments provide most essential services, the State sets the rules for how funds are spent. With different agencies addressing small pieces of complex problems, it is hard to collaborate on mutual goals, share resources and reduce costs. Local leaders have trouble integrating and collaborating long term because of legislative mandates and budget volatility. Therefore, California Forward's solution is a fundamental reform of the relationship between State and local governments. In California Forward's model, the State should establish clear priorities for public programs; they propose five "priority outcomes" for State and local governments: increased employment, improved education, decreased poverty, decreased crime and improved health.

Representatives from California Forward have engaged in various outreach efforts to local officials, including providing a briefing to the League board on their policy paper that proposes restructuring State and local government relationships and responsibilities, *Smart Government: Making California Work Again*, in May, 2011. Several weeks before this measure was filed, the organization began to share drafts on a confidential basis with League staff for comment. While making it clear to their representatives that city officials would need to be consulted on any final position on this measure, League staff suggested numerous amendments to the provisions directly affecting local governments in an attempt to reduce anticipated concerns from city officials. To California Forward's credit, many of those suggested amendments were taken directly or in modified form, but other suggested changes were not. City officials now have a chance to review this measure in its final form and make a recommendation on the League's position.

Ballot Opposition to Proposition 31: Organizations signing ballot arguments against Prop 31 are Health Access California, California Federation of Teachers, California Tax Reform Association, League of Conservation Voters, and the Peace Officers Research Association of California. The principal ballot arguments they make against the measure are:

- The measure is poorly written and contradictory that will lead to lawsuits not reform.
- It adds layers of restrictions and requirements that will leave key decisions to unelected bureaucrats, decisions such as whether tax cuts are allowed or programs can be changed.
- The state cannot pay its bills, but \$200 million is transferred to an experimental county program.
- The measure prohibits the state from cutting a tax unless it raises another, even at a time of budget surplus.
- The measure threatens public health, water quality, and public safety by allowing counties to override or alter critical state laws.
- Performance based budgeting requirements will raise the costs of government by tens of millions of dollars with no guarantee of any improvement.

¹⁴ Thomas V. McKernan, Co-Chair, CEO of the Automobile Club of Southern California, Robert M. Hertzberg, Co-Chair, Chair & Founder of G24 Innovations, Carl Guardino, President and CEO of the Silicon Valley Leadership Group, R. William "Bill" Hauck, Former President of the California Business Roundtable, Antonia Hernández, President & CEO of the California Community Foundation, Fred Keeley, Former Assembly Speaker pro Tempore Joanne Kozberg, Principal at California Strategies, LLC, Stewart Kwoh, President & Executive Director of the Asian Pacific American Legal Center of Southern California, Donna Lucas, Former Deputy Chief of Staff for Strategic Planning & Initiatives for Governor Arnold Schwarzenegger, Sunne Wright McPeak, President & CEO of the California Emerging Technology Fund, Eugene J. "Gene" Voiland, Former President & CEO of Aera Energy LLC, Arturo Vargas, Executive Director, NALEO, Peter Weber, Executive Committee Chair of the California Partnership for the San Joaquin Valley, Lenny Mendonca, Director of the San Francisco office of McKinsey & Company, Cruz Reynoso, Former Associate Justice of the California Supreme Court & the Third District Court of Appeal, Constance L. "Connie" Rice, Former Co-Director of the Los Angeles NAACP Legal Defense & Educational Fund

Comments:

1. The most fundamental questions with this measure revolve around the new purposes and goals that would be applicable to both the state budget and local agencies. The Act's intent language declares that *"the shared purpose of State and local governments is to promote a prosperous economy, a quality environment, and community equity."* This purpose is advanced *"by achieving at least the following goals: increasing employment, improving education, decreasing poverty, decreasing crime, and improving health."* This language would be applied to the state budget. Local governments (cities, counties, schools and special districts) would have to consider these same goals when adopting their budgets. If this measure is interpreted in the future to constrain the ability of a city to establish its own local priorities that could mean a significant loss of local authority.
2. The terms *"prosperous economy, a quality environment, and community equity"* are not defined, widely understood or reflect a clear popular consensus. For instance, many would debate the term *"prosperous economy"* and whether state government should have a significant role. What does *"community equity"* mean? How is it to be applied? What do goals like *"increasing employment, improving education, decreasing poverty, decreasing crime, and improving health"* mean? Should this measure pass, the Legislature will define these terms. For cities, that value their local autonomy, how these provisions will be ultimately interpreted, applied or potentially enforced remains the critical question.
3. City officials, like many other individuals and organizations, want to improve the operation of their state legislature and support transparent and accountable government at all levels. That said, the details of any state Constitutional change must be carefully reviewed and considered. This measure proposes many changes that California Forward believes will collectively result in an improved Legislature, make local government budgeting more focused and transparent, and encourage various elements of government to work better together. Do city officials agree the changes in this measure will result in improved governance at the state and local levels?
4. The most immediate fiscal impact on cities in this measure is the requirement to adopt performance-based budgeting. There are costs associated with these activities. Do city officials agree that performance-based budgeting, as set forth in this measure, would improve the transparency, accountability and focus of local budgeting and thus worth the costs?
5. Community Strategic Action Plans, in concept, seem to offer an opportunity for regional collaboration. Yet there are many requirements in the measure that city officials will have to weigh.
 - a. The available state incentive funds are provided to counties that adopt a Plan. Counties will likely need additional funds to support realignment and be eager to adopt plans. One of the factors to be reviewed by the Legislative Analyst is the extent to which these plans reduce demand for state-funded services.
 - b. School districts representing a majority of pupils in the county must agree to the Plan, but schools are prohibited by the measure from receiving the funds provided to counties.
 - c. The adopted plans must state how they will *"achieve"* the purposes and goals listed above. A Plan must include an allocation of resources, including the state incentive funds provided to counties, and explain how it is consistent with the budgets adopted by the participating governmental entities.
 - d. At least a majority of local government entities providing *"municipal services"* must also agree to the plan.Do city officials see opportunities for collaboration with counties and schools despite the numerous restrictions and requirements?
6. This measure proposes numerous changes to the state legislative and budget process. Some, such as a three-day print rule, are clearly supportable based upon existing League policy. In concept, proposals

for a two-year budget and requiring more legislative oversight are supportable as well. Given the many exceptions, it remains to be seen whether the \$25 million threshold in this measure alters state spending practices. Also debatable is the effect of the enhanced authority of the Legislature versus the Governor in responding to a declared fiscal crisis.

Staff Recommendation: Discussion. The challenge with taking a position on a Constitutional Amendment is that no amendments are possible, and, once established, the provisions are difficult to change. While there are provisions in this measure for city officials to like such as the legislative three-day print rule, city officials should also weigh carefully the provisions that directly affect their core local authority and interests.

Support/Opposition

Support (as of 8-17-12)

City Council Members: Mayor Luis Ayala, City of Alhambra; Councilmember Phillip Tsunoda, City of Aliso Viejo; Councilmember Kris Murray, City of Anaheim; Councilmember Angel Carrillo, City of Azusa; Mayor Manuel Lozano, City of Baldwin Park; Councilmember Marlen Garcia, City of Baldwin Park; Mayor Jim Dear, City of Carson; Mayor Josue Barrios, City of Cudahy; Councilmember Dan Wolk, City of Davis; Councilmember Lucas Frerichs, City of Davis; Mayor Pro Tem Rochelle Swanson, City of Davis; Councilmember Luis Marquez, City of Downey; Councilmember Eric Swalwell, City of Dublin; Mayor Andre Quintero, City of El Monte; Mayor Ashley Swearingin, City of Fresno; Councilmember Ron Ikejiri, City of Gardena; Councilmember Paula Perotte, City of Goleta; Mayor Daniel Juarez, City of Hawthorne; Councilmember Alex Vargas, City of Hawthorne; Councilmember Ofelia Hernandez, City of Huntington Park; Councilmember Rosa Perez, City of Huntington Park; Vice Mayor Elba Guerrero, City of Huntington Park; Councilmember Ralph L. Franklin, City of Inglewood; Councilmember Jefferey Lalloway, City of Irvine; Councilmember Robert Poythress, City of Madera; Councilmember Richard Montgomery, City of Manhattan Beach; Councilmember Lara Delaney, City of Martinez; Mayor Robert S. Schroder, City of Martinez; Councilmember Oscar Magana, City of Maywood; Mayor Frank Ury, City of Mission Viejo; Councilmember Dave Leckness, City of Mission Viejo; Councilmember Libby Schaaf, City of Oakland; Vice Mayor Amy Worth, City of Orinda; Mayor Luis Molina, City of Patterson; President, Stanislaus County Board of Education; Councilmember Stephen Atchley, City of Pomona; Mayor Pro Tem Chip Holloway, City of Ridgecrest; Councilmember Jay Patin, City of Ridgecrest; Councilmember Jay Schenirer, City of Sacramento; Councilmember Michele Martinez, City of Santa Ana; Councilmember David Benavides, City of Santa Ana; Mayor Richard Bloom, City of Santa Monica; Councilmember Larry Forester, City of Signal Hill; Councilmember Glen Becerra, City of Simi Valley; Councilmember Steve Sojka, City of Simi Valley; Councilmember Jorge Morales, City of South Gate; Mayor Maria Davila, City of South Gate; Councilmember Craig Vejvoda, City of Tulare; Mayor Jerry Amante, City of Tustin; Mayor Pro Tem Kish Rajan, City of Walnut Creek ; Councilmember Kristina Lawson, City of Walnut Creek ; Mayor Christopher Cabaldon, City of West Sacramento; Former Mayor Art Pimentel, City of Woodland; Former Councilmember Stephen Souza, City of Davis; Former Mayor Eric Busch, City of El Segundo; Former Mayor Susan McNulty Rainey, City of Walnut Creek

County Supervisors: Supervisor Karen Mitchoff, Contra Costa County; Supervisor Matt Rexroad, Yolo County; Yolo County Board of Supervisors

Other Local Officials: Board Member Shelia Allen, Davis Joint Unified School District; Board Member Susan Lovenburg, Davis Joint Unified School District; Vice President Gerri Guzman, Board of Education; Montebello Unified School District; Board Member Ramon Miramontes, Pasadena Unified School District; Board Member Philip Hu, San Gabriel Unified School District; Board Member Phillip Tabera, Salinas Union High School District; Board Member Robert Katherman, Water Replenishment District of Southern California; Board Member Albert Robles, Water Replenishment District of Southern California; Board Member Carol Kwan, West Basin Municipal

Water District; Trustee Tomi Van de Brooke, Contra Costa Community College District; City Manager Philip Vince, City of Martinez

POLITICAL ORGANIZATIONS: California Republican Party

STATE GOVERNMENT: Assemblymember Kristin Olsen, California State Assembly; Senator Mark DeSaulnier, California State Senate; Former State Senator Richard Rainey, California State Senate; Marian Bergeson, Former State Senator and Secretary of Education

TAXPAYER/GOOD GOVERNMENT: Mike Dozier, California Partnership for the San Joaquin Valley; Edith Vasquez, Inland Action; Kern County Taxpayers Association; California Forward Action Fund; Middle Class Taxpayers Association

LATINO: Latino and Latina Roundtable (Jose Zapata Calderon, Angele Sanbrano); American G.I. Forum; Anahuak Youth Sports Association; Los Amigos of Orange County. **Individual Latino Community Leaders:** Maria Rodriguez, Inland Empire Immigrant Youth Coalition; Ron Gonzales, President & CEO, Hispanic Foundation of Silicon Valley; Karen Kandamby, Latino Student Union; Leonein Velanquez Colindres, Hondurena Unido de Los Angeles; COPECA; Rafael Cansimbe, United Latinos

BUSINESS: California Business Roundtable; San Francisco Chamber of Commerce; Huntington Beach Chamber of Commerce; South Orange County Regional Chamber of Commerce; Orange Chamber of Commerce; Santa Ana Chamber of Commerce; Fullerton Chamber of Commerce; Silicon Valley Leadership Group; Contra Costa Council; Orange County Business Council; Bay Area Council; North Bay Leadership Council. **Individual Business Leaders:** Stephen Geil, CEO, Fresno Economic Development Corporation

EDUCATION LEADERS: Delaine Eastin, Former California Superintendent of Public Instruction; John Welty, President, California State University, Fresno; California State Student Association

LAW ENFORCEMENT: Los Angeles County Sheriff Lee Baca; Jim Bueermann, Chief of Police, City of Redlands (Ret.)

Opposition:

California Labor Federation, SEIU, California Federation of Teachers, Health Access California, Peace Officers Research Association of California, California League of Conservation Voters, California Coastal Commission, League of Women Voters, California Nurses Association, International Federation of Professional and Technical Engineers, California Tax Reform Association

STATE BUDGET. STATE AND LOCAL GOVERNMENT. INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE.

- Establishes two-year state budget cycle.
- Prohibits Legislature from creating expenditures of more than \$25 million unless offsetting revenues or spending cuts are identified.
- Permits Governor to cut budget unilaterally during declared fiscal emergencies if Legislature fails to act.
- Requires performance reviews of all state programs.
- Requires performance goals in state and local budgets.
- Requires publication of bills at least three days prior to legislative vote.
- Allows local governments to alter how laws governing state-funded programs apply to them, unless Legislature or state agency vetoes change within 60 days.

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

- Decreased state sales tax revenues of about \$200 million annually, with a corresponding increase of funding to certain local governments.
- Other, potentially more significant changes in state and local spending and revenues, the magnitude of which would depend on future decisions by public officials.

ANALYSIS BY THE LEGISLATIVE ANALYST

OVERVIEW

This measure changes certain responsibilities of local governments, the Legislature, and the Governor. It also changes some aspects of state and local government operations. Figure 1 summarizes the measure's main provisions, each of which are discussed in more detail below.

AUTHORIZES AND FUNDS LOCAL GOVERNMENT PLANS**Proposal**

Allows Local Governments to Develop New Plans. Under this measure, counties and other local governments (such as cities, school districts, community college districts, and special districts) could create plans for coordinating how they provide services to the public. The plans could address how local governments deliver services in many areas,

including economic development, education, social services, public safety, and public health. Each plan would have to be approved by the governing boards of the (1) county, (2) school districts serving a majority of the county's students, and (3) other local governments representing a majority of the county's population. Local agencies would receive some funding from the state to implement the plans (as described below).

Allows Local Governments to Alter Administration of State-Funded Programs. If local governments find that a state law or regulation restricts their ability to carry out their plan, they could develop local procedures that are "functionally equivalent" to the objectives of the existing state law or regulation. Local governments could follow

these local procedures—instead of state laws or regulations—in administering state programs financed with state funds. The Legislature (in the case of state laws) or the relevant state department (in the case of state regulations) would have an opportunity to reject these alternate local procedures. The locally developed procedures would expire after four years unless renewed through the same process.

Allows Transfer of Local Property Taxes. California taxpayers pay about \$50 billion in property taxes to local governments annually. State law governs how property taxes are divided among local government entities in each county. This measure allows local governments participating in plans to transfer property taxes allocated to them among themselves in any way that they choose. Each local government affected would have to approve the change with a two-thirds vote of its governing board.

Shifts Some State Sales Tax Revenues to Local Governments. Currently, the average sales tax rate in the state is just over 8 percent. This raised \$42.2 billion in 2009–10, with the revenues allocated roughly equally to the state and local governments. Beginning in the 2013–14 fiscal year, the measure would shift a small part of the state’s portion to counties that implement the new plans. This would not change sales taxes paid by taxpayers. The shift would increase revenues of the participating local governments in counties with plans by a total of about \$200 million annually in the near term. The state government would lose a corresponding amount, which would no longer be available to fund state programs. The sales taxes would be allocated to participating counties based on their population. The measure requires a local plan to provide for the distribution of these and any other funds intended to support implementation of the local plan.

Figure 1
Major Provisions of Proposition 31

- ✓ **Authorizes and Funds Local Government Plans**
 - Transfers some state revenues to counties in which local governments implement plans to coordinate their public services.
 - Allows these local governments to develop their own procedures for administering state-funded programs.
 - Allows these local governments to transfer local property taxes among themselves.
- ✓ **Restricts Legislature’s Ability to Pass Certain Bills**
 - Restricts the Legislature’s ability to pass certain bills that increase state costs or decrease revenues unless new funding sources and/or spending reductions are identified.
 - Exempts various types of bills from the above requirement.
 - Requires almost all bills and amendments to be available to the public at least three days before legislative approval.
- ✓ **Expands Governor’s Ability to Reduce State Spending**
 - Allows the Governor to reduce spending during state fiscal emergencies in certain situations.
- ✓ **Changes Public Budgeting and Oversight Procedures**
 - Changes the annual state budget process to a two-year state budget process.
 - Requires the Legislature to set aside part of each two-year session for legislative oversight of public programs.
 - Requires state and local governments to evaluate the effectiveness of programs and describe how their budgets meet various objectives.

Fiscal Effects

31

In addition to the shift of the \$200 million described earlier, there would be other fiscal effects on state and local governments. For example, allowing local governments to develop their own procedures for administering state-funded programs could lead to potentially different program outcomes and state or local costs than would have occurred otherwise. Allowing local governments to transfer property taxes could affect how much money goes to a given local government, but would not change the total amount paid by property taxpayers. Local governments also likely would spend small additional amounts to create and administer their new plans. The changes that would result from this part of the measure depend on (1) how many counties create plans, (2) how many local governments alter the way they administer state-funded programs, and (3) the results of their activities. For those reasons, the net fiscal effect of this measure for the state and local governments cannot be predicted. In some counties, these effects could be significant.

RESTRICTS LEGISLATURE'S ABILITY TO PASS CERTAIN BILLS

Current Law

Budget and Other Bills. Each year, the Legislature and the Governor approve the state budget bill and other bills. The budget bill allows for spending from the General Fund and many other state accounts. (The General Fund is the state's main operating account that provides funding to education, health, social

services, prisons, and other programs.) In general, a majority vote of both houses of the Legislature (the Senate and the Assembly) is required for the approval of the budget bill and most other bills. A two-thirds vote in both houses, however, is required to increase state taxes.

As part of their usual process for considering new laws, the Legislature and Governor review estimates of each proposed law's effects on state spending and revenues. While the State Constitution does not mandate that the state identify how each new law would be financed, it requires that the state's overall budget be balanced. Specifically, every year when the state adopts its budget, the state must show that estimated General Fund revenues will meet or exceed approved General Fund spending.

Proposal

Restricts Legislature's Ability to Increase State Costs. This measure requires the Legislature to show how some bills that increase state spending by more than \$25 million in any fiscal year would be paid for with spending reductions, revenue increases, or a combination of both. The requirement applies to bills that create new state departments or programs, expand current state departments or programs, or create state-mandated local programs. Exemptions from these requirements include bills that allow one-time spending for a state department or program, increase funding for a department or program due to increases in workload or the cost of living, provide funding required by federal law, or increase the pay or other compensation of state employees pursuant to a

collective bargaining agreement. The measure also exempts bills that restore funding to state programs reduced to help balance the state budget in any year after 2008–09.

Restricts Legislature’s Ability to Decrease State Revenues. This measure also requires the Legislature to show how bills that decrease state taxes or other revenues by more than \$25 million in any fiscal year would be paid for with spending reductions, revenue increases, or a combination of both.

Changes When Legislature Can Pass Bills. This measure makes other changes that could affect when the Legislature could pass bills. For example, the measure requires the Legislature to make bills and amendments to those bills available to the public for at least three days before voting to pass them (except certain bills responding to a natural disaster or terrorist attack).

Fiscal Effects

This measure would make it more difficult for the Legislature to pass some bills that increase state spending or decrease revenues. Restricting the Legislature’s ability in this way could result in state funds spent on public services being less—or taxes and fees being more—than otherwise would be the case. Because the fiscal effect of this part of the measure depends on future decisions by the Legislature, the effect cannot be predicted, but it could be significant over time. Because the state provides significant funding to local governments, they also could be affected over time.

EXPANDS GOVERNOR’S ABILITY TO REDUCE STATE SPENDING

Current Law

Under Proposition 58 (2004), after the budget bill is approved, the Governor may declare a state fiscal emergency if he or she determines the state is facing large revenue shortfalls or spending overruns. When a fiscal emergency is declared, the Governor must call the Legislature into special session and propose actions to address the fiscal emergency. The Legislature has 45 days to consider its response. The Governor’s powers to cut state spending, however, currently are very limited even if the Legislature does not act during that 45-day period.

Proposal

Allows Governor to Reduce Spending in Certain Situations. Under this measure, if the Legislature does not pass legislation to address a fiscal emergency within 45 days, the Governor could reduce some General Fund spending. The Governor could not reduce spending that is required by the Constitution or federal law—such as most school spending, debt service, pension contributions, and some spending for health and social services programs. (These categories currently account for a majority of General Fund spending.) The total amount of the reductions could not exceed the amount necessary to balance the budget. The Legislature could override all or part of the reductions by a two-thirds vote in both of its houses.

Fiscal Effects

Expanding the Governor’s ability to reduce spending could result in overall state spending being lower than it would have been otherwise. The fiscal effect of this change cannot be predicted, but could be significant in some years. Local government budgets also could be affected by lower state spending.

CHANGES PUBLIC BUDGETING AND OVERSIGHT PROCEDURES

Proposal

Changes Annual State Budget Process to a Two-Year Process. This measure changes the state budget process from a one-year (annual) process to a two-year (biennial) process. Every two years beginning in 2015, the Governor would submit a budget proposal for the following two fiscal years. For example, in January 2015 the Governor would propose a budget for the fiscal year beginning in July 2015 and the fiscal year beginning in July 2016. Every two years beginning in 2016, the Governor could submit a proposed budget update. The measure does not change the Legislature’s current constitutional deadline of June 15 for passing a budget bill.

Sets Aside Specific Time Period for Legislative Oversight of Public Programs. Currently, the Legislature oversees and reviews the activities of state and local programs at various times throughout its two-year session. This measure requires the Legislature to reserve a part of its two-year session—beginning in

July of the second year of the session—for oversight and review of public programs. Specifically, the measure requires the Legislature to create a process and use it to review every state-funded program—whether managed by the state or local governments—at least once every five years. While conducting this oversight, the Legislature could not pass bills except for those that (1) take effect immediately (which generally require a two-thirds vote of both houses) or (2) override a Governor’s veto (which also require a two-thirds vote of both houses).

Imposes New State and Local Budgeting Requirements. Currently, state and local governments have broad flexibility in determining how to evaluate operations of their public programs. This measure imposes some general requirements for state and local governments to include new items in their budgets. Specifically, governments would have to evaluate the effectiveness of their programs and describe how their budgets meet various objectives. State and local governments would have to report on their progress in meeting those objectives.

Fiscal Effects

State and local governments would experience increased costs to set up systems to implement the new budgeting requirements and to administer the new evaluation requirements. These costs would vary based on how state and local officials implemented the requirements. Statewide, the costs would likely

range from **millions to tens of millions of dollars annually**, moderating over time. These new budgeting and evaluation requirements could affect decision making in a variety of ways—such as, reprioritization of spending, program efficiencies, and additional investments in some program areas. The fiscal impact on governments cannot be predicted.

SUMMARY OF MEASURE’S FISCAL EFFECTS

As summarized in Figure 2, the measure would shift some state sales tax revenues to

counties that implement local plans. This shift would result in a decrease in state revenues of \$200 million annually, with a corresponding increase of funding to local governments in those counties. The net effects of this measure’s other state and local fiscal changes generally would depend on future decisions by public officials and, therefore, are difficult to predict. Over the long term, these other changes in state and local spending or revenues could be more significant than the \$200 million shift of sales tax revenues discussed above.

Figure 2 Major Fiscal Effects of Proposition 31		
	State Government	Local Government
Authorizes and Funds Local Government Plans		
Funding for plans	\$200 million annual reduction in revenues.	\$200 million annual increase in revenues to local governments in counties that develop plans.
Effects of the new plans	Cannot be predicted, but potentially significant.	Cannot be predicted, but potentially significant in some counties.
Restricts Legislature’s Ability to Pass Certain Bills		
	Potentially lower spending—or higher revenues—based on future actions of the Legislature.	Potential changes in state funding for local programs based on future actions of the Legislature.
Expands Governor’s Ability to Reduce State Spending		
	Potentially lower spending in some years.	Potentially less state funding for local programs in some years.
Changes Public Budgeting and Oversight Procedures		
Implementation costs	Potentially millions to tens of millions of dollars annually, moderating over time.	Potentially millions to tens of millions of dollars annually, moderating over time.
Effects of new requirements	Cannot be predicted.	Cannot be predicted.

★ **ARGUMENT IN FAVOR OF PROPOSITION 31** ★

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In good times and bad, California has long had a state budget deficit, with politicians spending more money than state government brings in—much of it lost to waste, abuse and over-borrowing. Budgets are often based on the influence of special interests rather than the outcomes Californians want to achieve. Proposition 31 forces state politicians to finally live within their means, and it gives voters and taxpayers critical information to hold politicians accountable.

The non-partisan state auditor reported in an audit of several state agencies between 2003 and 2010 that the state could have saved taxpayers approximately \$1.2 billion had the auditor’s own proposals to reform operations and improve efficiency been enacted. The recent effort to create a unified Court Case Management System cost taxpayers more than \$500 million, more than \$200 million over budget, to connect just 7 of 58 counties before being abandoned.

Proposition 31 requires a real balanced budget. It stops billions of dollars from being spent without public review or citizen oversight. Unless we pass Proposition 31, hundreds of millions of dollars every year will continue to be wasted that could be better used for local schools, law enforcement and other community priorities.

Proposition 31 does not raise taxes, increase costs to taxpayers or set up any new government bureaucracy. Proposition 31 makes clear that its provisions should be implemented with existing resources—and it will generate savings by returning tax dollars to cities and counties.

Yes on 31 will:

- **INCREASE PUBLIC INPUT AND TRANSPARENCY**—Stops the state from passing budgets without public review. Currently, the state budget has no real transparency or public reporting requirements. Proposition 31 requires state government to make available the proposed state budget for public review for a *minimum* of three days before lawmakers vote on it.

- **IMPOSE FISCAL OVERSIGHT AND CONSTRAINTS ON NEW GOVERNMENT SPENDING**—Proposition 31 prohibits the state from funding any new expenditure or decreasing revenues of more than \$25 million without first identifying a funding source.
 - **INCREASE LOCAL CONTROL AND FLEXIBILITY**—The 2012 state budget took \$1.4 billion away from local government. Proposition 31 returns up to \$200 million to local government to be used for local priorities. It provides cities, counties, and school districts more flexibility and authority to design services that improve results and meet local needs.
 - **REQUIRE PERFORMANCE AND RESULTS IN BUDGETS**—Requires state and local governments to focus budgets on achievement of measurable results, and provides accountability by requiring the state legislature and local governments to issue regular public performance reports, and evaluate the effectiveness of programs before additional spending decisions are made.
 - **REQUIRE PERFORMANCE REVIEWS OF STATE GOVERNMENT PROGRAMS**—Requires all state government programs to be publicly reviewed for performance to identify ways to improve results—or shift their funding to more efficient and effective programs.
 - **REQUIRE A TWO-YEAR STATE BUDGET**—Prevents politicians from passing short-term budget gimmicks. Requires lawmakers to develop long-term fiscal solutions.
- VOTE YES ON 31. Limit Government Spending—Increase Public Confidence in State Budgeting.**

HON. CRUZ REYNOSO
California Supreme Court Justice (Retired)
HON. DELAINE A. EASTIN
Former Superintendent of Public Instruction
PROF. JAMES FISHKIN, Ph.D.
Stanford University

★ **REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 31** ★

PROPOSITION 31 WON’T BALANCE THE BUDGET, INCREASE PUBLIC INPUT OR IMPROVE PERFORMANCE.

If Proposition 31 actually did what its argument promises, WE would support it. But it doesn’t. Instead it adds complicated new rules, restrictions and requirements, inserted into California’s Constitution. It makes government more cumbersome, more expensive, slower, and less effective. The provisions are so confusing and ambiguous that it will take years of lawsuits for the courts to sort out what it means.

PROPOSITION 31 WILL INCREASE COSTS, INCREASE BUREAUCRATIC CONTROL, AND UNDERMINE PUBLIC PROTECTIONS.

It allows local politicians to override or alter laws they don’t like, undermining protections for air quality, public health, worker safety **WITHOUT A VOTE OF THE PEOPLE.**

PROPOSITION 31 WILL MAKE IT ALMOST IMPOSSIBLE TO CUT TAXES OR INCREASE FUNDING FOR EDUCATION.

It prohibits tax cuts unless other taxes are raised or programs cut, and prevents increases in funding for schools unless taxes are raised or other programs cut.

PROPOSITION 31 HAS SO MANY FLAWS THAT SEVERAL MEMBERS OF THE SPONSORING ORGANIZATION RESIGNED IN PROTEST OVER THE DECISION TO SUBMIT IT TO VOTERS.

Bob Balgenorth, a former board member of California Forward Action Fund, the organization behind Proposition 31 said it “contains serious flaws . . . and will further harm California.” In his letter of resignation he said that he was “disappointed that California Forward submitted signatures to the Secretary of State without correcting the flaws in the initiative.” **WE CAN’T AFFORD ANOTHER FLAWED INITIATIVE. VOTE NO ON PROPOSITION 31.**

ANTHONY WRIGHT, Executive Director
Health Access California
LACY BARNES, Senior Vice President
California Federation of Teachers
LENNY GOLDBERG, Executive Director
California Tax Reform Association

★ **ARGUMENT AGAINST PROPOSITION 31** ★

PROPOSITION 31 IS SO POORLY WRITTEN AND CONTRADICTIONARY THAT IT WILL LEAD TO LAWSUITS AND CONFUSION, NOT REFORM.

We all want reform, but instead Proposition 31 adds bureaucracy and creates new problems. It adds layer upon layer of restrictions and poorly defined requirements, leaving key decisions up to unelected bureaucrats, decisions such as whether tax cuts are allowed or programs can be changed—decisions that will be challenged in court year after year. We need real reform not more lawsuits.

PROPOSITION 31 WILL SHIFT \$200 MILLION FROM EDUCATION AND OTHER VITAL FUNCTIONS TO FUND EXPERIMENTAL COUNTY PROGRAMS.

The state can barely pay its bills now. And the majority of the state’s budget goes to education. Yet this measure transfers \$200 million per year from state revenues into a special account to pay for experimental county programs. This is not the time to gamble with money that should be spent on our highest priorities.

PROPOSITION 31 WILL PREVENT THE STATE FROM INCREASING FUNDING FOR EDUCATION UNLESS IT RAISES TAXES OR CUTS OTHER PROGRAMS—EVEN IF THE MONEY IS AVAILABLE.

As strange as it seems, Proposition 31 actually prevents the state from adopting improvements to programs like education or increasing funding to schools even if it has the money to do so, UNLESS IT RAISES TAXES or cuts other programs. This provision could tie up additional funding for schools for years. PROPOSITION 31 PREVENTS THE STATE FROM CUTTING TAXES UNLESS IT RAISES OTHER TAXES OR CUTS PROGRAMS—EVEN IF THE STATE IS RUNNING A BUDGET SURPLUS.

The contradictory nature of these tax provisions would prohibit the state from cutting one tax unless it raises another, even when there is a budget surplus—either this was intended to

prevent the state from cutting your taxes or is another case—a serious case—of careless drafting. And, Proposition 31 locks this into the State Constitution.

PROPOSITION 31 THREATENS OUR PUBLIC HEALTH, WATER QUALITY AND PUBLIC SAFETY BY ALLOWING COUNTIES TO OVERRIDE OR ALTER CRITICAL STATE LAWS.

California has adopted statewide standards to protect public health, prevent contamination of air and water and provide for the safety of its citizens. Proposition 31 contains a provision that allows local politicians to alter or override these laws WITHOUT A VOTE OF THE PEOPLE, and without an effective way to prevent abuse.

PROPOSITION 31 WILL COST TENS OF MILLIONS OF DOLLARS PER YEAR FOR ADDITIONAL GOVERNMENT PROCESS AND BUREAUCRACY—TO DO WHAT GOVERNMENT IS ALREADY SUPPOSED TO DO.

Performance-based budgeting is more of a slogan than anything else. It’s been tried many times before. The one thing we know it will do is raise costs. The official fiscal analysis by the non-partisan Legislative Analyst’s Office says it will raise the costs of government by tens of millions of dollars per year for new budgeting practices, with no guarantee any improvement will result. Certain costs, uncertain results.

We all want reform, but Proposition 31 will make things worse, not better.

JOIN US IN VOTING NO ON PROPOSITION 31.

SARAH ROSE, Chief Executive Officer
California League of Conservation Voters

JOSHUA PECHTHALT, President
California Federation of Teachers

RON COTTINGHAM, President
Peace Officers Research Association of California

★ **REBUTTAL TO ARGUMENT AGAINST PROPOSITION 31** ★

“Proposition 31 creates greater transparency, public review, and oversight over state and local government. This government accountability measure will protect environmental safeguards and worker protections while making sure taxpayers aren’t taken advantage of by special interests and lobbying groups.”

—*Hon. Cruz Reynoso, California Supreme Court Justice (Retired)*

“It’s time to shine a light on California’s budget process—no more multi-billion dollar deficit surprises. We need reforms that will work, not business as usual.”

—*Professor James Fishkin, Stanford University*

“Proposition 31 will lessen the state temptation to borrow and spend. Prop. 31 provides incentives to local governments and community schools to focus on improving education and increasing public safety. YES on Proposition 31 is a yes for California schools and students.”

—*Hon. Delaine Eastin, Former State Superintendent of Public Instruction*

YES on Proposition 31 will:

- Not raise taxes or require increased government spending.
- Prevent state government from spending money we don’t have.
- Add transparency to a budget process currently prepared behind closed doors.
- Shift more control and flexibility from Sacramento to cities and counties.
- Require state and local governments to publicly report results before spending more money.

Please review the measure for yourself at www.sos.ca.gov and help prevent further waste in government spending.

Proposition 31 meets the highest standards of constitutional change requirements. The measure is well written, legally sound, and will clearly improve the budget process and governance of California.

BILL HAUCK, Former Chairman
California Constitution Revision Commission

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paragraph shall be deemed to be established and imposed under Section 17041 of the Revenue and Taxation Code.

(D) This paragraph shall become inoperative on December 1, 2019.

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(3) For any taxable year beginning on or after January 1, 2012, and before January 1, 2019, with respect to the tax imposed pursuant to Section 17041 of the Revenue and Taxation Code, the income tax bracket and the rate of 9.3 percent set forth in paragraph (1) of subdivision (c) of Section 17041 of the Revenue and Taxation Code shall be modified by each of the following:

(A) (i) For that portion of taxable income that is over three hundred forty thousand dollars (\$340,000) but not over four hundred eight thousand dollars (\$408,000), the tax rate is 10.3 percent of the excess over three hundred forty thousand dollars (\$340,000).

(ii) For that portion of taxable income that is over four hundred eight thousand dollars (\$408,000) but not over six hundred eighty thousand dollars (\$680,000), the tax rate is 11.3 percent of the excess over four hundred eight thousand dollars (\$408,000).

(iii) For that portion of taxable income that is over six hundred eighty thousand dollars (\$680,000), the tax rate is 12.3 percent of the excess over six hundred eighty thousand dollars (\$680,000).

(B) The income tax brackets specified in clauses (i), (ii), and (iii) of subparagraph (A) shall be recomputed, as otherwise provided in subdivision (h) of Section 17041 of the Revenue and Taxation Code, only for taxable years beginning on and after January 1, 2013.

(C) (i) For purposes of subdivision (g) of Section 19136 of the Revenue and Taxation Code, this paragraph shall be considered to be chaptered on the date it becomes effective.

(ii) For purposes of Part 10 (commencing with Section 17001) of, and Part 10.2 (commencing with Section 18401) of, Division 2 of the Revenue and Taxation Code, the modified tax brackets and tax rates established and imposed by this paragraph shall be deemed to be established and imposed under Section 17041 of the Revenue and Taxation Code.

(D) This paragraph shall become inoperative on December 1, 2019.

(g) (1) The Controller, pursuant to his or her statutory authority, may perform audits of expenditures from the Local Revenue Fund 2011 and any County Local Revenue Fund 2011, and shall audit the Education Protection Account to ensure that those funds are used and accounted for in a manner consistent with this section.

(2) The Attorney General or local district attorney shall expeditiously investigate, and may seek civil or criminal penalties for, any misuse of moneys from the County Local Revenue Fund 2011 or the Education Protection Account.

SEC. 5. Effective Date.

Subdivision (b) of Section 36 of Article XIII of the California Constitution, as added by this measure, shall be operative as of July 1, 2011. Paragraphs (2) and (3) of subdivision (f) of Section 36 of Article XIII of the California Constitution, as added by this measure, shall be operative as of January 1, 2012. All other provisions of this measure shall become operative the day after

the election in which it is approved by a majority of the voters voting on the measure provided.

SEC. 6. Conflicting Measures.

In the event that this measure and another measure that imposes an incremental increase in the tax rates for personal income shall appear on the same statewide ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this measure. In the event that this measure receives a greater number of affirmative votes than a measure deemed to be in conflict with it, the provisions of this measure shall prevail in their entirety, and the other measure or measures shall be null and void.

SEC. 7. This measure provides funding for school districts and community college districts in an amount that equals or exceeds that which would have been provided if the revenues deposited pursuant to Sections 6051.15 and 6201.15 of the Revenue and Taxation Code pursuant to Chapter 43 of the Statutes of 2011 had been considered “General Fund revenues” or “General Fund proceeds of taxes” for purposes of Section 8 of Article XVI of the California Constitution.

PROPOSITION 31

This initiative measure is submitted to the people of California in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure amends and adds sections to the California Constitution and adds sections to the Education Code and the Government Code; 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

The Government Performance and Accountability Act

SECTION 1. Findings and Declarations

The people of the State of California hereby find and declare that government must be:

1. Trustworthy. California government has lost the confidence of its citizens and is not meeting the needs of Californians. Taxpayers are entitled to a higher return on their investment and the public deserves better results from government services.

2. Accountable for Results. To restore trust, government at all levels must be accountable for results. The people are entitled to know how tax dollars are being spent and how well government is performing. State and local government agencies must set measurable outcomes for all expenditures and regularly and publicly report progress toward those outcomes.

3. Cost-Effective. California must invest its scarce public resources wisely to be competitive in the global economy. Vital public services must therefore be delivered with increasing effectiveness and efficiency.

4. Transparent. It is essential that the public’s business be public. Honesty and openness promote and preserve the integrity of democracy and the relationship between the people and their government.

5. Focused on Results. To improve results, public agencies need a clear and shared understanding of public purpose. With this measure, the people declare that the purpose of state and local governments is to promote a prosperous economy, a quality environment, and community equity. These purposes are advanced by achieving at least the following goals: increasing employment, improving education, decreasing poverty, decreasing crime, and improving health.

6. Cooperative. To make every dollar count, public agencies must work together to reduce bureaucracy, eliminate duplication, and resolve conflicts. They must integrate services and adopt strategies that have been proven to work and can make a difference in the lives of Californians.

7. Closer to the People. Many governmental services are best provided at the local level, where public officials know their communities and residents have access to elected officials. Local governments need the flexibility to tailor programs to the needs of their communities.

8. Supportive of Regional Job Generation. California is composed of regional economies. Many components of economic vitality are best addressed at the regional scale. The State is obliged to enable and encourage local governments to collaborate regionally to enhance the ability to attract capital investment into regional economies to generate well-paying jobs.

9. Willing to Listen. Public participation is essential to ensure a vibrant and responsive democracy and a responsive and accountable government. When government listens, more people are willing to take an active role in their communities and their government.

10. Thrifty and Prudent. State and local governments today spend hundreds of millions of dollars on budget processes that do not tell the public what is being accomplished. Those same funds can be better used to develop budgets that link dollars to goals and communicate progress toward those goals, which is a primary purpose of public budgets.

SEC. 2. Purpose and Intent

In enacting this measure, the people of the State of California intend to:

1. Improve results and accountability to taxpayers and the public by improving the budget process for the state and local governments with existing resources.

2. Make state government more efficient, effective, and transparent through a state budget process that does the following:

a. Focuses budget decisions on what programs are trying to accomplish and whether progress is being made.

b. Requires the development of a two-year budget and a review of every program at least once every five years to make sure money is well spent over time.

c. Requires major new programs and tax cuts to have clearly identified funding sources before they are enacted.

d. Requires legislation—including the Budget Act—to be public for three days before lawmakers can vote on it.

3. Move government closer to the people by enabling and encouraging local governments to work together to save money, improve results, and restore accountability to the public through the following:

a. Focusing local government budget decisions on what programs are trying to accomplish and whether progress is being made.

b. Granting counties, cities, and schools the authority to develop, through a public process, a Community Strategic Action Plan for advancing community priorities that they cannot achieve by themselves.

c. Granting local governments that approve an Action Plan flexibility in how they spend state dollars to improve the outcomes of public programs.

d. Granting local governments that approve an Action Plan the ability to identify state statutes or regulations that impede progress and a process for crafting a local rule for achieving a state requirement.

e. Encouraging local governments to collaborate to achieve goals more effectively addressed at a regional scale.

f. Providing some state funds as an incentive to local governments to develop Action Plans.

g. Requiring local governments to report their progress annually and evaluate their efforts every four years as a condition of continued flexibility—thus restoring accountability of local elected officials to local voters and taxpayers.

4. Involve the people in identifying priorities, setting goals, establishing measurements of results, allocating resources in a budget, and monitoring progress.

5. Implement the budget reforms herein using existing resources currently dedicated to the budget processes of the state and its political subdivisions without significant additional funds. Further, establish the Performance and Accountability Trust Fund from existing tax bases and revenues. No provision herein shall require an increase in any taxes or modification of any tax rate or base.

SEC. 3. Section 8 of Article IV of the California Constitution is amended to read:

SEC. 8. (a) At regular sessions no bill other than the budget bill may be heard or acted on by committee or either house until the 31st day after the bill is introduced unless the house dispenses with this requirement by rollcall vote entered in the journal, three fourths of the membership concurring.

(b) The Legislature may make no law except by statute and may enact no statute except by bill. No bill may be passed unless it is read by title on 3 days in each house except that the house may dispense with this requirement by rollcall vote entered in the journal, two thirds of the membership concurring. No bill *other than a bill containing an urgency clause that is passed in a special session called by the Governor to address a state of emergency declared by the Governor arising out of a natural disaster or a terrorist attack* may be passed until the bill with amendments has been **printed in print** and distributed to the members *and available to the public for at least 3 days*. No bill may be passed unless, by rollcall vote entered in the journal, a majority of the membership of each house concurs.

(c) (1) Except as provided in paragraphs (2) and (3) of this subdivision, a statute enacted at a regular session shall go into effect on January 1 next following a 90-day period from the date of enactment of the statute and a statute enacted at a special session shall go into effect on the 91st day after adjournment of the special session at which the bill was passed.

(2) A statute, other than a statute establishing or changing boundaries of any legislative, congressional, or other election district, enacted by a bill passed by the Legislature on or before the date the Legislature adjourns for a joint recess to reconvene in the second calendar year of the biennium of the legislative session, and in the possession of the Governor after that date, shall go into effect on January 1 next following the enactment date of the statute unless, before January 1, a copy of a referendum petition affecting the statute is submitted to the Attorney General pursuant to subdivision (d) of Section 10 of Article II, in which event the statute shall go into effect on the 91st day after the enactment date unless the petition has been presented to the Secretary of State pursuant to subdivision (b) of Section 9 of Article II.

(3) Statutes calling elections, statutes providing for tax levies or appropriations for the usual current expenses of the State, and urgency statutes shall go into effect immediately upon their enactment.

(d) Urgency statutes are those necessary for immediate preservation of the public peace, health, or safety. A statement of facts constituting the necessity shall be set forth in one section of the bill. In each house the section and the bill shall be passed separately, each by rollcall vote entered in the journal, two thirds of the membership concurring. An urgency statute may not create or abolish any office or change the salary, term, or duties of any office, or grant any franchise or special privilege, or create any vested right or interest.

SEC. 4. Section 9.5 is added to Article IV of the California Constitution, to read:

SEC. 9.5. A bill passed by the Legislature that (1) establishes a new state program, including a state-mandated local program described in Section 6 of Article XIII B, or a new agency, or expands the scope of such an existing state program or agency, the effect of which would, if funded, be a net increase in state costs in excess of twenty-five million dollars (\$25,000,000) in that fiscal year or in any succeeding fiscal year, or (2) reduces a state tax or other source of state revenue, the effect of which will be a net decrease in State revenue in excess of twenty-five million dollars (\$25,000,000) in that fiscal year or in any succeeding fiscal year, is void unless offsetting state program reductions or additional revenue, or a combination thereof, are provided in the bill or another bill in an amount that equals or exceeds the net increase in state costs or net decrease in state revenue. The twenty-five-million-dollar (\$25,000,000) threshold specified in this section shall be adjusted annually for inflation pursuant to the California Consumer Price Index.

SEC. 5. Section 10 of Article IV of the California Constitution is amended to read:

SEC. 10. (a) Each bill passed by the Legislature shall be presented to the Governor. It becomes a statute if it is signed by the Governor. The Governor may veto it by returning it with any objections to the house of origin, which shall enter the objections in the journal and proceed to reconsider it. If each house then passes the bill by rollcall vote entered in the journal, two-thirds of the membership concurring, it becomes a statute.

(b) (1) Any bill, other than a bill which would establish or change boundaries of any legislative, congressional, or other

election district, passed by the Legislature on or before the date the Legislature adjourns for a joint recess to reconvene in the second calendar year of the biennium of the legislative session, and in the possession of the Governor after that date, that is not returned within 30 days after that date becomes a statute.

(2) Any bill passed by the Legislature before June 30 of the second calendar year of the biennium of the legislative session and in the possession of the Governor on or after June 30 that is not returned on or before July 31 of that year becomes a statute. In addition, any bill passed by the Legislature before September 1 of the second calendar year of the biennium of the legislative session and in the possession of the Governor on or after September 1 that is not returned on or before September 30 of that year becomes a statute.

(3) Any other bill presented to the Governor that is not returned within 12 days becomes a statute.

(4) If the Legislature by adjournment of a special session prevents the return of a bill with the veto message, the bill becomes a statute unless the Governor vetoes the bill within 12 days after it is presented by depositing it and the veto message in the office of the Secretary of State.

(5) If the 12th day of the period within which the Governor is required to perform an act pursuant to paragraph (3) or (4) of this subdivision is a Saturday, Sunday, or holiday, the period is extended to the next day that is not a Saturday, Sunday, or holiday.

(c) (1) Any bill introduced during the first year of the biennium of the legislative session that has not been passed by the house of origin by January 31 of the second calendar year of the biennium may no longer be acted on by the house. No bill may be passed by either house on or after ~~September 1 of an even-numbered year~~ June 30 of the second year of the biennium ~~except statutes calling elections, statutes providing for tax levies or appropriations for the usual current expenses of the State, and urgency statutes bills that take effect immediately,~~ and bills passed after being vetoed by the Governor.

(2) No bill may be introduced or considered in the second year of the biennium that is substantially the same and has the same effect as any introduced or amended version of a measure that did not pass the house of origin by January 31 of the second calendar year of the biennium as required in paragraph (1).

(d) (1) The Legislature may not present any bill to the Governor after November 15 of the second calendar year of the biennium of the legislative session. On the first Monday following July 4 of the second year of the biennium, the Legislature shall convene, as part of its regular session, to conduct program oversight and review. The Legislature shall establish an oversight process for evaluating and improving the performance of programs undertaken by the State or by local agencies implementing state-funded programs on behalf of the State based on performance standards set forth in statute and in the biennial Budget Act. Within one year of the effective date of this provision, a review schedule shall be established for all state programs whether managed by a state or local agency implementing state-funded programs on behalf of the State. The schedule shall sequence the review of similar programs so that relationships among program objectives can be identified and reviewed. The review process shall result in recommendations

in the form of proposed legislation that improves or terminates programs. Each program shall be reviewed at least once every five years.

(2) *The process established for program oversight under paragraph (1) shall also include a review of Community Strategic Action Plans adopted pursuant to Article XI A for the purpose of determining whether any state statutes or regulations that have been identified by the participating local government agencies as state obstacles to improving results should be amended or repealed as requested by the participating local government agencies based on a review of at least three years of experience with the Community Strategic Action Plans. The review shall assess whether the Action Plans have improved the delivery and effectiveness of services in all parts of the community identified in the plan.*

(e) *The Governor may reduce or eliminate one or more items of appropriation while approving other portions of a bill. The Governor shall append to the bill a statement of the items reduced or eliminated with the reasons for the action. The Governor shall transmit to the house originating the bill a copy of the statement and reasons. Items reduced or eliminated shall be separately reconsidered and may be passed over the Governor's veto in the same manner as bills.*

(f) (1) *If, following the enactment of the budget bill for the 2004–05 fiscal year or any subsequent fiscal year, the Governor determines that, for that fiscal year, General Fund revenues will decline substantially below the estimate of General Fund revenues upon which the budget bill for that fiscal year, as enacted, was based, or General Fund expenditures will increase substantially above that estimate of General Fund revenues, or both, the Governor may issue a proclamation declaring a fiscal emergency and shall thereupon cause the Legislature to assemble in special session for this purpose. The proclamation shall identify the nature of the fiscal emergency and shall be submitted by the Governor to the Legislature, accompanied by proposed legislation to address the fiscal emergency. In response to the Governor's proclamation, the Legislature may present to the Governor a bill or bills to address the fiscal emergency.*

(2) *If the Legislature fails to pass and send to the Governor a bill or bills to address the fiscal emergency by the 45th day following the issuance of the proclamation, the Legislature may not act on any other bill, nor may the Legislature adjourn for a joint recess, until that bill or those bills have been passed and sent to the Governor.*

(3) *A bill addressing the fiscal emergency declared pursuant to this section shall contain a statement to that effect. For purposes of paragraphs (2) and (4), the inclusion of this statement shall be deemed to mean conclusively that the bill addresses the fiscal emergency. A bill addressing the fiscal emergency declared pursuant to this section that contains a statement to that effect, and is passed and sent to the Governor by the 45th day following the issuance of the proclamation declaring the fiscal emergency, shall take effect immediately upon enactment.*

(4) (A) *If the Legislature has not passed and sent to the Governor a bill or bills to address a fiscal emergency by the 45th day following the issuance of the proclamation declaring*

the fiscal emergency, the Governor may, by executive order, reduce or eliminate any existing General Fund appropriation for that fiscal year to the extent the appropriation is not otherwise required by this Constitution or by federal law. The total amount of appropriations reduced or eliminated by the Governor shall be limited to the amount necessary to cause General Fund expenditures for the fiscal year in question not to exceed the most recent estimate of General Fund revenues made pursuant to paragraph (1).

(B) *If the Legislature is in session, it may, within 20 days after the Governor issues an executive order pursuant to subparagraph (A), override all or part of the executive order by a rollcall vote entered in the journal, two-thirds of the membership of each house concurring. If the Legislature is not in session when the Governor issues the executive order, the Legislature shall have 30 days to reconvene and override all or part of the executive order by resolution by the vote indicated above. An executive order or a part thereof that is not overridden by the Legislature shall take effect the day after the period to override the executive order has expired. Subsequent to the 45th day following the issuance of the proclamation declaring the fiscal emergency, the prohibition set forth in paragraph (2) shall cease to apply when (i) one or more executive orders issued pursuant to this paragraph have taken effect, or (ii) the Legislature has passed and sent to the Governor a bill or bills to address the fiscal emergency.*

(C) *A bill to restore balance to the budget pursuant to subparagraph (B) may be passed in each house by rollcall vote entered in the journal, a majority of the membership concurring, to take effect immediately upon being signed by the Governor or upon a date specified in the legislation, provided, however, that any bill that imposes a new tax or increases an existing tax must be passed by a two-thirds vote of the Members of each house of the Legislature.*

SEC. 6. Section 12 of Article IV of the California Constitution is amended to read:

SEC. 12. (a) (1) *Within the first 10 days of each odd-numbered calendar year, the Governor shall submit to the Legislature, with an explanatory message, a budget for the ensuing two fiscal year years, containing itemized statements for recommended state expenditures and estimated total state revenues resources available to meet those expenditures. 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 that are anticipated to be one-time resources. The two-year budget, which shall include a budget for the budget year and a budget for the succeeding fiscal year, shall be known collectively as the biennial budget. Within the first 10 days of each even-numbered year, the Governor may submit a supplemental budget to amend or augment the enacted biennial budget.*

(b) *The biennial budget shall contain all of the following elements to improve performance and accountability:*

(1) *An estimate of the total resources available for the expenditures recommended for the budget year and the succeeding fiscal year.*

(2) *A projection of anticipated expenditures and anticipated*

revenues for the three fiscal years following the fiscal year succeeding the budget year.

(3) A statement of how the budget will promote the purposes of achieving a prosperous economy, quality environment, and community equity, by working to achieve at least the following goals: increasing employment; improving education; decreasing poverty; decreasing crime; and improving health.

(4) A description of the outcome measures that will be used to assess progress and report results to the public and of the performance standards for state agencies and programs.

(5) A statement of the outcome measures for each major expenditure of state government for which public resources are proposed to be appropriated in the budget and their relationship to the overall purposes and goals set forth in paragraph (3).

(6) A statement of how the State will align its expenditure and investment of public resources with that of other government entities that implement state functions and programs on behalf of the State to achieve the purposes and goals set forth in paragraph (3).

(7) A public report on progress in achieving the purposes and goals set forth in paragraph (3) and an evaluation of the effectiveness in achieving the purposes and goals according to the outcome measures set forth in the preceding year's budget.

(c) If, for the budget year and the succeeding fiscal year, collectively, recommended expenditures exceed estimated revenues, the Governor shall recommend reductions in expenditures or the sources from which the additional revenues should be provided, or both. To the extent practical, the recommendations shall include an analysis of the long-term impact that expenditure reductions or additional revenues would have on the state economy. Along with the biennial budget, the Governor shall submit to the Legislature any legislation required to implement appropriations contained in the biennial budget, together with a five-year capital infrastructure and strategic growth plan, as specified by statute.

(d) If the Governor's budget proposes to (1) establish a new state program, including a state-mandated local program described in Section 6 of Article XIII B, or a new agency, or expand the scope of an existing state program or agency, the effect of which would, if funded, be a net increase in state costs in excess of twenty-five million dollars (\$25,000,000) in that fiscal year or in any succeeding fiscal year, or (2) reduce a state tax or other source of state revenue, the effect of which will be a net decrease in state revenue in excess of twenty-five million dollars (\$25,000,000) in that fiscal year or any succeeding fiscal year, the budget shall propose offsetting state program reductions or additional revenue, or a combination thereof, in an amount that equals or exceeds the net increase in state costs or net decrease in state revenue. The twenty-five-million-dollar (\$25,000,000) threshold specified in this subdivision shall annually be adjusted for inflation pursuant to the California Consumer Price Index.

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

(c) (f) (1) The biennial budget and any supplemental budget

shall be accompanied by a budget bill itemizing recommended expenditures for the budget year and the succeeding fiscal year. A supplemental budget bill shall be accompanied by a bill proposing the supplemental budget.

(2) The budget bill and other bills providing for appropriations related to the budget bill or a supplemental budget bill, as submitted by the Governor, shall be introduced immediately in each house by the persons chairing the committees that consider the budget.

(3) On or before May 1 of each year, after the appropriate committees of each house of the Legislature have considered the budget bill, each house shall refer the budget bill to a joint committee of the Legislature, which may include a conference committee, which shall review the budget bill and other bills providing for appropriations related to the budget bill and report its recommendations to each house no later than June 1 of each year. This shall not preclude the referral of any of these bills to policy committees in addition to a joint committee.

(3) (4) The Legislature shall pass the budget bill and other bills providing for appropriations related to the budget bill by midnight on June 15 of each year. Appropriations made in the budget bill, or in other bills providing for appropriations related to the budget bill, for the succeeding fiscal year shall not be expended in the budget year.

(4) (5) 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 budget year or the succeeding 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.

(4) (g) No bill except the budget bill or the supplemental 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 and appropriations in the budget bill, the supplemental budget bill, and in other bills providing for appropriations related to the budget bill, are void unless passed in each house by rollcall vote entered in the journal, two-thirds of the membership concurring.

(e) (h) (1) Notwithstanding any other provision of law or of this Constitution, the budget bill, the supplemental budget bill, and other bills providing for appropriations related to the budget bill may be passed in each house by rollcall vote entered in the journal, a majority of the membership concurring, to take effect immediately upon being signed by the Governor or upon a date specified in the legislation. Nothing in this subdivision shall affect the vote requirement for appropriations for the public schools contained in subdivision (4) (g) of this section and in subdivision (b) of Section 8 of this article.

(2) For purposes of this section, "other bills providing for appropriations related to the budget bill or a supplemental budget bill" shall consist only of bills identified as related to the budget in the budget bill or in the supplemental budget bill passed by the Legislature.

(3) For purposes of this section, "budget bill" shall mean the bill or bills containing the budget for the budget year and the succeeding fiscal year.

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

(g) (j) For the 2004–05 fiscal year, or any subsequent fiscal year, the Legislature ~~may~~ shall not send to the Governor for consideration, nor ~~may~~ shall the Governor sign into law, a budget bill for the budget year or for the succeeding fiscal year that would appropriate from the General Fund, for ~~that~~ each fiscal year of the biennial budget, 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 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~~ The estimate of General Fund revenues, transfers, and balances shall be set forth in the budget bill passed by the Legislature. The budget bill passed by the Legislature shall also contain a statement of the total General Fund obligations described in this subdivision for each fiscal year of the biennial budget, together with an explanation of the basis for the estimate of General Fund revenues, including an explanation of the amount by which the Legislature projects General Fund revenues for that fiscal year to differ from General Fund revenues for the immediately preceding fiscal year.

(h) (k) Notwithstanding any other provision of law or of this Constitution, including subdivision (e) (f) of this section, Section 4 of this article, and Sections 4 and 8 of Article III, in any year in which the budget bill is not passed by the Legislature by midnight on June 15, there shall be no appropriation from the current budget or future budget to pay any salary or reimbursement for travel or living expenses for Members of the Legislature during any regular or special session for the period from midnight on June 15 until the day that the budget bill is presented to the Governor. No salary or reimbursement for travel or living expenses forfeited pursuant to this subdivision shall be paid retroactively.

SEC. 7. Article XI A is added to the California Constitution, to read:

**ARTICLE XI A
COMMUNITY STRATEGIC ACTION PLANS**

SECTION 1. (a) Californians expect and require that local government entities publicly explain the purpose of expenditures and whether progress is being made toward their goals. Therefore, in addition to the requirements of any other provision of this Constitution, the adopted budget of each local government entity shall contain all of the following as they apply to the entity’s powers and duties:

(1) A statement of how the budget will promote, as applicable to a local government entity’s functions, role, and locally determined priorities, a prosperous economy, quality environment, and community equity, as reflected in the following goals: increasing employment, improving education, decreasing poverty, decreasing crime, improving health, and other community priorities.

(2) A description of the overall outcome measurements that

will be used to assess progress in all parts of the community toward the goals established by the local government entity pursuant to paragraph (1).

(3) A statement of the outcome measurement for each major expenditure of government for which public resources are appropriated in the budget and the relationship to the overall goals established by the local government entity pursuant to paragraph (1).

(4) A statement of how the local government entity will align its expenditure and investment of public resources to achieve the goals established by the local government entity pursuant to paragraph (1).

(5) A public report on progress in achieving the goals established by the local government entity pursuant to paragraph (1) and an evaluation of the effectiveness in achieving the outcomes according to the measurements set forth in the previous year’s budget.

(b) Each local government entity shall develop and implement an open and transparent process that encourages the participation of all aspects of the community in the development of its proposed budget, including identifying community priorities pursuant to paragraph (1) of subdivision (a).

(c) This section shall become operative in the budget year of the local government entity that commences in the year 2014.

(d) The provisions of this section are self-executing and are to be interpreted to apply only to those activities over which local entities exercise authority.

SEC. 2. (a) A county, by action of the board of supervisors, may initiate the development of a Community Strategic Action Plan, hereinafter referred to as the Action Plan. The county shall invite the participation of all other local government entities within the county whose existing functions or services are within the anticipated scope of the Action Plan. Any local government entity within the county may petition the board of supervisors to initiate an Action Plan, to be included in the planning process, or to amend the Action Plan.

(b) The participating local government entities shall draft an Action Plan through an open and transparent process that encourages the participation of all aspects of the community, including neighborhood leaders. The Action Plan shall include all of the following:

(1) A statement that (A) outlines how the Action Plan will achieve the purposes and goals set forth in paragraphs (1) to (5), inclusive, of subdivision (a) of Section 1 of this article, (B) describes the public services that will be delivered pursuant to the Action Plan and the roles and responsibilities of the participating entities, (C) explains why those services will be delivered more effectively and efficiently pursuant to the Action Plan, (D) provides for an allocation of resources to support the plan, including funds that may be received from the Performance and Accountability Trust Fund, (E) considers disparities within communities served by the Action Plan, and (F) explains how the Action Plan is consistent with the budgets adopted by the participating local government entities.

(2) The outcomes desired by the participating local government entities and how those outcomes will be measured.

(3) A method for regularly reporting outcomes to the public and to the State.

(c) (1) *The Action Plan shall be submitted to the governing bodies of each of the participating local government entities within the county. To ensure a minimum level of collaboration, the Action Plan must be approved by the county, local government entities providing municipal services pursuant to the Action Plan to at least a majority of the population in the county, and one or more school districts serving at least a majority of the public school pupils in the county.*

(2) *The approval of the Action Plan, or an amendment to the Action Plan, by a local government entity, including the county, shall require a majority vote of the membership of the governing body of that entity. The Action Plan shall not apply to any local government entity that does not approve the Action Plan as provided in this paragraph.*

(d) *Once an Action Plan is adopted, a county may enter into contracts that identify and assign the duties and obligations of each of the participating entities, provided that such contracts are necessary for implementation of the Action Plan and are approved by a majority vote of the governing body of each local government entity that is a party to the contract.*

(e) *Local government entities that have adopted an Action Plan pursuant to this section and have satisfied the requirements of Section 3 of this article, if applicable, may integrate state or local funds that are allocated to them for the purpose of providing the services identified by the Action Plan in a manner that will advance the goals of the Action Plan.*

SEC. 3. (a) *If the parties to an Action Plan adopted pursuant to Section 2 of this article conclude that a state statute or regulation, including a statute or regulation restricting the expenditure of funds, impedes progress toward the goals of the Action Plan or they need additional statutory authority to implement the Action Plan, the local government entities may include provisions in the Action Plan that are functionally equivalent to the objective or objectives of the applicable statute or regulation. The provision shall include a description of the intended state objective, of how the rule is an obstacle to better outcomes, of the proposed community rule, and of how the community rule will contribute to better outcomes while advancing a prosperous economy, quality environment, and community equity. For purposes of this section, a provision is functionally equivalent to the objective or objectives of a statute or regulation if it substantially complies with the policy and purpose of the statute or regulation.*

(b) *The parties shall submit an Action Plan containing the functionally equivalent provisions described in subdivision (a) with respect to one or more state statutes to the Legislature during a regular or special session. If, within 60 days following its receipt of the Action Plan, the Legislature takes no concurrent action, by resolution or otherwise, to disapprove the provisions, the provisions shall be deemed to be operative, with the effect in law that compliance with the provisions shall be deemed compliance with the state statute or statutes.*

(c) *If the parties to an Action Plan adopted pursuant to Section 2 of this article conclude that a regulation impedes the goals of the Action Plan, they may follow the procedure described in subdivision (a) of this section by submitting their proposal to the agency or department responsible for promulgating or administering the regulation, which shall*

consider the proposal within 60 days. If, within 60 days following its receipt of the Action Plan, the agency or department takes no action to disapprove the provisions, the provisions shall be deemed to be operative, with the effect in law that compliance with the provisions shall be deemed compliance with the state regulation or regulations. Any action to disapprove the provision shall include a statement setting forth the reasons for doing so.

(d) *This section shall apply only to statutes or regulations that directly govern the administration of a state program that is financed in whole or in part with state funds.*

(e) *Any authority granted pursuant to this section shall automatically expire four years after the effective date, unless renewed pursuant to this section.*

SEC. 4. (a) *The Performance and Accountability Trust Fund is hereby established in the State Treasury for the purpose of providing state resources for the implementation of integrated service delivery contained in the Community Strategic Action Plans prepared pursuant to this article. Notwithstanding Section 13340 of the Government Code, money in the fund shall be continuously appropriated solely for the purposes provided in this article. For purposes of Section 8 of Article XVI, the revenues transferred to the Performance and Accountability Trust Fund pursuant to the act that added this article shall be considered General Fund proceeds of taxes which may be appropriated pursuant to Article XIII B.*

(b) *Money in the Performance and Accountability Trust Fund shall be distributed according to statute to counties whose Action Plans include a budget for expenditure of the funds that satisfies Sections 1 and 2 of this article.*

(c) *Any funds allocated to school districts pursuant to an Action Plan must be paid for from a revenue source other than the Performance and Accountability Trust Fund, and may be paid from any other source as determined by the entities participating in the Action Plan. The allocation received by any school district pursuant to an Action Plan shall not be considered General Fund proceeds of taxes or allocated local proceeds of taxes for purposes of Section 8 of Article XVI.*

SEC. 5. *A county that has adopted an Action Plan pursuant to Section 2 of this article shall evaluate the effectiveness of the Action Plan at least once every four years. The evaluation process shall include an opportunity for public comments, and for those comments to be included in the final report. The evaluation shall be used by the participating entities to improve the Action Plan and by the public to assess the performance of its government. The evaluation shall include a review of the extent to which the Action Plan has achieved the purposes and goals set forth in paragraphs (1) to (5), inclusive, of subdivision (a) of Section 1, including: improving the outcomes among the participating entities in the delivery and effectiveness of the applicable governmental services; progress toward reducing community disparities; and whether the individuals or community members receiving those services were represented in the development and implementation of the Action Plan.*

SEC. 6. (a) *The State shall consider how it can help local government entities deliver services more effectively and efficiently through an Action Plan adopted pursuant to Section 2. Consistent with this goal, the State or any department*

or agency thereof may enter into contracts with one or more local government entities that are participants in an Action Plan to perform any function that the contracting parties determine can be more efficiently and effectively performed at the local level. Any contract made pursuant to this section shall conform to the Action Plan adopted pursuant to the requirements of Section 2.

(b) The State shall consider and determine how it can support, through financial and regulatory incentives, efforts by local government entities and representatives of the public to work together to address challenges and to resolve problems that local government entities have voluntarily and collaboratively determined are best addressed at the geographic scale of a region in order to advance a prosperous economy, quality environment, and community equity. The State shall promote the vitality and global competitiveness of regional economies and foster greater collaboration among local governments within regions by providing priority consideration for state-administered funds for infrastructure and human services, as applicable, to those participating local government entities that have voluntarily developed a regional collaborative plan and are making progress toward the purposes and goals of their plan, which shall incorporate the goals and purposes set forth in paragraphs (1) to (5), inclusive, of subdivision (a) of Section 1.

SEC. 7. Nothing in this article is intended to abrogate or supersede any existing authority enjoyed by local government entities, nor to discourage or prohibit local government entities from developing and participating in regional programs and plans designed to improve the delivery and efficiency of government services.

SEC. 8. For purposes of this article, the term "local government entity" shall mean a county, city, city and county, and any other local government entity, including school districts, county offices of education, and community college districts.

SEC. 8. Section 29 of Article XIII of the California Constitution is amended to read:

SEC. 29. (a) The Legislature may authorize counties, cities and counties, and cities to enter into contracts to apportion between them the revenue derived from any sales or use tax imposed by them that is collected for them by the State. Before the contract becomes operative, it shall be authorized by a majority of those voting on the question in each jurisdiction at a general or direct primary election.

(b) Notwithstanding subdivision (a), on and after the operative date of this subdivision, counties, cities and counties, and cities, may enter into contracts to apportion between them the revenue derived from any sales or use tax imposed by them pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law, or any successor provisions, that is collected for them by the State, if the ordinance or resolution proposing each contract is approved by a two-thirds vote of the governing body of each jurisdiction that is a party to the contract.

(c) Notwithstanding subdivision (a), counties, cities and counties, cities, and any other local government entities, including school districts and community college districts, that are parties to a Community Strategic Action Plan adopted

pursuant to Article XI A may enter into contracts to apportion between and among them the revenue they receive from ad valorem property taxes allocated to them, if the ordinance or resolution proposing each contract is approved by a two-thirds vote of the governing body of each jurisdiction that is a party to the contract. Contracts entered into pursuant to this section shall be consistent with each participating entity's budget adopted in accordance with Section 1 of Article XI A.

SEC. 9. Chapter 6 (commencing with Section 55750) is added to Part 2 of Division 2 of Title 5 of the Government Code, to read:

CHAPTER 6. COMMUNITY STRATEGIC ACTION PLANS

55750. (a) Notwithstanding Section 7101 of the Revenue and Taxation Code or any other provision of law, beginning in the 2013–14 fiscal year, the amount of revenues, net of refunds, collected pursuant to Section 6051 of the Revenue and Taxation Code and attributable to a rate of 0.035 percent shall be deposited in the State Treasury to the credit of the Performance and Accountability Trust Fund, as established pursuant to Section 4 of Article XI A of the California Constitution, and shall be used exclusively for the purposes for which that fund is created.

(b) To the extent that the Legislature reduces the sales tax base and that reduction results in less revenue to the Performance and Accountability Trust Fund than the fund received in the 2013–14 fiscal year, the Controller shall transfer from the General Fund to the Performance and Accountability Trust Fund an amount that when added to the revenues received by the Performance and Accountability Trust Fund in that fiscal year equals the amount of revenue received by the fund in the 2013–14 fiscal year.

55751. (a) Notwithstanding Section 7101 of the Revenue and Taxation Code or any other provision of law, beginning in the 2013–14 fiscal year, the amount of revenues, net of refunds, collected pursuant to Section 6201 of the Revenue and Taxation Code and attributable to a rate of 0.035 percent shall be deposited in the State Treasury to the credit of the Performance and Accountability Trust Fund, as established pursuant to Section 4 of Article XI A of the California Constitution, and shall be used exclusively for the purposes for which that fund is created.

(b) To the extent that the Legislature reduces the use tax base and that reduction results in less revenue to the Performance and Accountability Trust Fund than the fund received in the 2013–14 fiscal year, the Controller shall transfer from the General Fund to the Performance and Accountability Trust Fund an amount that when added to the revenues received by the Performance and Accountability Trust Fund in that fiscal year equals the amount of revenue received by the fund in the 2013–14 fiscal year.

55752. (a) In the 2014–15 fiscal year and every subsequent fiscal year, the Controller shall distribute funds in the Performance and Accountability Trust Fund established pursuant to Section 4 of Article XI A of the California Constitution to each county that has adopted a Community Strategic Action Plan that is in effect on or before June 30 of the preceding fiscal year, and that has submitted its Action Plan to

the Controller for the purpose of requesting funding under this section. The distribution shall be made in the first quarter of the fiscal year. Of the total amount available for distribution from the Performance and Accountability Trust Fund in a fiscal year, the Controller shall apportion to each county Performance and Accountability Trust Fund, which is hereby established, to assist in funding its Action Plan, a percentage equal to the percentage computed for that county under subdivision (c).

(b) As used in this section, the population served by a Community Strategic Action Plan is the population of the geographic area that is the sum of the population of all of the participating local government entities, provided that a resident served by one or more local government entities shall be counted only once. The Action Plan shall include a calculation of the population of the geographic area served by the Action Plan, according to the most recent Department of Finance demographic data.

(c) The Controller shall determine the population served by each county's Action Plan as a percentage of the total population computed for all of the Action Plans that are eligible for funding pursuant to subdivision (a).

(d) The funds provided pursuant to Section 4 of Article XI A of the California Constitution and this chapter represent in part ongoing savings that accrue to the state that are attributable to the 2011 realignment and to the measure that added this section. Four years following the first allocation of funds pursuant to this section, the Legislative Analyst's Office shall assess the fiscal impact of the Action Plans and the extent to which the plans have improved the efficiency and effectiveness of service delivery or reduced the demand for state-funded services.

SEC. 10. Section 42246 is added to the Education Code, to read:

42246. Funds contributed or received by a school district pursuant to its participation in a Community Strategic Action Plan authorized by Article XI A of the California Constitution shall not be considered in calculating the state's portion of the district's revenue limit under Section 42238 or any successor statute.

SEC. 11. Section 9145 is added to the Government Code, to read:

9145. For the purposes of Sections 9.5 and 12 of Article IV of the California Constitution, the following definitions shall apply:

(a) "Expand the scope of an existing state program or agency" does not include any of the following:

(1) Restoring funding to an agency or program that was reduced or eliminated in any fiscal year subsequent to the 2008–09 fiscal year to balance the budget or address a forecasted deficit.

(2) Increases in state funding for a program or agency to fund its existing statutory responsibilities, including increases in the cost of living or workload, and any increase authorized by a memorandum of understanding approved by the Legislature.

(3) Growth in state funding for a program or agency as required by federal law or a law that is in effect as of the effective date of the measure adding this section.

(4) Funding to cover one-time expenditures for a state program or agency, as so identified in the statute that appropriates the funding.

(5) Funding for a requirement described in paragraph (5) of subdivision (b) of Section 6 of Article XIII B of the California Constitution.

(b) "State costs" do not include costs incurred for the payment of principal or interest on a state general obligation bond.

(c) "Additional revenue" includes, but is not limited to, revenue to the state that results from specific changes made by federal or state law and that the state agency responsible for collecting the revenue has quantified and determined to be a sustained increase.

SEC. 12. Section 11802 is added to the Government Code, to read:

11802. No later than June 30, 2013, the Governor shall, after consultation with state employees and other interested parties, submit to the Legislature a plan to implement the performance-based budgeting provisions of Section 12 of Article IV of the California Constitution. The plan shall be fully implemented in the 2015–16 fiscal year and in each subsequent fiscal year.

SEC. 13. Section 13308.03 is added to the Government Code, to read:

13308.03. In addition to the requirements set forth in Section 13308, the Director of Finance shall:

(a) By May 15 of each year, submit to the Legislature and make available to the public updated projections of state revenue and state expenditures for the budget year and the succeeding fiscal year either as proposed in the budget bill pending in one or both houses of the Legislature or as appropriated in the enacted budget bill, as applicable.

(b) Immediately prior to passage of the biennial budget, or any supplemental budget, by the Legislature, submit to the Legislature a statement of total revenues and total expenditures for the budget year and the succeeding fiscal year, which shall be incorporated into the budget bill.

(c) By November 30 of each year, submit a fiscal update containing actual year-to-date revenues and expenditures for the current year compared to the revenues and expenditures set forth in the adopted budget to the Legislature. This requirement may be satisfied by the publication of the Fiscal Outlook Report by the Legislative Analyst's Office.

SEC. 14. Amendment

The statutory provisions of this measure may be amended solely to further the purposes of this measure by a bill approved by a two-thirds vote of the Members of each house of the Legislature and signed by the Governor.

SEC. 15. Severability

If any of the provisions of this measure or the applicability of any provision of this measure to any person or circumstances shall be found to be unconstitutional or otherwise invalid, that finding shall not affect the remaining provisions or applications of this measure to other persons or circumstances, and to that extent the provisions of this measure are deemed to be severable.

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SEC. 16. Effective Date

Sections 4, 5, and 6 of this Act shall become operative on the first Monday of December in 2014. Unless otherwise specified in the Act, the other sections of the act shall become operative the day after the election at which the act is adopted.

SEC. 17. Legislative Counsel

(a) The people find and declare that the amendments proposed by this measure to Section 12 of Article IV of the California Constitution are consistent with the amendments to Section 12 of Article IV of the California Constitution proposed by Assembly Constitutional Amendment No. 4 of the 2009–10 Regular Session (Res. Ch. 174, Stats. 2010) (hereafter ACA 4), which will appear on the statewide general election ballot of November 4, 2014.

(b) For purposes of the Legislative Counsel’s preparation and proofreading of the text of ACA 4 pursuant to Sections 9086 and 9091 of the Elections Code, and Sections 88002 and 88005.5 of the Government Code, the existing provisions of Section 12 of Article IV of the California Constitution shall be deemed to be the provisions of that section as amended by this measure. The Legislative Counsel shall prepare and proofread the text of ACA 4, accordingly, to distinguish the changes proposed by ACA 4 to Section 12 of Article IV of the California Constitution from the provisions of Section 12 of Article IV of the California Constitution as amended by this measure. The Secretary of State shall place the complete text of ACA 4, as prepared and proofread by the Legislative Counsel pursuant to this section, in the ballot pamphlet for the statewide general election ballot of November 4, 2014.

PROPOSITION 32

This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure adds sections to the Government Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Title, Findings, and Declaration of Purpose

A. Special interests have too much power over government. Every year, corporations and unions contribute millions of dollars to politicians, and the public interest is buried beneath the mountain of special-interest spending.

B. Yet, for many years, California’s government has failed its people. Our state is billions of dollars in debt and many local governments are on the verge of bankruptcy. Too often politicians ignore the public’s need in favor of the narrow special interests of corporations, labor unions, and government contractors who make contributions to their campaigns.

C. These contributions yield special tax breaks and public contracts for big business, costly government programs that enrich private labor unions, and unsustainable pensions, benefits, and salaries for public employee union members, all at the expense of California taxpayers.

D. Even contribution limits in some jurisdictions have not slowed the flow of corporate and union political money into the

political process. So much of the money overwhelming California’s politics starts as automatic deductions from workers’ paychecks. Corporate employers and unions often pressure, sometimes subtly and sometimes overtly, workers to give up a portion of their paycheck to support the political objectives of the corporation or union. Their purpose is to amass millions of dollars to gain influence with our elected leaders without any regard for the political views of the employees who provide the money.

E. For these reasons, and in order to curb actual corruption and the appearance of corruption of our government by corporate and labor union contributions, the people of the State of California hereby enact the Stop Special Interest Money Now Act in order to:

1. Ban both corporate and labor union contributions to candidates;
2. Prohibit government contractors from contributing money to government officials who award them contracts;
3. Prohibit corporations and labor unions from collecting political funds from employees and union members using the inherently coercive means of payroll deduction; and
4. Make all employee political contributions by any other means strictly voluntary.

SEC. 2. The Stop Special Interest Money Now Act

Article 1.5 (commencing with Section 85150) is added to Chapter 5 of Title 9 of the Government Code, to read:

Article 1.5. The Stop Special Interest Money Now Act

85150. (a) *Notwithstanding any other provision of law and this title, no corporation, labor union, or public employee labor union shall make a contribution to any candidate, candidate controlled committee; or to any other committee, including a political party committee, if such funds will be used to make contributions to any candidate or candidate controlled committee.*

(b) *Notwithstanding any other provision of law and this title, no government contractor, or committee sponsored by a government contractor, shall make a contribution to any elected officer or committee controlled by any elected officer if such elected officer makes, participates in making, or in any way attempts to use his or her official position to influence the granting, letting, or awarding of a public contract to the government contractor during the period in which the decision to grant, let, or award the contract is to be made and during the term of the contract.*

85151. (a) *Notwithstanding any other provision of law and this title, no corporation, labor union, public employee labor union, government contractor, or government employer shall deduct from an employee’s wages, earnings, or compensation any amount of money to be used for political purposes.*

(b) *This section shall not prohibit an employee from making voluntary contributions to a sponsored committee of his or her employer, labor union, or public employee labor union in any manner, other than that which is prohibited by subdivision (a), so long as all such contributions are given with that employee’s written consent, which consent shall be effective for no more than one year.*

(c) *This section shall not apply to deductions for retirement*

**Revenue and Taxation Policy Committee
Proposition 30, Proposed November Ballot Measure
August, 2012**

Staff: Lobbyist: Dan Carrigg (916) 658-8222

1. Proposition 30: The Schools and Local Public Safety Protection Act of 2012

<http://vig.cdn.sos.ca.gov/2012/general/pdf/text-proposed-laws.pdf>

Summary: This is Governor Jerry Brown’s proposed ballot measure which would temporarily increase taxes for state budget purposes, provide various Constitutional protections for funding for recently enacted realignment programs, and make other related changes.

Initiative Summary:

- 1) State Tax Increases: This measure includes temporary increases to both the state sales tax rate and the personal income tax. The Legislative Analyst Office (LAO) projects this would raise approximately \$6 billion annually during the years when both taxes are in effect¹.
 - a. Sales Tax: ¼ cent for four years (2013-2016). The state sales and use tax rate combined base rate, absent any transactions and use tax add-on rates, would increase from 7.25% to 7.5%. The increase - generating about \$1.4 billion per year - would be effective January 1, 2013 and would last for four years, ending after December 31, 2016.
 - b. Personal Income Tax: Increase on higher marginal brackets for seven years (2012-2018). The additional marginal tax rate on income earned above \$250,000 for single filers, \$500,000 for joint filers and \$340,000 for heads-of-household. These higher rates would apply for the 2012 taxable year for seven years through the 2018 taxable year.
- 2) Allocation of Tax Proceeds: The taxes raised by this measure would be allocated in the following way:
 - a. One-fourth of the revenues (approximately \$1.5 billion) will be deposited into a special account. K-12 schools, county offices of education and charter schools will receive 89% of these revenues, with the remaining 11% allocated to community colleges. The affected entities are provided full discretion on how to spend these funds, but none of these funds may be used for administrative expenses or salaries.²
 - b. The remaining three-quarters of the funds (approximately \$4.5 billion) will be allocated to the General Fund. Due to Proposition 98, schools will receive approximately 40% of

¹ The LAO notes that “the revenues raised by this measure could be subject to multibillion dollar swings” due to the volatility of high income earnings, most of which are tied to investments and business rather than wages and earnings.

² The measure contains other language that clarifies that this allocation equals or exceeds funding for schools and community colleges that would have been provided to schools and community colleges had the state revenues dedicated to local governments for realignment in 2011 been counted as “general proceeds of taxes.” This allocation of funds, therefore, is designed to offset any legal claims schools may have had that the state owed schools money under Proposition 98, when it opted to dedicate approximately \$6 billion in state sales taxes to local agencies to fund realignment. Thus, this allocation to schools can be viewed - less as an augmentation - but rather as making schools whole for the impacts of realignment on school funding under Prop. 98.

this amount (\$1.8 billion), with the remaining \$2.7 billion eligible to be spent for other General Fund purposes³.

- 3) Realignment Provisions: This measure provides protections to state funds allocated to realignment in 2011 of various corrections, health and public safety responsibilities (primarily assigned to counties). Specifically the measure:
- a. Provides, effective July 1, 2011, that funds deposited into the Local Revenue Fund 2011 (these funds are derived from the portion of state sales tax and the (SB 89) VLF dedicated to fund realignment in the 2011-12 budget) are continuously appropriated to fund public safety services. These funds may not supplant other funding for public safety services.
 - b. Provides that the methodology for allocating funds shall be as specified in the 2011 Realignment Legislation⁴.
 - c. Provides that if the taxes dedicated to this purpose “are reduced or cease to be operative” that the Legislature shall annually provide moneys to the Local Revenue Fund 2011 in an equal or greater amount. Provides that if the state fails to annually appropriate that amount, the Controller shall transfer from the General Fund that amount to Local Revenue Fund 2011 in pro-rata monthly shares.
 - d. Provides that the state shall be obligated to provide the above amounts “*for so long as the local agencies are required to perform the Public Safety Services responsibilities assigned by the 2011 Realignment Legislation.*”⁵
 - e. Contains a broad definition of “public safety services” to included employing and training public safety officials; managing local jails and providing housing, treatment for, and the supervision of, juvenile and adult offenders; preventing and providing services for children who are neglected, abused and exploited; providing mental health services to children and adults; and preventing, treating and providing recovery services for substance abuse.
 - f. Provides that local agencies are not eligible for reimbursement (under the existing mandates process) for mandates imposed by the 2011 realignment Legislation –or any regulation, executive order, or administrative directive issued to implement that legislation.
 - g. Eliminates mandate reimbursement payments for the costs of following the open meeting procedures in the Ralph M. Brown Act⁶.
 - h. Provides that regulations, executive orders, or administrative directives that are not necessary to implement 2011 Realignment Legislation, and have the overall effect of increasing costs already borne by a local agency for programs or levels of service mandated by 2011 Realignment Legislation, shall apply only to the extent additional state funding is provided. A similar provision applies to legislation enacted after September 30, 2012.

³ The revenues from the Personal Income Tax are highly volatile, so actual amounts will vary.

⁴ This link back to the specific methodology provides some protection against future legislative changes to amounts allocated for COPS and booking fees.

⁵ This language appears to provide the state with the ability to discontinue a program. For instance, if the state opted to no longer “require” the COPS program and booking fee reimbursements then presumably they would no longer be required to pay local agencies for those programs.

⁶ The elimination to the Brown Act reimbursement requirement is included in a sentence related to realignment, but is captured by the added phrase “*or any other matter.*” Thus, this phrase captures all Brown Act activity, not just activity associated with the realignment.

- i. Prohibits the state from submitting to the federal government plans or waivers that increase costs without providing funding for cost increase; requires the state to pay for 50% of increased costs due to subsequent changes in the federal statutes or regulations relating to 2011 Realignment Legislation; provides that should the state be involved in a complaint in a federal judicial or administrative proceeding and the settlement imposes a cost or increases costs, then state must pay 50% of the nonfederal share.
 - j. Authorizes an appropriate party to seek judicial relief if the state or local agency fails to perform a duty under 2011 realignment Legislation. These proceedings shall take precedence over all other civil matters.
- 4) Conflicting Measures Provision: This measure contains a provision that declares that this measure and another measure that would increase the personal income tax rates on the same ballot are in conflict with each other, and that should this measure receive a greater number of affirmative votes it will prevail over the other measure⁷.

Background:

- 1) Supporter's Arguments: The Governor and other supporters of this measure maintain that after years of cuts, California's public schools, universities and public safety services are at the breaking point, and that this measure is "the only initiative that will protect schools and safety funding and help address the state's chronic budget mess." Further they assert that passage of the measure will avoid an additional \$6 billion in cuts to schools and colleges, guarantees public safety (realignment) funding in the Constitution, and helps balance the state's budget. As for the new tax revenues, they contend that only the highest income earners pay the income tax, all new revenue is temporary, the funds for schools go into a special account the Legislature can't touch, and mandatory audits ensure funds will only be spent for their intended purposes.
- 2) Opponents Arguments: Opponents led by the Howard Jarvis Taxpayers' Association and organizations representing small business argue that this measure presents a "false choice" to the voters: either approve taxes or schools get cut. They cite examples of what they view as state "massive bureaucracy and waste" including the approval of the high-speed rail project and the lack of state budget, pension or education reform. They also contend that this measure does not guarantee additional money for schools and that state politicians can play a "shell game" and move the funding for other purposes.
- 3) Efforts to Reduce State Budget Gaps: In November 2009, the Legislative Analyst forecast ongoing state general fund budget shortfalls of \$15 to \$20 billion per year. The budget gap had been reduced by nearly \$10 billion in the prior budget agreement, but temporary taxes approved in the February 2009 budget agreement expired after 2010-11. Since then, various budgetary actions have brought the budget gap down substantially. In May 2012, the LAO forecast general fund operating shortfalls at \$5 billion to \$10 billion per year, with a \$16 billion shortfall in 2012-13 due to a 2011-12 carry-in shortfall of nearly \$7 billion.

⁷ This provision is designed to apply to Prop. 38, the tax measure which also contains increases in personal income tax dedicated to augmenting school funding, sponsored by Molly Munger. Prop. 38 has a similar provision. If both measures pass, the one with the most affirmative votes prevails.

- 4) 2012 State Budget Agreement. The 2012-13 state general fund spending plan closed the state's budget shortfall with \$16.6 billion in "solutions," and provided a \$948 million reserve. These solutions included:
- \$8.1 billion in state spending reductions, including
 - \$1.2 billion reduction to Medi-Cal,
 - \$528.6 million reductions in state employee compensation,
 - \$469.1 million reduction to CalWORKs welfare-to-work services, and
 - \$52.2 million reduction to the In-Home Supportive Services Program, which provides in-home care for seniors and people with disabilities;
 - \$2.5 billion in loan repayment extensions, transfers from special funds, and other one-time actions; and
 - \$6.0 billion in additional revenues, nearly all from the temporary tax increases in Proposition 30.
- 5) FY2012-13 Trigger Cuts⁸. The 2012 budget agreement contains a list of specific approved budget cuts that will go into effect should Proposition 30 fail. These reductions would take effect on January 1, 2013 and would primarily affect public schools, colleges, and universities. Specifically, the following cuts would be triggered:
- \$4.8 billion from public schools, with schools authorized to reduce the school year from the current minimum of 175 days of instruction to 160 days of instruction in each of 2012-13 and 2013-14;
 - \$550.0 million from the California Community Colleges (CCC), with the CCC chancellor authorized to reduce college enrollment proportionately;
 - \$250.0 million from the University of California;
 - \$250.0 million from the California State University;
 - \$50.0 million from the Department of Developmental Services;
 - \$20.0 million in reduced funding for a new grant program for city police departments⁹;
 - \$10.0 million from the Department of Forestry and Fire Protection;
 - \$6.6 million from flood control programs;
 - \$5.0 million in reduced grants to local law enforcement for water safety patrols;
 - \$3.5 million in reduced funding for Department of Fish and Game wardens and non-warden programs;
 - \$1.5 million in reduced funding for state park rangers and lifeguards at state beaches; and
 - \$1.0 million from the Department of Justice's law enforcement programs.
- 6) 2011 Realignment: As a part of the 2011 budget agreement (FY2011-12), the state transferred responsibilities for several programs to local governments (primarily counties). These programs include incarcerating certain adult offenders, supervising parolees, and providing substance abuse treatment services. The realignment legislation shifts to local agencies of about \$6 billion annually to pay for these new obligations, including a portion of the sales tax and vehicle license fee revenues previously allocated primarily to cities. Proposition 30 places these revenue shifts

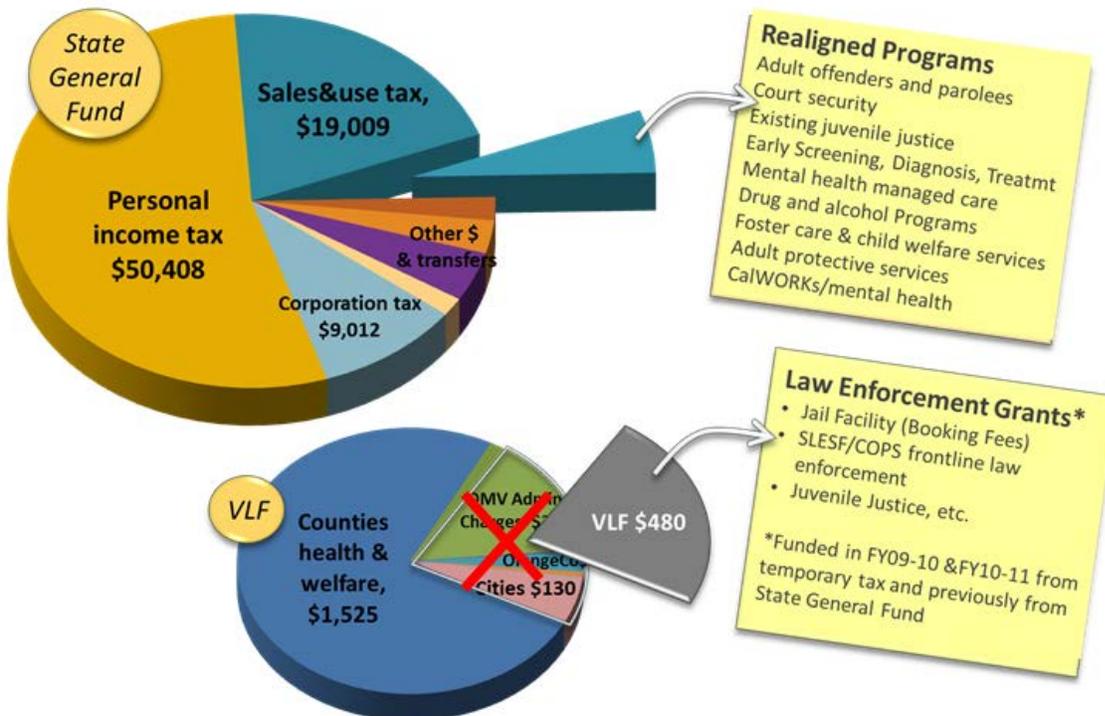
⁸ The Legislature could make alternative reductions in future years and call a special session in the current year to attempt to alter these cuts.

⁹ The Legislature approved this new \$20 million per year budget augmentation for city police, proposed for the next three years. Funds would be distributed in a manner that reflects impacts of realignment. These, funds, however, will disappear if the Governor's measure fails.

into the state Constitution, thereby providing counties with ongoing, dedicated funding to support the realigned programs.

The measure provides counties with protection against certain unanticipated costs. Counties would not be required to implement any future state laws that increase local costs to administer the program responsibilities transferred in 2011, unless the state provided additional money to pay for the increased costs. The state would also be required to pay part of any new local costs that result from certain court actions and changes in federal statutes or regulations related to the transferred program responsibilities. While it provides these funding assurances, the measure also stipulates that the transferred responsibilities are not to be considered mandates subject to reimbursement.

The Realignment of 2011



COPS/SLESA and other Law Enforcement Grant Programs: The 2011 Realignment Legislation provides for state grants to local agencies for various law enforcement programs from the Local Law Enforcement Services Account. These include the Citizens Option for Public Safety (COPS) program which is funded through Supplemental Law Enforcement Services Accounts (SLESA), and Jail Detention Facility grants to county sheriffs which offset local booking fees.

Proposition 30 provides some protection for these programs, when it states: *“The methodology for allocating funds shall be as specified in the 2011 Realignment Legislation.”* [Section 36(c)(1) of Article XIII]. Yet another section provides that the state shall be obligated to provide the above amounts *“for so long as the local agencies are required to perform the Public Safety Services responsibilities assigned by the 2011 Realignment Legislation.”* [Section 36(d) of Article XIII]. This could leave flexibility for the state to alter or repeal these programs in the future.

SB89, AB118 Local Law Enforcement Services Act			
<i>Effective July 1, 2011</i>			
	Apportionment	Allocation FY2011-12	Statutory Reference
Jail Detention Facility Grants		fixed \$ 35,000,000	GovCode 29553(b)
SLESA: jail constr/ops	5.15%	23.54% \$ 11,029,596	GovCode 30061(f)
SLESA: Distr Atty	5.15%	^ \$ 11,029,596	GovCode 30061(f)
SLESA: COPs Frontline Law Enf	39.70%	^ \$ 85,024,267	GovCode 30061(f)
Juvenile Justice Crime Prevention	50.00%	23.54% \$ 107,083,460	GovCode 30061(f)
Small Rural Sheriffs		4.07% \$ 18,514,430	GovCode 30070
Juvenile Probation		33.38% \$ 151,845,620	Welfare&InstCode 18220
Juvenile Camps & Ranches		6.47% \$ 29,432,030	Welfare&InstCode 18220.1
Cal Emergency Mgmt Agency ¹		9.00% \$ 40,941,000	Penal Code 13821
	100.00%	100.00% \$ 489,900,000	^{2,3} GC30027(b), GC30029(e)

1) Includes Cal-MMET, Vertical Prosecution Block Grants, Evidentiary Medical Training, Public Prosecutors and Public Defenders, Calif Gang Violence Suppression, CALGANG, MultiAgency Gang Enforcement Consortium, Rural Crime Prevention, Sexual Assault Felony

2) Note that the quarterly allocation is FOR the \$ collected in the prior quarter. Thus there are 4 quarterly allocations in FY2011-12

3) Gov Code Sec 30027(b) \$489,900,000 to be allocated to the LLESA for FY2011-12 and on. If insufficient funds - balance from LRF.

7) **Brown Act Mandate Reimbursement:** Proposition 30 would eliminate mandate reimbursement payments for the costs of following the open meeting procedures in the Ralph M. Brown Act. The Brown Act requires that all meetings of local legislative bodies be open and public. In the past, the state has reimbursed local governments for certain costs resulting from provisions of the Brown Act. As a part of the 2012 budget agreement, the Legislature made voluntary certain provisions of the Brown Act for three years through FY2014-15. The suspended provisions include:

- o Preparation and posting at least 72 hours before a regular meeting of an agenda that contains a brief general description of each item of business to be transacted or discussed at the meeting. (See Gov. Code § 54954.2(a).)
- o Inclusion on the agenda of a brief general description of all items to be discussed in closed session. (See Gov. Code § 54954.2(a).)
- o Disclosure of each item to be discussed in closed session in an open meeting, prior to any closed session. (See Gov. Code § 54957.7 (a).)
- o Report in open session prior to adjournment on the actions and votes taken in closed session regarding certain subject matters. (See Gov. Code §§ 54957.1(a)(l)-(4), (6); 54957.7 (b).)
- o Provide copies to the public of certain closed session documents. (See Gov. Code § 54957.1 (b)-(c).)

Despite the lack of reimbursement funds, most cities have no intent of reducing public transparency. Recently, the League's board of directors adopted a resolution congratulating cities for their continued faithful compliance with the requirements of the Ralph M. Brown Act. Proposition 30 would effectively make the provisions of the Brown Act mandatory but not reimbursable.

8) **League VLF Litigation:** On Sept. 23, 2011, the League filed a lawsuit in the Sacramento County Superior Court arguing that SB 89 and AB 118 (FY 2011-12 budget bill) violate Proposition 22 (2010) and Proposition 1A (2004). *League of California Cities v. John Chiang and Ana Matosantos* went before Judge Lloyd Connelly, who heard oral arguments in the case this summer. A ruling could be made as early as September.

The League is making two key arguments: 1) It is unconstitutional for the state to earmark these local general purpose VLF revenues for realignment programs, and 2) it is unconstitutional to use VLF revenues to pay for a state mandate. Should the League prevail on the first argument, Proposition 30 would likely nullify that victory, because the allocation of VLF to realignment would be the most recent enacted provision of the constitution. However, should the League prevail on the second “mandate” argument, Prop 30 would not impede this issue, but the issue may need to be relitigated¹⁰.

- 9) Prop 38: Prop. 30 conflicts with Prop. 38, the Tax to Fund Education and Early Childhood Programs. According to the LAO analysis, Prop 38 would raise more revenue, approximately \$10 billion per year and dedicate the majority of that revenue to schools. The funds would be raised from the Personal Income Tax across a much wider range of tax brackets and would be in effect for 12 years rather than seven. Over the first four years, approximately \$3 billion per year would be dedicated to paying debt service on state debt, thus providing some relief for the state General Fund. The LAO analysis of Prop 38 can be found here: <http://vig.cdn.sos.ca.gov/2012/general/pdf/38-title-sum-analysis.pdf>

Fiscal Impact

State: If approved, approximately \$6 billion in additional funding, much of it dedicated to schools. Scheduled trigger cuts would be avoided and other funds (approximately \$2.7 billion) would be available to help close budget gaps.

Local: Counties, and some city public safety funds, would receive some additional protection. The new three-year augmentation for city police would go forward. Local Brown Act mandate reimbursements would not occur in the future.

Existing League Policy

Revenue and Taxation:

- Additional revenue is required in the state/local revenue structure. There is not enough money generated by the current system to meet the requirements of a growing population and deteriorating services and facilities.
- Counties require additional funding if they are to fulfill their state-mandated and traditional roles.
- As legal agents of the state, county expenditures in that capacity should be funded by the state. Their local programs should be financed locally.

Public Safety:

The League supports the promotion of public safety through:

- Stiffer penalties for violent offenders, and
- Protecting Community Oriented Policy Services (COPS) funding and advocating for additional funding for local agencies to recoup the costs of crime and increase community safety.

¹⁰ All the briefs in the League VLF lawsuit have now been submitted by the League and the state and the case is under submission. It could be decided sometime before the November statewide election.

Comments:

- 1) This measure is an outgrowth of a longstanding political debate about the state budget and how to address its chronic deficits. Perceptions of the state's problems and possible solutions often break down along partisan lines. Proponents argue that \$6 billion in new taxes will avoid further cuts to education and stabilize the state budget going forward; opponents contend that more revenue is not the problem and that the state has not managed its finances in a disciplined way. While few would defend the state's fiscal management practices, and city officials have their personal opinions, the League has usually stayed out of the battle of state cuts vs. revenue increases if the discussion did not affect a core city issue. In short, it was up to the legislators and the Governor to settle how to balance the state's budget—as long as they were not looking to city revenues for the solution.
- 2) As city officials attempt to evaluate this measure, the obvious must be acknowledged. The Governor, a sponsor of this measure, has made some recent decisions that have had devastating effects on cities:
 - a. The elimination of redevelopment. This was the most significant tool many cities had to repair deteriorated infrastructure and spur economic development. Cities are still reeling in the aftermath.
 - b. \$130 million in city vehicle license fee revenues were swept in SB 89, without even a public hearing, leaving some recently incorporated cities devastated. These funds were shifted to fund public safety programs like COPS and booking fees that are funded through realignment.

While these actions may have solidified some individual opinions, the League has a history of taking actions and positions on policy grounds.

- 3) The realignment of \$6 billion of state programs primarily to counties in 2011 is a decision that continues to generate much controversy, especially with the potential impacts to local public safety. Counties ultimately supported this proposal because they concurred with the policy rationale that was more efficient to deliver consolidated services at the local level. The major concern they had was that the state funding dedicated to realignment be guaranteed. Earlier this year, counties were considering their own initiative measure to protect realignment funding. While the counties originally drafted a tighter proposal, they ultimately came to an agreement with the Governor on the language included in this measure. Whether or not one agrees with realignment, the policy is unlikely to be reversed in the near future. Thus, some protection for these funds may make sense.
- 4) The potential effect of Prop. 30 on the League's pending litigation obviously has to be weighed. As listed in paragraph (8) above, much depends on what grounds the League would prevail. Also to be recognized and weighed is that Prop 30 does contain support and a level of protection for COPS and booking fee programs which are important to cities, and the new \$20 million program for city police would disappear with the trigger cuts should the measure fail. The League has also supported efforts by the four newly incorporated cities (Wildomar, Menifee, Eastvale and

Jurupa Valley) and 140 annexing cities since 2004 that lost special VLF allocations designed to compensate for inequities in the 2004 VLF – Property Tax Swap. SB 1566, co-authored by Senators Gloria Negrete-McCleod and Bill Emerson, would have restored these special VLF allocations but was held in the Senate Appropriations Committee. Efforts to revive this fix continue at the end of the legislative session.

- 5) The repeal of all mandate reimbursements for the Brown Act has a direct effect on all public agencies. The Legislature recently suspended the Brown Act mandate for three years –meaning the state does not have to pay and locals do not have to perform the mandate. Most cities are too committed to public transparency to consider pulling back, so in the short term this change may not have much effect. State drafters squeezing this state cost-saving provision into this measure is disappointing, but not surprising; what would have been surprising is if the Governor and Legislature had opted to apply the same level of transparency to their own activities.
- 6) If this measure passes, there will be more funding for state services; presumably the state budget gaps will be narrowed if the legislature exercises fiscal discipline. If it fails, the trigger cuts will take effect. Most of the burden will fall heavily on schools, community colleges and universities. The funding guarantees provided for realignment funding would not be achieved. Moreover, the Proposition’s failure would increase the state’s operating budget gap by \$6 billion in subsequent years, increasing pressure for more reductions and fund shifts. The only reduction in the list of “trigger cuts” that directly affects cities is a new \$20 million non-competitive grant program for city police departments, provided for the first time in the 2012-13 budget.

Staff Recommendation: Discussion. This fate of this proposition will affect the next several years of California’s budget and politics; much is at stake. Consistent with its history, if the League takes a position on this measure it should be for substantive policy reasons only.

Support

Education: Academic Senate CSU, Alameda County Office of Education Superintendent Sheila Jordan, Association of California School Administrators (ACSA), California Adult Education Administrators Association, California County of Superintendents Educational Services Association (CCSESA), California Faculty Association, California Federation of Teachers (CFT), California Retired Teachers Association, California School Employees Association (CSEA), **California School Boards Association**¹¹, California State Student Association (CSSA), California State University Board of Trustees, California State University Emeritus and Retired Faculty Association, California Teachers Association (CTA), The Campaign for College Opportunity, Charter Schools Association of California (CCSA), Child Care Alliance of Los Angeles, Community College League of California, Inyo County Office of Education Superintendent Dr. Terence McAteer, Lake County Office of Education Superintendent Wally Holbrook, Los Angeles Community College District, Martinez Unified School District Superintendent Rami Muth, Mono County Office of Education, Napa County Office of Education Superintendent Dr. Barbara Nemko, San Diego Unified School District, San Luis Obispo County Office of Education Superintendent Julian Crocker, Santa Barbara County Education Office Superintendent Bill Cirone, Santa Cruz County Office of Education Superintendent Michael Watkins, Santa Monica-Malibu Unified School District, Sheri Coburn, President-

¹¹ One of two partners with the League in the City-County-School (CCS) Partnership.

elect, Association of California School Administrators, Region VII, Sonoma County Office of Education, Sutter County Superintendent of Schools Bill Cornelius, UAW Local 5810, University of California Regents

Public Safety: California District Attorneys Association (CDA), California State Sheriffs Association, CDF Firefighters, Chief Probation Officers of California, Peace Officers Research Association of California (PORAC)

Community Groups/Business: Alliance of Californians for Community Empowerment (ACCE), Asian Pacific Environmental Network, California Association of Professional Scientists, California Budget Project, California Building Industries Association (CBIA), California Calls, California Democratic Party, California Partnership, **California State Association of Counties (CSAC)**¹², California Young Democrats, Central Coast Alliance United for a Sustainable Economy (CAUSE), CLUE California, Community Coalition for Substance Abuse Prevention and Treatment, Congregations Organized for Prophetic Engagement, Contra Costa County Board of Supervisors, Courage Campaign, Dolores Huerta Foundation, East LA Community Corporation, Equality Alliance, Housing California, Inner City Struggle, Knotts Family and Parenting Institute, League of Women Voters, Middle Class Taxpayers, Mobilize the Immigrant Vote, Oakland Rising, PICO California, San Diego Housing Federation, Santa Clara County Board of Supervisors, Social Action Committee of the Unitarian Universalist Fellowship of Redwood City, Strategic Concepts in Organizing and Policy Education, The Ella Baker Center for Human Rights, Valley Industry and Commerce Association (VICA), Western Center on Law and Poverty, Working Partnerships USA

Healthcare: Aging Services of California, California Hospitals Association, California Medical Association, California Nurses Association, California Primary Care Association (CPCA), Health Access, Planned Parenthood Affiliates of California

Labor Organizations: American Federation of State and Municipal Employees (AFSCME), California Building and Construction Trades Council, California Labor Federation, Communications Workers of America (District 9 AFL-CIO), Laborers International Union, Professional and Technical Engineers (Local 21), San Diego and Imperial Counties Labor Council, AFL-CIO, Service Employees International Union (SEIU), UAW Local 4123, Warehouse Workers United

Opposition:

Organizations: Americans for Prosperity, Antelope Valley Hispanic Chamber of Commerce, Buena park Chamber of Commerce, Calaveras County Taxpayers Association, California Taxpayer Protection Committee, Campaign for Children and Families, Central coast Taxpayers Association; Contra Costa Taxpayers Association, Fresno Chamber of Commerce, Fullerton Association of Concerned Taxpayers, Fullerton Chamber of Commerce, Humboldt County Taxpayers League, Inland Empire Taxpayers Association, Kern County Taxpayers Association, Orange County Taxpayers Association, Sacramento Taxpayers Association, San Diego Tax fighters, San Joaquin Taxpayers Association, Santa Clara Chamber of Commerce, Santa Clarita Valley Chamber of Commerce, Seaside Taxpayers Association, Small business Economic Impact Alliance, Solano county Taxpayers Association

Elected Officials: Allan Songstad, Councilmember, City of Laguna Hills; Andrew Wong, Board Member, Pomona Unified School District; Barry Talbot, Councilmember, City of Canyon Lake; Bob Botts, Councilmember, City of Banning; Bob Whalen, Councilmember, City of Clovis; Carl Hilliard, Mayor, City of

¹² The other partner of the League's in the City-County-School (CCS) Partnership.

Del Mar; Carolyn Cavecche, Mayor, City of Orange; Charlie Klinakis, Councilmember, City of La Puente; Ernie Konnyu, U.S. Representative, Ret.; Frank Bigelow, Supervisor, County of Mariposa; Janice Rutherford Lim, Supervisor, County of San Bernardino; Jesse Petrilla, Councilmember, City of Rancho Santa Margarita; Keith Curry, Mayor Pro Tem, City of Newport Beach; Kevin Hanley, Councilmember, City of Auburn; Leslie Daigle, Councilmember, City of Newport Beach; Linda Fowler, Board of Trustees Member, Twin Rivers Unified School District; Ling Ling Chang, Mayor, City of Diamond Bar; Marie Fellhauer, Councilmember, City of El Segundo; Marshall "Chip" Holloway, Mayor Pro Tem, City of Ridgecrest; Melissa Melendez, Councilmember, City of Lake Elsinore; Mike Reagan, Supervisor, County of Solano; Peter Herzog, Councilmember, City of Lake Forest; Phil Paule, Board of Directors Vice--- President, Eastern Municipal Water District, County of Riverside; Randon Lane, Councilmember, City of Murrieta; Ryan McEachron, Mayor, City of Victorville; Scott Nelson, Councilmember, City of Placentia; Scott Wilk, Board of Trustees Member, Santa Clarita Community College District; Stephen Atchley, Councilmember, City of Pomona; Steve Diels, Councilmember, City of Redondo Beach; Tom King, Councilmember, City of Walnut; Victor Gomez, Councilmember, City of Hollister; Vince House, Councilmember, City of La Puente

Small Businesses: A Plus Tire & Service Inc.; AA Auto Collision Center; AAA Energy Systems, Inc.; ABB Management; Aegis Ins. Markets; AM Beauty Supply; American Revenue Mgmt., Auberry Ford Station; Aztec Rentals Inc.; Baywood Mfg; Bear City Glass; Bob Galli's Auto Repair; Bud's Beach Cities Inc.; Cal Yee Farm LLC; Carlton Tire; Carol Jacoby & Co. Real Estate; Chowchilla Auto Body Works; Coastal Valley Aviation Inc.; Cold Star Ice; Cora Constructors; Cothran Insurance Agency, Inc.; Cottage Floors Inc.; Craig C. Hansen Insurance Service, Inc.; Dana Rochlitz Repair; Davit Dayton Rice Ranch; Dennco; Diamond Pacific Tool Corp; DMS---Varco; Donner Lake Realty; Double D Rentals, Inc.; Doug Sallady Glass & Sash; East Bay Welding Supply Inc.; Energy Operations Management Inc.; Exclusive British European Inc.; Five Star Windows; Frontier Paint; Fruit Palace; Furniture N Mattress City; Glacier Corp.; Glendora Employment; Gomez Construction Inc.; Graeagle Land & Water; Gravance Trucking; Green Mouse Recycling; Greenscape; Gustafson Construction Inc.; HigherGround Personnel Services Inc.; Hydronamio Engineering Corp.; Integrity Automotive; Jere Allan Insurance Agency; JES Corp.; JJJ Ceramic Tile; JLV Insurance Service Inc.; KMS Bearings Inc.; Lindsay Properties; Livermore Valley Medical Billing; Madco Welding Supply; Mark Crawford Logging; Microsurface Corporation; Miller's Auto; Morgan Hill Precision, Inc.; One Stop Smog and Autocare; Oxborrow Enterprises Inc.; Pacific Paper Box Co.; Peterson Grinding; Pivniska Trucking LLC; Positive Machining; Power Transmission and Supply; Prudhomme Family Catering; PSTS Inc.; Rapid Screen Repair; Rice Heating & Air Conditioning; Richter Bros, Inc.; Riddle Ranches Inc.; Rival Well Services Inc.; Romeo Packing Co.; Romex Transport, Inc.; San Benancio Labor; Sandvick Precision Inc.; Sierra Motor Sports; Sinder's Inc.; SMI; Sousa Ready Mix, LLC; Star Home Health Resources Inc.; Surebore Inc.; Taqueria La Estsella Inc.; The Clean Sweep; Tops N Barricades; Torres Performance & Machining LLC; Trinity Lumber; Vaca Valley Excavating and Trucking; Valley Produce Inc.; West Coast Equipment; Western Pacific Roofing Company; Win---Door Service; Zonnec Inc.; Century National Insurance Company; Rand Resources LLC; Revecorp Inc; Snow Orthodontics; The Inside Education Radio Talk Show

Individuals: The opponents list of opposition includes the names of several hundred individuals.

PROPOSITION
30 TEMPORARY TAXES TO FUND EDUCATION.
GUARANTEED LOCAL PUBLIC SAFETY FUNDING.
INITIATIVE CONSTITUTIONAL AMENDMENT.

OFFICIAL TITLE AND SUMMARY

PREPARED BY THE ATTORNEY GENERAL

TEMPORARY TAXES TO FUND EDUCATION. GUARANTEED LOCAL PUBLIC SAFETY FUNDING. INITIATIVE CONSTITUTIONAL AMENDMENT.

- Increases personal income tax on annual earnings over \$250,000 for seven years.
- Increases sales and use tax by ¼ cent for four years.
- Allocates temporary tax revenues 89% to K–12 schools and 11% to community colleges.
- Bars use of funds for administrative costs, but provides local school governing boards discretion to decide, in open meetings and subject to annual audit, how funds are to be spent.
- Guarantees funding for public safety services realigned from state to local governments.

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

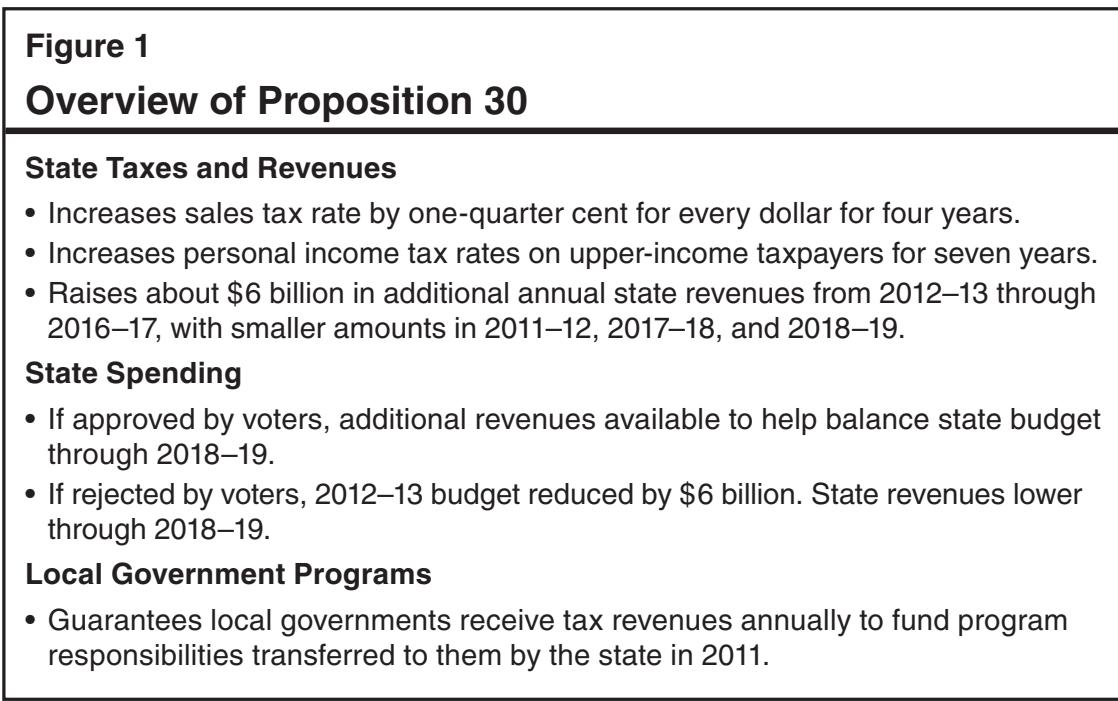
- Additional state tax revenues of about \$6 billion annually from 2012–13 through 2016–17. Smaller amounts of additional revenue would be available in 2011–12, 2017–18, and 2018–19.
- These additional revenues would be available to fund programs in the state budget. Spending reductions of about \$6 billion in 2012–13, mainly to education programs, would not take effect.

ANALYSIS BY THE LEGISLATIVE ANALYST

OVERVIEW

This measure temporarily increases the state sales tax rate for all taxpayers and the personal income tax (PIT) rates for upper-income taxpayers. These temporary tax increases provide additional revenues to pay for programs funded in the state budget. The state’s 2012–13 budget plan—approved by the Legislature and the Governor in June 2012—assumes

passage of this measure. The budget, however, also includes a backup plan that requires spending reductions (known as “trigger cuts”) in the event that voters reject this measure. This measure also places into the State Constitution certain requirements related to the recent transfer of some state program responsibilities to local governments. Figure 1 summarizes the main provisions of this proposition, which are discussed in more detail below.



STATE TAXES AND REVENUES

Background

The General Fund is the state’s main operating account. In the 2010–11 fiscal year (which ran from July 1, 2010 to June 30, 2011), the General Fund’s total revenues were \$93 billion. The General Fund’s three largest revenue sources are the PIT, the sales tax, and the corporate income tax.

Sales Tax. Sales tax rates in California differ by locality. Currently, the average sales tax rate is just over 8 percent. A portion of sales tax revenues goes to the state, while the rest is allocated to local governments. The state General Fund received \$27 billion of sales tax revenues during the 2010–11 fiscal year.

Personal Income Tax. The PIT is a tax on wage, business, investment, and other income of individuals and families. State PIT rates range from 1 percent to 9.3 percent on the portions of a taxpayer’s income in each of several income brackets. (These are referred to as marginal tax rates.) Higher marginal tax rates are charged as income increases. The tax revenue generated from this tax—totaling \$49.4 billion during the 2010–11 fiscal year—is deposited into the state’s General Fund. In addition, an extra 1 percent tax applies to annual income over \$1 million (with the associated revenue dedicated to mental health services).

Proposal

Increases Sales Tax Rate From 2013 Through 2016. This measure temporarily increases the statewide sales tax rate by one-quarter cent for every dollar of goods purchased. This higher tax rate would be in effect for four years—from January 1, 2013 through the end of 2016.

Increases Personal Income Tax Rates From 2012 Through 2018. As shown in Figure 2, this measure increases the existing 9.3 percent PIT rates on higher incomes. The additional marginal tax rates would increase as taxable income increases. For joint filers, for example, an additional 1 percent marginal tax rate would be imposed on income between \$500,000 and \$600,000 per year, increasing the total rate to 10.3 percent. Similarly, an additional 2 percent marginal tax rate would be imposed on income between \$600,000 and \$1 million, and an additional 3 percent marginal tax rate would be imposed on income above \$1 million, increasing the total rates on these income brackets to 11.3 percent and 12.3 percent, respectively. These new tax rates would affect about 1 percent of California PIT filers. (These taxpayers currently pay about 40 percent of state personal income taxes.) The tax rates would be in effect for seven years—

Figure 2

Current and Proposed Personal Income Tax Rates Under Proposition 30

Single Filer’s Taxable Income ^a	Joint Filers’ Taxable Income ^a	Head-of-Household Filer’s Taxable Income ^a	Current Marginal Tax Rate ^b	Proposed Additional Marginal Tax Rate ^b
\$0–\$7,316	\$0–\$14,632	\$0–\$14,642	1.0%	—
7,316–17,346	14,632–34,692	14,642–34,692	2.0	—
17,346–27,377	34,692–54,754	34,692–44,721	4.0	—
27,377–38,004	54,754–76,008	44,721–55,348	6.0	—
38,004–48,029	76,008–96,058	55,348–65,376	8.0	—
48,029–250,000	96,058–500,000	65,376–340,000	9.3	—
250,000–300,000	500,000–600,000	340,000–408,000	9.3	1.0%
300,000–500,000	600,000–1,000,000	408,000–680,000	9.3	2.0
Over 500,000	Over 1,000,000	Over 680,000	9.3	3.0

^a Income brackets shown were in effect for 2011 and will be adjusted for inflation in future years. Single filers also include married individuals and registered domestic partners (RDPs) who file taxes separately. Joint filers include married and RDP couples who file jointly, as well as qualified widows or widowers with a dependent child.

^b Marginal tax rates apply to taxable income in each tax bracket listed. The proposed additional tax rates would take effect beginning in 2012 and end in 2018. Current tax rates listed exclude the mental health tax rate of 1 percent for taxable income in excess of \$1 million.

starting in the 2012 tax year and ending at the conclusion of the 2018 tax year. (Because the rate increase would apply as of January 1, 2012, affected taxpayers likely would have to make larger payments in the coming months to account for the full-year effect of the rate increase.) The additional 1 percent rate for mental health services would still apply to income in excess of \$1 million. Proposition 30's rate changes, therefore, would increase these taxpayers' marginal PIT rate from 10.3 percent to 13.3 percent. Proposition 38 on this ballot would also increase PIT rates. The nearby box describes what would happen if both measures are approved.

What Happens if Voters Approve Both Proposition 30 and Proposition 38?

State Constitution Specifies What Happens if Two Measures Conflict. If provisions of two measures approved on the same statewide ballot conflict, the Constitution specifies that the provisions of the measure receiving more "yes" votes prevail. Proposition 30 and Proposition 38 on this statewide ballot both increase personal income tax (PIT) rates and, as such, could be viewed as conflicting.

Measures State That Only One Set of Tax Increases Goes Into Effect. Proposition 30 and Proposition 38 both contain sections intended to clarify which provisions are to become effective if both measures pass:

- **If Proposition 30 Receives More Yes Votes.** Proposition 30 contains a section indicating that its provisions would prevail in their entirety and none of the provisions of any other measure increasing PIT rates—in this case Proposition 38—would go into effect.
- **If Proposition 38 Receives More Yes Votes.** Proposition 38 contains a section indicating that its provisions would prevail and the tax rate provisions of any other measure affecting sales or PIT rates—in this case Proposition 30—would not go into effect. Under this scenario, the spending reductions known as the "trigger cuts" would take effect as a result of Proposition 30's tax increases not going into effect.

Fiscal Effect

Additional State Revenues Through 2018–19. Over the five fiscal years in which both the sales tax and PIT increases would be in effect (2012–13 through 2016–17), the average annual state revenue gain resulting from this measure's tax increases is estimated at around \$6 billion. Smaller revenue increases are likely in 2011–12, 2017–18, and 2018–19 due to the phasing in and phasing out of the higher tax rates.

Revenues Could Change Significantly From Year to Year. The revenues raised by this measure could be subject to multibillion-dollar swings—either above or below the revenues projected above. This is because the vast majority of the additional revenue from this measure would come from the PIT rate increases on upper-income taxpayers. Most income reported by upper-income taxpayers is related in some way to their investments and businesses, rather than wages and salaries. While wages and salaries for upper-income taxpayers fluctuate to some extent, their investment income may change significantly from one year to the next depending upon the performance of the stock market, housing prices, and the economy. For example, the current mental health tax on income over \$1 million generated about \$730 million in 2009–10 but raised more than twice that amount in previous years. Due to these swings in the income of these taxpayers and the uncertainty of their responses to the rate increases, the revenues raised by this measure are difficult to estimate.

STATE SPENDING

Background

State General Fund Supports Many Public Programs. Revenues deposited into the General Fund support a variety of programs—including public schools, public universities, health programs, social services, and prisons. School spending is the largest part of the state budget. Earlier propositions passed by state voters require the state to provide a minimum annual amount—commonly called the Proposition 98 minimum guarantee—for schools (kindergarten through high school) and community colleges (together referred to as K–14 education). The minimum guarantee is funded through a combination of state General Fund and local property tax revenues. In many years, the calculation of the minimum guarantee is highly sensitive to changes in state General Fund revenues. In years when General Fund revenues grow by a large amount, the guarantee is likely to increase by a large amount. A large share of the state and local funding that is allocated to schools and community colleges is "unrestricted," meaning that they may use the funds for any educational purpose.

Proposal

New Tax Revenues Available to Fund Schools and Help Balance the Budget. The revenue generated by the measure's temporary tax increases would be included in the calculations of the Proposition 98 minimum guarantee—raising the guarantee by billions of dollars each year. A portion of the new revenues therefore would be used to support higher school funding, with the remainder helping

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

to balance the state budget. From an accounting perspective, the new revenues would be deposited into a newly created state account called the Education Protection Account (EPA). Of the funds in the account, 89 percent would be provided to schools and 11 percent to community colleges. Schools and community colleges could use these funds for any educational purpose. The funds would be distributed the same way as existing unrestricted per-student funding, except that no school district would receive less than \$200 in EPA funds per student and no community college district would receive less than \$100 in EPA funds per full-time student.

Fiscal Effect if Measure Is Approved

2012–13 Budget Plan Relies on Voter Approval of This Measure. The Legislature and the Governor adopted a budget plan in June to address a substantial projected budget deficit for the 2012–13 fiscal year as well as projected budget deficits in future years. The 2012–13 budget plan (1) assumes that voters approve this measure and (2) spends the resulting revenues on various state programs. A large share of the revenues generated by this measure is spent on schools and community colleges. This helps explain the large increase in funding for schools and community colleges in 2012–13—a \$6.6 billion increase (14 percent) over 2011–12. Almost all of this increase is used to pay K–14 expenses from the previous year and

reduce delays in some state K–14 payments. Given the large projected budget deficit, the budget plan also includes actions to constrain spending in some health and social services programs, decrease state employee compensation, use one-time funds, and borrow from other state accounts.

Effect on Budgets Through 2018–19. This measure’s additional tax revenues would be available to help balance the state budget through 2018–19. The additional revenues from this measure provide several billion dollars annually through 2018–19 that would be available for a wide range of purposes—including funding existing state programs, ending K–14 education payment delays, and paying other state debts. Future actions of the Legislature and the Governor would determine the use of these funds. At the same time, due to swings in the income of upper-income taxpayers, potential state revenue fluctuations under this measure could complicate state budgeting in some years. After the proposed tax increases expire, the loss of the associated tax revenues could create additional budget pressure in subsequent years.

Fiscal Effect if Measure Is Rejected

Backup Budget Plan Reduces Spending if Voters Reject This Measure. If this measure fails, the state would not receive the additional revenues generated by the proposition’s tax increases. In this situation, the 2012–13 budget plan requires that its spending be reduced by \$6 billion. These trigger cuts, as currently scheduled in state law, are shown in Figure 3. Almost all the reductions are to education programs—\$5.4 billion to K–14 education and \$500 million to public universities. Of the K–14 reductions, roughly \$3 billion is a cut in unrestricted funding. Schools and community colleges could respond to this cut in various ways, including drawing down reserves, shortening the instructional year for schools, and reducing enrollment for community colleges. The remaining \$2.4 billion reduction would increase the amount of late payments to schools and community colleges back to the 2011–12 level. This could affect the cash needs of schools and community colleges late in the fiscal year, potentially resulting in greater short-term borrowing.

Effect on Budgets Through 2018–19. If this measure is rejected by voters, state revenues would be billions of dollars lower each year through 2018–19 than if the measure were approved. Future actions of the Legislature and the Governor would determine how to balance the state budget at this lower level of revenues. Future state budgets could be balanced through cuts to schools or other programs, new revenues, and one-time actions.

Figure 3
2012–13 Spending Reductions if
Voters Reject Proposition 30
(In Millions)

Schools and community colleges	\$5,354
University of California	250
California State University	250
Department of Developmental Services	50
City police department grants	20
CalFire	10
DWR flood control programs	7
Local water safety patrol grants	5
Department of Fish and Game	4
Department of Parks and Recreation	2
DOJ law enforcement programs	1
Total	\$5,951

DWR = Department of Water Resources; DOJ = Department of Justice.

LOCAL GOVERNMENT PROGRAMS

Background

In 2011, the state transferred the responsibility for administering and funding several programs to local governments (primarily counties). The transferred program responsibilities include incarcerating certain adult offenders, supervising parolees, and providing substance abuse treatment services. To pay for these new obligations, the Legislature passed a law transferring about \$6 billion of state tax revenues to local governments annually. Most of these funds come from a shift of a portion of the sales tax from the state to local governments.

Proposal

This measure places into the Constitution certain provisions related to the 2011 transfer of state program responsibilities.

Guarantees Ongoing Revenues to Local Governments. This measure requires the state to continue providing the tax revenues redirected in 2011 (or equivalent funds) to local governments to pay for the transferred program responsibilities. The measure also permanently excludes the sales tax revenues redirected to local governments from the calculation of the minimum funding guarantee for schools and community colleges.

Restricts State Authority to Expand Program

Requirements. Local governments would not be required to implement any future state laws that increase local costs to administer the program responsibilities transferred in 2011, unless the state provided additional money to pay for the increased costs.

Requires State to Share Some Unanticipated Program Costs. The measure requires the state to pay part of any new local costs that result from certain court actions and changes in federal statutes or regulations related to the transferred program responsibilities.

Eliminates Potential Mandate Funding Liability.

Under the Constitution, the state must reimburse local governments when it imposes new responsibilities or “mandates” upon them. Under current law, the state could be required to provide local governments with additional funding (mandate reimbursements) to pay for some of the transferred program responsibilities. This measure specifies that the state would not be required to provide such mandate reimbursements.

Ends State Reimbursement of Open Meeting Act Costs.

The Ralph M. Brown Act requires that all meetings of local legislative bodies be open and public. In the past, the state has reimbursed local governments for costs resulting from certain provisions of the Brown Act (such as the requirement to prepare and post agendas for public meetings). This measure specifies that the state would not be responsible for paying local agencies for the costs of following the open meeting procedures in the Brown Act.

Fiscal Effects

State Government. State costs could be higher for the transferred programs than they otherwise would have been because this measure (1) guarantees that the state will continue providing funds to local governments to pay for them, (2) requires the state to share part of the costs associated with future federal law changes and court cases, and (3) authorizes local governments to refuse to implement new state laws and regulations that increase their costs unless the state provides additional funds. These potential costs would be offset in part by the measure's provisions eliminating any potential state mandate liability from the 2011 program transfer and Brown Act procedures. The net fiscal effect of these provisions is not possible to determine and would depend on future actions by elected officials and the courts.

Local Government. The factors discussed above would have the opposite fiscal effect on local governments. That is, local government revenues could be higher than they otherwise would have been because the state would be required to (1) continue providing funds to local governments to pay for the program responsibilities transferred in 2011 and (2) pay all or part of the costs associated with future federal and state law changes and court cases. These increased local revenues would be offset in part by the measure's provisions eliminating local government authority to receive mandate reimbursements

for the 2011 program shift and Brown Act procedures. The net fiscal effect of these provisions is not possible to determine and would depend on future actions by elected officials and the courts.

SUMMARY

If voters approve this measure, the state sales tax rate would increase for four years and PIT rates would increase for seven years, generating an estimated \$6 billion annually in additional state revenues, on average, between 2012–13 and 2016–17. (Smaller revenue increases are likely for the 2011–12, 2017–18, and 2018–19 fiscal years.) These revenues would be used to help fund the state's 2012–13 budget plan and would be available to help balance the budget over the next seven years. The measure also would guarantee that local governments continue to annually receive the share of state tax revenues transferred in 2011 to pay for the shift of some state program responsibilities to local governments.

If voters reject this measure, state sales tax and PIT rates would not increase. Because funds from these tax increases would not be available to help fund the state's 2012–13 budget plan, state spending in 2012–13 would be reduced by about \$6 billion, with almost all the reductions related to education. In future years, state revenues would be billions of dollars lower than if the measure were approved.

**PROP 30 TEMPORARY TAXES TO FUND EDUCATION.
GUARANTEED LOCAL PUBLIC SAFETY FUNDING.
INITIATIVE CONSTITUTIONAL AMENDMENT.**

★ **ARGUMENT IN FAVOR OF PROPOSITION 30** ★

A Message from the League of Women Voters of California and California Teachers and Law Enforcement Professionals Fellow Californians,

After years of cuts, California's public schools, universities, and public safety services are at the breaking point.

In the last four years alone, our schools have been hit with \$20 billion in cuts, over 30,000 fewer teachers, and class sizes that are among the largest in the country. Our children deserve better.

It's time to take a stand and get California back on track.

Proposition 30, the Schools & Local Public Safety Protection Act, is supported by Governor Jerry Brown, the League of Women Voters and a statewide coalition of leaders from education, law enforcement and business.

There is broad support for Prop. 30 because it's the only initiative that will protect school and safety funding and help address the state's chronic budget mess:

- *Prevents deep school cuts.* Without Prop. 30, our schools and colleges face an additional \$6 billion in devastating cuts this year. Prop. 30 is the *only* initiative that prevents those cuts and provides billions in new funding for our schools starting this year—money that can be spent on smaller class sizes, up-to-date textbooks and rehiring teachers.
- *Guarantees local public safety funding.* Prop. 30 is the *only* measure that establishes a guarantee for public safety funding in our state's constitution, where it can't be touched without voter approval. Prop. 30 keeps cops on the street.
- *Helps balance the budget.* Prop. 30 balances our budget and helps pay down California's debt—built up by years of gimmicks and borrowing. It is a critical step in stopping the budget shortfalls that plague California.

To protect schools and safety, Prop. 30 temporarily increases personal income taxes on the highest earners—couples with incomes over \$500,000 a year—and establishes the sales tax at a rate lower than it was last year.

Prop. 30's taxes are temporary, balanced and necessary to protect schools and safety:

- *Only highest-income earners pay more income tax:* Prop. 30 asks those who earn the most to temporarily pay more income taxes. Couples earning below \$500,000 a year will pay *no* additional income taxes.
- *All new revenue is temporary:* Prop. 30's taxes are temporary, and this initiative *cannot be modified without a vote of the people.* The very highest earners will pay more for seven years. The sales tax provision will be in effect for four years.
- *Money goes into a special account the legislature can't touch:* The money raised for schools is directed into a special fund the legislature can't touch and can't be used for state bureaucracy.
- *Prop. 30 provides for mandatory audits:* Mandatory, independent annual audits will insure funds are spent **ONLY** for schools and public safety.

Join with the League of Women Voters and California teachers and public safety professionals.

Vote YES on Proposition 30.

Take a stand for schools and public safety.

To learn more, visit YesOnProp30.com.

JENNIFER A. WAGGONER, President
League of Women Voters of California
DEAN E. VOGEL, President
California Teachers Association
KEITH ROYAL, President
California State Sheriffs' Association

★ **REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 30** ★

Supporters of Prop. 30 say we either have to approve a huge tax hike or schools get cut.

We all want excellent schools in California, but raising taxes isn't the only way to accomplish this.

The politicians would rather raise taxes instead of streamlining thousands of state funded programs, massive bureaucracy and waste.

Look at what they just did: politicians authorized nearly \$5 billion in California bonds for the "bullet train to nowhere," costing taxpayers \$380 million per year. Let's use those dollars for schools!

Instead, the politicians give us a false choice—raise sales taxes by \$1 billion per year and raise income taxes on small business OR cut schools.

PROP. 30 IS NOT WHAT IT SEEMS: It doesn't guarantee even one new dollar of funding for classrooms.

No on Prop. 30: It allows the politicians to take money currently earmarked for education and spend it on other programs. We'll never know where the money really goes.

No on Prop. 30: It gives the Sacramento politicians a blank check without requiring budget, pension or education reform.

No on Prop. 30: It hurts small businesses and kills jobs.

No on Prop. 30: It's just more money for the Sacramento politicians to keep on spending.

Don't be misled, Prop. 30 is not what it seems. It is just an excuse for Sacramento politicians to take more of your money, while hurting the economy and doing nothing to help education.

Californians are too smart to be fooled: *Vote No on Prop. 30!*

JOEL FOX, President
Small Business Action Committee
JOHN KABATECK, Executive Director
National Federation of Independent Business/California
KENNETH PAYNE, President
Sacramento Taxpayers Association

★ ARGUMENT AGAINST PROPOSITION 30 ★

NO on Prop. 30: It is just a \$50 Billion Political “Shell Game”—But Doesn’t Guarantee New Funds for Schools

The politicians behind Prop. 30 want us to believe that if voters approve Prop. 30’s seven years of massive tax hikes, the new money will go to classrooms. Nothing could be further from the truth.

Prop. 30 allows the politicians to play a “shell game” instead of providing new funding for schools:

- They can take existing money for schools and use it for other purposes and then replace that money with the money from the new taxes. They take it away with one hand and put it back with the other hand. No matter how you move it around, Prop. 30 does not guarantee one penny of new funding for schools.
- Many educators have exposed this flaw and even the California School Boards Association stated that “. . . the Governor’s initiative does not provide new funding for schools.” (May 20, 2012)
- The Wall Street Journal identified the same flaw, stating that “California Governor Jerry Brown is trying to sell his tax hike to voters this November by saying it will go to schools. The dirty little secret is that the new revenues are needed to backfill the insolvent teacher’s pension fund.” Wall Street Journal Editorial, April 22, 2012
- Even the official Title and Summary of Prop. 30 says the money can be used for “. . . paying for other spending commitments.”

In addition, there are no requirements or assurances that any more money actually gets to the classroom and nothing in Prop. 30 reforms our education system to cut waste, eliminate bureaucracy or cut administrative overhead.

NO on Prop. 30—No Reforms

The politicians and special interests behind Prop. 30 want to raise taxes to pay for their out of control spending, but refuse to pass meaningful reforms:

- Special interests and the politicians they control have blocked pension reforms. We have \$500 billion in unfunded pension liabilities in California and still the politicians refuse to enact real reforms.
- The same people have blocked budget reform. The politicians continue to spend more than the state has. Prop. 30 rewards this dangerous behavior by giving them billions of dollars more to spend with no reforms, no guarantee the money won’t be wasted or that it will really get to the classroom.

NO on Prop. 30—Stop the Politician’s Threats

The Governor, politicians and special interests behind Prop. 30 threaten voters. They say “vote for our massive tax increase or we’ll take it out on schools,” but at the same time, they refuse to reform the education or pension systems to save money.

We need to grow our economy to create jobs and cut waste, clean up government, reform our budget process and hold the politicians accountable instead of approving a \$50 billion tax hike on small businesses and working families that doesn’t provide any accountability or guarantee new funding for schools.

NO on Prop. 30—Reforms and Jobs First, Not Higher Taxes

JON COUPAL, President

Howard Jarvis Taxpayers’ Association

TOM BOGETICH, Executive Director (Retired)

California State Board of Education

DOUG BOYD, Member

Los Angeles County Board of Education

★ REBUTTAL TO ARGUMENT AGAINST PROPOSITION 30 ★

After years of cuts, it’s time to draw a line to protect schools and local public safety.

Prop. 30’s **TOUGH FISCAL CONTROLS** insure money is spent **ONLY** on schools and public safety:

- Revenue is guaranteed in the constitution to go into a special account for schools that the *legislature can’t touch*.
- Money will be audited *every year* and can’t be spent on administration or Sacramento bureaucracy.
- Prop. 30 authorizes criminal prosecution for misuse of money.

Our kids deserve better than the most crowded classrooms in the country. Prop. 30 asks the very wealthy to pay their **FAIR SHARE** to keep classrooms open and cops on the street.

- **PREVENTS DEEP SCHOOL CUTS THIS YEAR:** Prop. 30 is the only initiative that prevents \$6 billion in automatic cuts to schools and universities this year. Without Prop. 30, we face a shortened school year, teacher layoffs and steep tuition increases this year.

- **PROVIDES BILLIONS IN NEW SCHOOL FUNDING:** Prop. 30 provides billions in additional funds to reduce class sizes and restore programs like art and PE.
- **PROTECTS LOCAL PUBLIC SAFETY:** Prop. 30 guarantees local public safety funding in the State Constitution and helps save billions in future prison costs.
- **HELPS BALANCE THE BUDGET:** Prop. 30 is part of a long-term solution to balance the state budget.

Teachers, law enforcement, business leaders and Governor Jerry Brown all support Proposition 30 because it’s the only measure that will put California on the road to recovery.

Learn more at www.YesOnProp30.com.

JENNIFER A. WAGGONER, President

League of Women Voters of California

JOSHUA PECHTHALT, President

California Federation of Teachers

SCOTT R. SEAMAN, President

California Police Chiefs Association

PROPOSITION 30

This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure adds a section to the California Constitution; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

THE SCHOOLS AND LOCAL PUBLIC SAFETY PROTECTION ACT OF 2012

SECTION 1. Title.

This measure shall be known and may be cited as “The Schools and Local Public Safety Protection Act of 2012.”

SEC. 2. Findings.

(a) Over the past four years alone, California has had to cut more than \$56 billion from education, police and fire protection, healthcare, and other critical state and local services. These funding cuts have forced teacher layoffs, increased school class sizes, increased college fees, reduced police protection, increased fire response times, exacerbated dangerous overcrowding in prisons, and substantially reduced oversight of parolees.

(b) These cuts in critical services have hurt California’s seniors, middle-class working families, children, college students, and small businesses the most. We cannot afford more cuts to education and the other services we need.

(c) After years of cuts and difficult choices, it is necessary to turn the state around. Raising new tax revenue is an investment in our future that will put California back on track for growth and success.

(d) The Schools and Local Public Safety Protection Act of 2012 will make California’s tax system more fair. With working families struggling while the wealthiest among us enjoy record income growth, it is only right to ask the wealthy to pay their fair share.

(e) The Schools and Local Public Safety Protection Act of 2012 raises the income tax on those at the highest end of the income scale — those who can most afford it. It also temporarily restores some sales taxes in effect last year, while keeping the overall sales tax rate lower than it was in early 2011.

(f) The new taxes in this measure are temporary. Under the California Constitution the 1/4-cent sales tax increase expires in four years, and the income tax increases for the wealthiest taxpayers end in seven years.

(g) The new tax revenue is guaranteed in the California Constitution to go directly to local school districts and community colleges. Cities and counties are guaranteed ongoing funding for public safety programs such as local police and child protective services. State money is freed up to help balance the budget and prevent even more devastating cuts to services for seniors, working families, and small businesses. Everyone benefits.

(h) To ensure these funds go where the voters intend, they are put in special accounts that the Legislature cannot touch. None of these new revenues can be spent on state bureaucracy

or administrative costs.

(i) These funds will be subject to an independent audit every year to ensure they are spent only for schools and public safety. Elected officials will be subject to prosecution and criminal penalties if they misuse the funds.

SEC. 3. Purpose and Intent.

(a) The chief purpose of this measure is to protect schools and local public safety by asking the wealthy to pay their fair share of taxes. This measure takes funds away from state control and places them in special accounts that are exclusively dedicated to schools and local public safety in the state Constitution.

(b) This measure builds on a broader state budget plan that has made billions of dollars in permanent cuts to state spending.

(c) The measure guarantees solid, reliable funding for schools, community colleges, and public safety while helping balance the budget and preventing further devastating cuts to services for seniors, middle-class working families, children, and small businesses.

(d) This measure gives constitutional protection to the shift of local public safety programs from state to local control and the shift of state revenues to local government to pay for those programs. It guarantees that schools are not harmed by providing even more funding than schools would have received without the shift.

(e) This measure guarantees that the new revenues it raises will be sent directly to school districts for classroom expenses, not administrative costs. This school funding cannot be suspended or withheld no matter what happens with the state budget.

(f) All revenues from this measure are subject to local audit every year, and audit by the independent Controller to ensure that they will be used only for schools and local public safety.

SEC. 4. Section 36 is added to Article XIII of the California Constitution, to read:

SEC. 36. (a) For purposes of this section:

(1) “Public Safety Services” includes the following:

(A) Employing and training public safety officials, including law enforcement personnel, attorneys assigned to criminal proceedings, and court security staff.

(B) Managing local jails and providing housing, treatment, and services for, and supervision of, juvenile and adult offenders.

(C) Preventing child abuse, neglect, or exploitation; providing services to children and youth who are abused, neglected, or exploited, or who are at risk of abuse, neglect, or exploitation, and the families of those children; providing adoption services; and providing adult protective services.

(D) Providing mental health services to children and adults to reduce failure in school, harm to self or others, homelessness, and preventable incarceration or institutionalization.

(E) Preventing, treating, and providing recovery services for substance abuse.

(2) “2011 Realignment Legislation” means legislation enacted on or before September 30, 2012, to implement the state budget plan, that is entitled 2011 Realignment and provides for the assignment of Public Safety Services responsibilities to

local agencies, including related reporting responsibilities. The legislation shall provide local agencies with maximum flexibility and control over the design, administration, and delivery of Public Safety Services consistent with federal law and funding requirements, as determined by the Legislature. However, 2011 Realignment Legislation shall include no new programs assigned to local agencies after January 1, 2012, except for the early periodic screening, diagnosis, and treatment (EPSDT) program and mental health managed care.

(b) (1) Except as provided in subdivision (d), commencing in the 2011–12 fiscal year and continuing thereafter, the following amounts shall be deposited into the Local Revenue Fund 2011, as established by Section 30025 of the Government Code, as follows:

(A) All revenues, less refunds, derived from the taxes described in Sections 6051.15 and 6201.15 of the Revenue and Taxation Code, as those sections read on July 1, 2011.

(B) All revenues, less refunds, derived from the vehicle license fees described in Section 11005 of the Revenue and Taxation Code, as that section read on July 1, 2011.

(2) On and after July 1, 2011, the revenues deposited pursuant to paragraph (1) shall not be considered General Fund revenues or proceeds of taxes for purposes of Section 8 of Article XVI of the California Constitution.

(c) (1) Funds deposited in the Local Revenue Fund 2011 are continuously appropriated exclusively to fund the provision of Public Safety Services by local agencies. Pending full implementation of the 2011 Realignment Legislation, funds may also be used to reimburse the State for program costs incurred in providing Public Safety Services on behalf of local agencies. The methodology for allocating funds shall be as specified in the 2011 Realignment Legislation.

(2) The county treasurer, city and county treasurer, or other appropriate official shall create a County Local Revenue Fund 2011 within the treasury of each county or city and county. The money in each County Local Revenue Fund 2011 shall be exclusively used to fund the provision of Public Safety Services by local agencies as specified by the 2011 Realignment Legislation.

(3) Notwithstanding Section 6 of Article XIII B, or any other constitutional provision, a mandate of a new program or higher level of service on a local agency imposed by the 2011 Realignment Legislation, or by any regulation adopted or any executive order or administrative directive issued to implement that legislation, shall not constitute a mandate requiring the State to provide a subvention of funds within the meaning of that section. Any requirement that a local agency comply with Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5 of the Government Code, with respect to performing its Public Safety Services responsibilities, or any other matter, shall not be a reimbursable mandate under Section 6 of Article XIII B.

(4) (A) Legislation enacted after September 30, 2012, that has an overall effect of increasing the costs already borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation shall apply to local agencies only to the extent that the State provides annual funding for the cost increase. Local agencies shall not be obligated to provide

programs or levels of service required by legislation, described in this subparagraph, above the level for which funding has been provided.

(B) Regulations, executive orders, or administrative directives, implemented after October 9, 2011, that are not necessary to implement the 2011 Realignment Legislation, and that have an overall effect of increasing the costs already borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation, shall apply to local agencies only to the extent that the State provides annual funding for the cost increase. Local agencies shall not be obligated to provide programs or levels of service pursuant to new regulations, executive orders, or administrative directives, described in this subparagraph, above the level for which funding has been provided.

(C) Any new program or higher level of service provided by local agencies, as described in subparagraphs (A) and (B), above the level for which funding has been provided, shall not require a subvention of funds by the State nor otherwise be subject to Section 6 of Article XIII B. This paragraph shall not apply to legislation currently exempt from subvention under paragraph (2) of subdivision (a) of Section 6 of Article XIII B as that paragraph read on January 2, 2011.

(D) The State shall not submit to the federal government any plans or waivers, or amendments to those plans or waivers, that have an overall effect of increasing the cost borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation, except to the extent that the plans, waivers, or amendments are required by federal law, or the State provides annual funding for the cost increase.

(E) The State shall not be required to provide a subvention of funds pursuant to this paragraph for a mandate that is imposed by the State at the request of a local agency or to comply with federal law. State funds required by this paragraph shall be from a source other than those described in subdivisions (b) and (d), ad valorem property taxes, or the Social Services Subaccount of the Sales Tax Account of the Local Revenue Fund.

(5) (A) For programs described in subparagraphs (C) to (E), inclusive, of paragraph (1) of subdivision (a) and included in the 2011 Realignment Legislation, if there are subsequent changes in federal statutes or regulations that alter the conditions under which federal matching funds as described in the 2011 Realignment Legislation are obtained, and have the overall effect of increasing the costs incurred by a local agency, the State shall annually provide at least 50 percent of the nonfederal share of those costs as determined by the State.

(B) When the State is a party to any complaint brought in a federal judicial or administrative proceeding that involves one or more of the programs described in subparagraphs (C) to (E), inclusive, of paragraph (1) of subdivision (a) and included in the 2011 Realignment Legislation, and there is a settlement or judicial or administrative order that imposes a cost in the form of a monetary penalty or has the overall effect of increasing the costs already borne by a local agency for programs or levels of service mandated by the 2011 Realignment Legislation, the State shall annually provide at least 50 percent of the nonfederal share of those costs as determined by the State. Payment by the

State is not required if the State determines that the settlement or order relates to one or more local agencies failing to perform a ministerial duty, failing to perform a legal obligation in good faith, or acting in a negligent or reckless manner.

(C) The state funds provided in this paragraph shall be from funding sources other than those described in subdivisions (b) and (d), ad valorem property taxes, or the Social Services Subaccount of the Sales Tax Account of the Local Revenue Fund.

(6) If the State or a local agency fails to perform a duty or obligation under this section or under the 2011 Realignment Legislation, an appropriate party may seek judicial relief. These proceedings shall have priority over all other civil matters.

(7) The funds deposited into a County Local Revenue Fund 2011 shall be spent in a manner designed to maintain the State's eligibility for federal matching funds, and to ensure compliance by the State with applicable federal standards governing the State's provision of Public Safety Services.

(8) The funds deposited into a County Local Revenue Fund 2011 shall not be used by local agencies to supplant other funding for Public Safety Services.

(d) If the taxes described in subdivision (b) are reduced or cease to be operative, the State shall annually provide moneys to the Local Revenue Fund 2011 in an amount equal to or greater than the aggregate amount that otherwise would have been provided by the taxes described in subdivision (b). The method for determining that amount shall be described in the 2011 Realignment Legislation, and the State shall be obligated to provide that amount for so long as the local agencies are required to perform the Public Safety Services responsibilities assigned by the 2011 Realignment Legislation. If the State fails to annually appropriate that amount, the Controller shall transfer that amount from the General Fund in pro rata monthly shares to the Local Revenue Fund 2011. Thereafter, the Controller shall disburse these amounts to local agencies in the manner directed by the 2011 Realignment Legislation. The state obligations under this subdivision shall have a lower priority claim to General Fund money than the first priority for money to be set apart under Section 8 of Article XVI and the second priority to pay voter-approved debts and liabilities described in Section 1 of Article XVI.

(e) (1) To ensure that public education is not harmed in the process of providing critical protection to local Public Safety Services, the Education Protection Account is hereby created in the General Fund to receive and disburse the revenues derived from the incremental increases in taxes imposed by this section, as specified in subdivision (f).

(2) (A) Before June 30, 2013, and before June 30 of each year from 2014 to 2018, inclusive, the Director of Finance shall estimate the total amount of additional revenues, less refunds, that will be derived from the incremental increases in tax rates made in subdivision (f) that will be available for transfer into the Education Protection Account during the next fiscal year. The Director of Finance shall make the same estimate by January 10, 2013, for additional revenues, less refunds, that will be received by the end of the 2012–13 fiscal year.

(B) During the last 10 days of the quarter of each of the first

three quarters of each fiscal year from 2013–14 to 2018–19, inclusive, the Controller shall transfer into the Education Protection Account one-fourth of the total amount estimated pursuant to subparagraph (A) for that fiscal year, except as this amount may be adjusted pursuant to subparagraph (D).

(C) In each of the fiscal years from 2012–13 to 2020–21, inclusive, the Director of Finance shall calculate an adjustment to the Education Protection Account, as specified by subparagraph (D), by adding together the following amounts, as applicable:

(i) In the last quarter of each fiscal year from 2012–13 to 2018–19, inclusive, the Director of Finance shall recalculate the estimate made for the fiscal year pursuant to subparagraph (A), and shall subtract from this updated estimate the amounts previously transferred to the Education Protection Account for that fiscal year.

(ii) In June 2015 and in every June from 2016 to 2021, inclusive, the Director of Finance shall make a final determination of the amount of additional revenues, less refunds, derived from the incremental increases in tax rates made in subdivision (f) for the fiscal year ending two years prior. The amount of the updated estimate calculated in clause (i) for the fiscal year ending two years prior shall be subtracted from the amount of this final determination.

(D) If the sum determined pursuant to subparagraph (C) is positive, the Controller shall transfer an amount equal to that sum into the Education Protection Account within 10 days preceding the end of the fiscal year. If that amount is negative, the Controller shall suspend or reduce subsequent quarterly transfers, if any, to the Education Protection Account until the total reduction equals the negative amount herein described. For purposes of any calculation made pursuant to clause (i) of subparagraph (C), the amount of a quarterly transfer shall not be modified to reflect any suspension or reduction made pursuant to this subparagraph.

(3) All moneys in the Education Protection Account are hereby continuously appropriated for the support of school districts, county offices of education, charter schools, and community college districts as set forth in this paragraph.

(A) Eleven percent of the moneys appropriated pursuant to this paragraph shall be allocated quarterly by the Board of Governors of the California Community Colleges to community college districts to provide general purpose funding to community college districts in proportion to the amounts determined pursuant to Section 84750.5 of the Education Code, as that code section read upon voter approval of this section. The allocations calculated pursuant to this subparagraph shall be offset by the amounts specified in subdivisions (a), (c), and (d) of Section 84751 of the Education Code, as that section read upon voter approval of this section, that are in excess of the amounts calculated pursuant to Section 84750.5 of the Education Code, as that section read upon voter approval of this section, provided that no community college district shall receive less than one hundred dollars (\$100) per full time equivalent student.

(B) Eighty-nine percent of the moneys appropriated pursuant to this paragraph shall be allocated quarterly by the Superintendent of Public Instruction to provide general purpose

funding to school districts, county offices of education, and state general-purpose funding to charter schools in proportion to the revenue limits calculated pursuant to Sections 2558 and 42238 of the Education Code and the amounts calculated pursuant to Section 47633 of the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read upon voter approval of this section. The amounts so calculated shall be offset by the amounts specified in subdivision (c) of Section 2558 of, paragraphs (1) through (7) of subdivision (h) of Section 42238 of, and Section 47635 of, the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read upon voter approval of this section, that are in excess of the amounts calculated pursuant to Sections 2558, 42238, and 47633 of the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read upon voter approval of this section, provided that no school district, county office of education, or charter school shall receive less than two hundred dollars (\$200) per unit of average daily attendance.

(4) This subdivision is self-executing and requires no legislative action to take effect. Distribution of the moneys in the Education Protection Account by the Board of Governors of the California Community Colleges and the Superintendent of Public Instruction shall not be delayed or otherwise affected by failure of the Legislature and Governor to enact an annual budget bill pursuant to Section 12 of Article IV, by invocation of paragraph (h) of Section 8 of Article XVI, or by any other action or failure to act by the Legislature or Governor.

(5) Notwithstanding any other provision of law, the moneys deposited in the Education Protection Account shall not be used to pay any costs incurred by the Legislature, the Governor, or any agency of state government.

(6) A community college district, county office of education, school district, or charter school shall have sole authority to determine how the moneys received from the Education Protection Account are spent in the school or schools within its jurisdiction, provided, however, that the appropriate governing board or body shall make these spending determinations in open session of a public meeting of the governing board or body and shall not use any of the funds from the Education Protection Account for salaries or benefits of administrators or any other administrative costs. Each community college district, county office of education, school district, and charter school shall annually publish on its Internet Web site an accounting of how much money was received from the Education Protection Account and how that money was spent.

(7) The annual independent financial and compliance audit required of community college districts, county offices of education, school districts, and charter schools shall, in addition to all other requirements of law, ascertain and verify whether the funds provided from the Education Protection Account have been properly disbursed and expended as required by this section. Expenses incurred by those entities to comply with the additional audit requirement of this section may be paid with funding from the Education Protection Account, and shall not be considered administrative costs for purposes of this section.

(8) Revenues, less refunds, derived pursuant to subdivision (f) for deposit in the Education Protection Account pursuant to this section shall be deemed "General Fund revenues," "General Fund proceeds of taxes," and "moneys to be applied by the State for the support of school districts and community college districts" for purposes of Section 8 of Article XVI.

(f) (1) (A) In addition to the taxes imposed by Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code, for the privilege of selling tangible personal property at retail, a tax is hereby imposed upon all retailers at the rate of 1/4 percent of the gross receipts of any retailer from the sale of all tangible personal property sold at retail in this State on and after January 1, 2013, and before January 1, 2017.

(B) In addition to the taxes imposed by Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code, an excise tax is hereby imposed on the storage, use, or other consumption in this State of tangible personal property purchased from any retailer on and after January 1, 2013, and before January 1, 2017, for storage, use, or other consumption in this state at the rate of 1/4 percent of the sales price of the property.

(C) The Sales and Use Tax Law, including any amendments enacted on or after the effective date of this section, shall apply to the taxes imposed pursuant to this paragraph.

(D) This paragraph shall become inoperative on January 1, 2017.

(2) For any taxable year beginning on or after January 1, 2012, and before January 1, 2019, with respect to the tax imposed pursuant to Section 17041 of the Revenue and Taxation Code, the income tax bracket and the rate of 9.3 percent set forth in paragraph (1) of subdivision (a) of Section 17041 of the Revenue and Taxation Code shall be modified by each of the following:

(A) (i) For that portion of taxable income that is over two hundred fifty thousand dollars (\$250,000) but not over three hundred thousand dollars (\$300,000), the tax rate is 10.3 percent of the excess over two hundred fifty thousand dollars (\$250,000).

(ii) For that portion of taxable income that is over three hundred thousand dollars (\$300,000) but not over five hundred thousand dollars (\$500,000), the tax rate is 11.3 percent of the excess over three hundred thousand dollars (\$300,000).

(iii) For that portion of taxable income that is over five hundred thousand dollars (\$500,000), the tax rate is 12.3 percent of the excess over five hundred thousand dollars (\$500,000).

(B) The income tax brackets specified in clauses (i), (ii), and (iii) of subparagraph (A) shall be recomputed, as otherwise provided in subdivision (h) of Section 17041 of the Revenue and Taxation Code, only for taxable years beginning on and after January 1, 2013.

(C) (i) For purposes of subdivision (g) of Section 19136 of the Revenue and Taxation Code, this paragraph shall be considered to be chaptered on the date it becomes effective.

(ii) For purposes of Part 10 (commencing with Section 17001) of, and Part 10.2 (commencing with Section 18401) of, Division 2 of the Revenue and Taxation Code, the modified tax brackets and tax rates established and imposed by this

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paragraph shall be deemed to be established and imposed under Section 17041 of the Revenue and Taxation Code.

(D) This paragraph shall become inoperative on December 1, 2019.

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(3) For any taxable year beginning on or after January 1, 2012, and before January 1, 2019, with respect to the tax imposed pursuant to Section 17041 of the Revenue and Taxation Code, the income tax bracket and the rate of 9.3 percent set forth in paragraph (1) of subdivision (c) of Section 17041 of the Revenue and Taxation Code shall be modified by each of the following:

(A) (i) For that portion of taxable income that is over three hundred forty thousand dollars (\$340,000) but not over four hundred eight thousand dollars (\$408,000), the tax rate is 10.3 percent of the excess over three hundred forty thousand dollars (\$340,000).

(ii) For that portion of taxable income that is over four hundred eight thousand dollars (\$408,000) but not over six hundred eighty thousand dollars (\$680,000), the tax rate is 11.3 percent of the excess over four hundred eight thousand dollars (\$408,000).

(iii) For that portion of taxable income that is over six hundred eighty thousand dollars (\$680,000), the tax rate is 12.3 percent of the excess over six hundred eighty thousand dollars (\$680,000).

(B) The income tax brackets specified in clauses (i), (ii), and (iii) of subparagraph (A) shall be recomputed, as otherwise provided in subdivision (h) of Section 17041 of the Revenue and Taxation Code, only for taxable years beginning on and after January 1, 2013.

(C) (i) For purposes of subdivision (g) of Section 19136 of the Revenue and Taxation Code, this paragraph shall be considered to be chaptered on the date it becomes effective.

(ii) For purposes of Part 10 (commencing with Section 17001) of, and Part 10.2 (commencing with Section 18401) of, Division 2 of the Revenue and Taxation Code, the modified tax brackets and tax rates established and imposed by this paragraph shall be deemed to be established and imposed under Section 17041 of the Revenue and Taxation Code.

(D) This paragraph shall become inoperative on December 1, 2019.

(g) (1) The Controller, pursuant to his or her statutory authority, may perform audits of expenditures from the Local Revenue Fund 2011 and any County Local Revenue Fund 2011, and shall audit the Education Protection Account to ensure that those funds are used and accounted for in a manner consistent with this section.

(2) The Attorney General or local district attorney shall expeditiously investigate, and may seek civil or criminal penalties for, any misuse of moneys from the County Local Revenue Fund 2011 or the Education Protection Account.

SEC. 5. Effective Date.

Subdivision (b) of Section 36 of Article XIII of the California Constitution, as added by this measure, shall be operative as of July 1, 2011. Paragraphs (2) and (3) of subdivision (f) of Section 36 of Article XIII of the California Constitution, as added by this measure, shall be operative as of January 1, 2012. All other provisions of this measure shall become operative the day after

the election in which it is approved by a majority of the voters voting on the measure provided.

SEC. 6. Conflicting Measures.

In the event that this measure and another measure that imposes an incremental increase in the tax rates for personal income shall appear on the same statewide ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this measure. In the event that this measure receives a greater number of affirmative votes than a measure deemed to be in conflict with it, the provisions of this measure shall prevail in their entirety, and the other measure or measures shall be null and void.

SEC. 7. This measure provides funding for school districts and community college districts in an amount that equals or exceeds that which would have been provided if the revenues deposited pursuant to Sections 6051.15 and 6201.15 of the Revenue and Taxation Code pursuant to Chapter 43 of the Statutes of 2011 had been considered "General Fund revenues" or "General Fund proceeds of taxes" for purposes of Section 8 of Article XVI of the California Constitution.

PROPOSITION 31

This initiative measure is submitted to the people of California in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure amends and adds sections to the California Constitution and adds sections to the Education Code and the Government Code; 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

The Government Performance and Accountability Act

SECTION 1. Findings and Declarations

The people of the State of California hereby find and declare that government must be:

1. Trustworthy. California government has lost the confidence of its citizens and is not meeting the needs of Californians. Taxpayers are entitled to a higher return on their investment and the public deserves better results from government services.

2. Accountable for Results. To restore trust, government at all levels must be accountable for results. The people are entitled to know how tax dollars are being spent and how well government is performing. State and local government agencies must set measurable outcomes for all expenditures and regularly and publicly report progress toward those outcomes.

3. Cost-Effective. California must invest its scarce public resources wisely to be competitive in the global economy. Vital public services must therefore be delivered with increasing effectiveness and efficiency.

4. Transparent. It is essential that the public's business be public. Honesty and openness promote and preserve the integrity of democracy and the relationship between the people and their government.