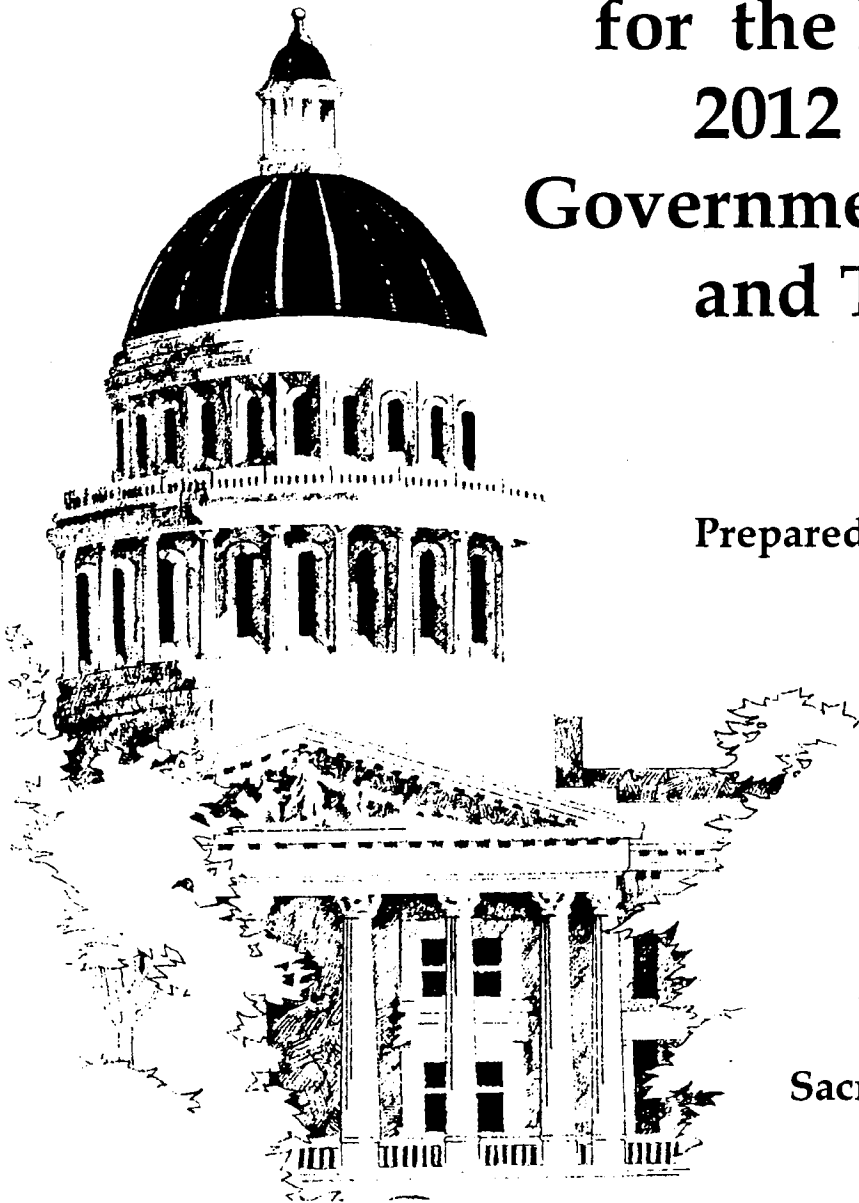




Informational Hearing
Ballot Initiatives
for the November
2012 Election:
Government Reform
and Taxes



Prepared by Hai-Vu Phan

August 8, 2012
State Capitol
Sacramento, California

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**INFORMATIONAL HEARING: BALLOT INITIATIVES FOR
THE NOVEMBER 2012 ELECTION: GOVERNMENT
REFORM AND TAXES**

**AUGUST 8, 2012
9:30 A.M. TO 12:30 P.M.
STATE CAPITOL - ROOM 112**

INTRODUCTION

Pursuant to Elections Code Section 9034, the Legislature must hold public hearings on each qualified initiative at least 30 days before the election. Nothing in the Elections Code Section 9034 may “be construed as authority for the Legislature to alter the initiative measure or prevent it from appearing on the ballot.” In order to qualify for the General Election on November 6, 2012, initiatives that amend state statutes must collect at least 504,760 verified signatures, and initiatives that amend the Constitution must collect at least 807,615 verified signatures, 131 days before their election date.

Four initiatives that qualified for the November Election’s ballot fall under the Senate Governance and Finance Committee’s jurisdiction:

1. “The Schools and Local Public Safety Protection Act of 2012” (Proposition 30) is a Constitutional amendment and initiative statute relating to personal income taxes.
2. “The Government Performance and Accountability Act” (Proposition 31) is a Constitutional amendment and initiative statute relating to government reform.
3. The “Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act” (Proposition 38) is an initiative statute relating to personal income taxes.
4. The “California Clean Energy Jobs Act” (Proposition 39) is an initiative statute relating to corporate income taxes.

This packet has six sections that provide useful information on the four initiatives above.

Section 1: Summaries – provides a summary of each initiative, charts, and a list of useful government reform and tax terms. Those terms are bolded in this document.

Section 2: Legislative Analyses – provides analyses from the Legislative Analyst’s Office that are available to the public on the Secretary of State’s website: <http://www.sos.ca.gov/>.

Section 3: Ballot Arguments – provides the official argument in favor, rebuttal against the argument in favor, argument against, and rebuttal against the argument against each initiative, which are also available to the public on the Secretary of State’s website.

Section 4: Support and Opposition Letters – provides support and opposition letters from the official signers of the ballot arguments who wished to submit additional letters to the Committee.

Section 5: Texts of Proposed Law – provides the full text of each initiative.

Section 6: Written Materials Received by the Committee – provides the written materials that the Committee received during the hearing.

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AGENDA

I. Opening Remarks

Senator Lois Wolk, *Senate Governance and Finance Committee*, Committee Chair

II. Government Reform

A. Proposition 31: "The Government Performance and Accountability Act"

- i. Analyst: Ryan Miller, *Legislative Analyst's Office*, Senior Fiscal and Policy Analyst
- ii. Proponent: Bill Hauck, *California Constitution Revision Commission*, Former Chairman
- iii. Opponent: Lenny Goldberg, *California Tax Reform Association*, Executive Director

B. Public Comment

C. Questions from the Committee

III. Tax Initiatives

Corporate Income Tax

A. Proposition 39: "The California Clean Energy Jobs Act"

- i. Analyst: Tiffany Roberts, *Legislative Analyst's Office*, Senior Fiscal and Policy Analyst
- ii. Proponent: Senator Kevin De Leon, *Yes on 39*, Honorary Co-Chair for the Campaign
- iii. Opponent: Dorothy Rothrock, *California Manufacturers & Technology Association*, Vice President of Government Relations

B. Public Comment

C. Questions from the Committee

Personal Income Tax

A. **Proposition 30:** "The Schools and Local Public Safety Protection Act of 2012"

- i. Analyst: Mark Whitaker, *Legislative Analyst's Office*, Principal Fiscal and Policy Analyst
- ii. Proponent: Trudy Schafer, *League of Women Voters of California*, Senior Director for Program
- iii. Opponent: Jon Coupal, *Howard Jarvis Taxpayers Association*, President

B. Public Comment

C. Questions from the Committee

A. **Proposition 38:** "Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act"

- i. Analyst: Edgar Cabral, *Legislative Analyst's Office*, Principal Fiscal and Policy Analyst
- ii. Proponent: Carol Kocivar, *California State PTA*, President
- iii. Opponent: Dustin Corcoran, *California Medical Association*, Chief Executive Officer

B. Public Comment

C. Questions from the Committee

IV. Closing Remarks

Senator Lois Wolk, *Senate Governance and Finance Committee*, Committee Chair

Section 1:

SUMMARIES

SENATE COMMITTEE ON GOVERNANCE AND FINANCE
**INFORMATIONAL HEARING: BALLOT INITIATIVES FOR THE
 NOVEMBER 2012 ELECTION: GOVERNMENT REFORM AND TAXES**

August 8, 2012

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I. Proposition 30: “The Schools and Local Public Safety Protection Act of 2012”

Proponent	Governor Jerry Brown
Initiative Type	Constitutional amendment and initiative statute
Main Proposals	<ul style="list-style-type: none"> • Sales and use surtax • Sliding-scale personal income tax increase on incomes greater than \$250,000
Goals	Provide funds for realignment, public safety, and K-14 education
Estimated Revenue Increase	\$6 billion/year
Severability	Terms are not severable
Expiration	<ul style="list-style-type: none"> • Sales and use tax rate expires in 2017 • Personal income tax rates expire in 2019

Stated Purpose

“The Schools and Local Public Safety Protection Act of 2012” finds that many cuts to critical services have hurt California’s seniors, middle-class, working families, children, college students, and small businesses the most. To help California, this initiative will temporarily raise the **sales and use tax (SUT)**, which is a tax on the sale and consumption of tangible personal property, for everyone. This Act will also raise the **personal income tax (PIT)**, a tax on the gross income generated by individuals, for the highest income earners in California. This increase in revenue will be used to fund local public services and education.

Realignment and Local Public Safety

This Act requires all revenue collected from the sales and use tax and the vehicle license fee to be deposited in the Local Revenue Fund 2011. Money in this account will be used exclusively to fund local public safety services, as defined, according to the terms in the **2011 Realignment Legislation**, legislation that shifted state program responsibilities and revenues to local governments. The treasurer of each county must create a County Revenue Fund 2011 and use money in that fund according to the terms in the 2011 Realignment Legislation. These funds must not be used to supplant other funding for public safety services. The State is not obligated to reimburse local governments for costs incurred from a new program or an improved service stemming from the 2011 Realignment Legislation, but instead must use the funds for existing purposes. Local agencies are not obligated to provide programs or levels of

service required by legislation enacted after September 30, 2012, or regulations, executive orders, or administrative directives implemented after October 9, 2011, unless the State provides funding for it. The State will not reimburse Local agencies that wish to comply above the level of provided funding. If a federal program causes a cost increase for local governments, the State will provide 50% of the nonfederal share of the cost.

K-14 Education

This Act creates the Education Protection Account. One-fourth of the incremental increase in revenue from the personal income tax increase provided in this Act is deposited into the Education Protection Account. This Act stipulates the formula of how this amount may be adjusted. 11% of money in the Education Protection Account is allocated to the California Community Colleges, while 89% is allocated to public and charter schools. Each school's administration has sole authority to determine how it spends its funds from the Education Protection Account, provided it makes its funds accounting public. Each school is audited each year to ensure it uses its Education Protection Account funds appropriately.

The Controller may audit the Local Revenue Fund 2011 and any County Local Revenue Fund 2011, and must audit the Education Protection Account. The Attorney General or local district attorneys are authorized to seek civil or criminal penalties for misuse of funds.

Tax Changes

This Act places **surtax**, a tax on top of existing tax rates, of 0.25% on the SUT starting in 2013. This surtax will expire in 2017.

Current law imposes a 9.3% tax for all portions of personal income over \$23,950 for non-heads of household. This Act imposes a 10.3% PIT rate for the portion over \$250,000 but not over \$300,000, an 11.3% PIT rate for the portion of taxable income over \$300,000 but not over \$500,000 is 11.3%, and a 12.3% PIT rate for the portion of taxable income over \$500,000 is 12.3%. These tax rates will expire in 2019.

Current law imposes a 9.3% tax on the portion of income over \$32,600 for **heads of household**, who are people considered to be unmarried and pay more than half the cost of maintaining a home. This Act will impose a 10.3% PIT rate for the portion over \$340,000 but not over \$408,000, an 11.3% PIT rate for the portion of taxable income over \$408,000 but not over \$680,000, and a 12.3% PIT rate for the portion of taxable income over \$680,000. These tax rates will expire in 2019.

This Act is estimated to raise about \$6 billion per year in new revenue.

CHART 1: PROPOSITION 30 PROPOSED SURTAX RATES

Sales and Use Tax

Surtax is
0.25%

Personal Income Tax

Non-head of Household		
If the taxable income is		
Over	But not over	Surtax is
\$250,000	\$300,000	1.00%
\$300,000	\$500,000	2.00%
\$500,000	And over	3.00%

Head of Household		
If the taxable income is		
Over	But not over	Surtax is
\$340,000	\$408,000	1.00%
\$408,000	\$680,000	2.00%
\$680,000	And over	3.00%

CHART 2: PROPOSITION 30 CURRENT AND PROPOSED RATES

Sales and Use Tax

Current Rate	New Rate	Surtax is
7.25%	7.50%	0.25%

Personal Income Tax

Non-head of Household							
If the taxable income is							
	Over	But not over	Tax is			Of amount over	Surtax is
	Current Rates	\$0	\$3,650	\$0.00	Plus	1.00%	\$0
\$3,650		\$8,650	\$36.50	Plus	2.00%	\$3,650	0.00%
\$8,650		\$13,650	\$136.50	Plus	4.00%	\$8,650	0.00%
\$13,650		\$18,950	\$336.50	Plus	6.00%	\$13,650	0.00%
\$18,950		\$23,950	\$654.50	Plus	8.00%	\$18,950	0.00%
\$23,950		And over	\$1,054.50	Plus	9.30%	\$23,950	0.00%
New Rates	\$250,000	\$300,000	\$22,077.15	Plus	10.30%	\$250,000	1.00%
	\$300,000	\$500,000	\$27,227.15	Plus	11.30%	\$300,000	2.00%
	\$500,000	And over	\$49,827.15	Plus	12.30%	\$500,000	3.00%

Head of Household							
If the taxable income is							
	Over	But not over	Tax is			Of amount over	Surtax is
	Current Rates	\$0	\$7,300	\$0.00	Plus	1.00%	\$0
\$7,300		\$17,300	\$73.00	Plus	2.00%	\$7,300	0.00%
\$17,300		\$22,300	\$273.00	Plus	4.00%	\$17,300	0.00%
\$22,300		\$27,600	\$473.00	Plus	6.00%	\$22,300	0.00%
\$27,600		\$32,600	\$791.00	Plus	8.00%	\$27,600	0.00%
\$32,600		And over	\$1,191.00	Plus	9.30%	\$32,600	0.00%
New Rates	\$340,000	\$408,000	\$29,779.20	Plus	10.30%	\$340,000	1.00%
	\$408,000	\$680,000	\$36,783.20	Plus	11.30%	\$408,000	2.00%
	\$680,000	And over	\$67,519.20	Plus	12.30%	\$680,000	3.00%

II. Proposition 31: “The Government Performance and Accountability Act”

Proponent	California Forward
Initiative Type	Constitutional amendment and initiative statute
Main Proposals	<ul style="list-style-type: none"> • Legislative process reform • Transparency and mandatory program reviews • Pay-Go legislation • Biennial budget • Performance-based budgeting • Community Strategic Action Plan
Goals	<ul style="list-style-type: none"> • Increase government accountability and transparency • Improve budget process • Empower local governments
Estimated Revenue Increase	None
Severability	Terms are severable
Expiration	None

Stated Purpose

“The Government Performance and Accountability Act” finds and declares that the government must be trustworthy, accountable for results, cost-effective, transparent, focused on results, cooperative, closer to the people, supportive of regional job creation, willing to listen, and thrifty and prudent. This Act is intended to improve the budget process, foster more government transparency and accountability, empower and encourage local government proactivity, and strengthen public participation, all by using the state’s existing resources.

Legislative Process

This Act makes several changes to the Legislative process. It provides that no bill may be passed unless it has been in print with amendments and made available to the public for 3 days, unless it is an urgency bill that addresses a state of emergency declared by the Governor as a result of a natural disaster or a terrorist attack. The Legislature may not pass any bill after June 30 of the second year of the legislative session except bills that take effect immediately. The Legislature may not introduce or consider any bill in the second year of the legislative session that is substantially the same and has the same effect as a bill that has already been introduced.

The Legislature is prohibited from passing a bill that will increase state costs or decrease state revenue by more than \$25,000,000, unless it provides a source that would offset the cost

increase or revenue decrease by an equal or greater amount. This requirement is known as **Pay-Go Legislation**, short for Pay-As-You-Go Legislation. Beginning on the first Monday following July 4 of the second year of the legislative session, the Legislature must conduct program oversight and review of state programs, including the Community Strategic Action Plans created by this Act. Each state program must be reviewed at least once every five years.

If the Governor declares a state fiscal emergency, the Legislature may propose bills to address the fiscal emergency, which will take effect immediately upon enactment. If the Legislature does not pass and send a bill to the Governor by the 45th day following the Governor's declaration of a fiscal emergency, the Governor may, by executive order, reduce or eliminate any General Fund appropriation not required by the Constitution or federal law in order to balance the budget. The Legislature has 20 days to override the Governor's executive order with a 2/3 vote when in session, and 30 days to override the Governor's executive order with a 2/3 vote when not in session.

Budget

This Act requires the Governor and Legislature to pass a **biennial budget**. At the beginning of each odd numbered year, the Governor must propose a budget for the following two fiscal years and identify the total state resources available to cover those expenditures. Within the first 10 days of each even-numbered year, the second year of a 2-year budget, the Governor may submit revisions to the budget. This Act specifies what items must be included in the budget. The Governor must recommend expenditure reductions if expenditures exceed revenue, and the recommendation must include an analysis of its long-term impact on the state economy.

This Act requires the Governor to use Pay-Go Legislation as well. It prohibits the Governor from proposing a budget that will increase state costs or decrease state revenue by more than \$25,000,000, unless the budget provides a source that would offset the cost increase or revenue decrease by an equal or greater amount. The Legislature must hear and vote on the bills that contain the governor's proposed budget. The budget must be balanced and include a statement of the General Fund obligations, a statement of the expected revenue for that year, and an explanation of why it may differ from the previous year. The Governor must submit a plan to the Legislature to implement the **performance-based budgeting** plan so that it can be fully implemented by the 2015-2016 fiscal year.

The Director of Finance (DOF) is required to submit to the Legislature projections of state revenue and expenditures for the biennial budget by May 15, prior to passage of the budget bill. The DOF is also required to submit to the Legislature the total revenues and expenditures

for the budget year and the succeeding fiscal year, and by November 30, is required to submit a fiscal update of actual revenues and expenditures compared to those adopted in the budget.

Community Strategic Action Plan

This Act authorizes a county to form a Community Strategic Action Plan, which is a plan for the county and other participating local governments to achieve their goals, identify their desired outcomes and how those will be measured, and decide a method for reporting their outcomes to the public and the State. Specified local entities, residents, and school districts must approve the Action Plan.

A county with a qualified Action Plan may combine state or local funds for the purpose of providing services provided by the Action Plan. If a statute hinders the Action Plan, or if the county requires more statutory authority to implement the Action Plan, the county may include provisions that are functionally equivalent to statutes if they can justify the need for these provisions in order to achieve their objective. The county must submit these provisions to the Legislature, and if the Legislature does not reject it within 60 days, the provisions will take effect. These provisions will expire in four years unless they are renewed. Similar rules apply to regulations that a local government deems impedes its Action Plan. Counties, cities, and city and county, and any other local government entity may, by a two-thirds vote, enter into contracts to apportion their revenue from ad valorem property taxes. The State can enter into contracts with a county to help it with its Action Plan. Counties must evaluate their Action Plan at least once every 4 years.

The Performance and Accountability Trust Fund is created in the State Treasury to provide funding to qualified Action Plans. 0.035% of the sales and use tax revenue is deposited into the Performance and Accountability Trust Fund. The Controller must distribute funds to each county with an Action Plan based on the number of people who will be served under the Action Plan. If schools receive funds from the Action Plan, this fund will not be used to reduce the state's funding obligation to these schools.

* Assembly Constitutional Amendment No. 4 (ACA 4, 2009-10), which will appear on the election ballot on November, 4, 2014, amends the same Constitutional sections as this initiative and is consistent with the goals of this initiative.

III. Proposition 38: “Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act”

Proponent	Molly Munger, The Advancement Project
Initiative Type	Initiative statute
Main Proposals	<ul style="list-style-type: none"> • Sliding-scale personal income surtax • California Education Trust Fund
Goals	<ul style="list-style-type: none"> • Provide funds for K-12 and early care education • Improve accountability and transparency in school budgeting • Bond debt repayment
Estimated Revenue Increase	\$10 billion/year
Severability	Terms are severable
Expiration	2024

Stated Purpose

The “Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act” finds that California lags behind the rest of the nation in student investment and class sizes, and that its early childhood care program is also underserving eligible children. This Act imposes a graduated tax rate on top of the current income tax rates, with a higher rate for higher income earners, in order to revitalize schools. It encourages more accountability, transparency, and community involvement in public education spending. This Act also allocates a portion of the new surtax revenue to alleviate the State’s current bond debt so that the State can issue more bonds if necessary, which the Act asserts that the ability to issue bonds will help keep education funds, along with other funds, stable in times of economic trouble.

California Education Trust Fund (CETF)

This Act creates the California Education Trust Fund (CETF) in the State Treasury. CETF funds cannot be used to pay administrative costs or transferred to the General Fund. CETF must be used to supplement, not supplant, any existing federal, state, and local funds for education. No CETF funds may be used to increase salary or benefits of personnel.

In addition, this Act creates the Fiscal Oversight Board, which consists of the State Controller, State Auditor, State Treasurer, Attorney General, and Director of Finance. The Board’s purpose is to ensure that funds are appropriately allocated and spent. Its administrative costs are paid using funds from the CETF, provided that such payments do not exceed specified amounts. The Fiscal Oversight Board is required to publish a list of the amount of funds each local education agency (LEA) received from the CETF.

No later than 6 months following the end of the fiscal year, the Fiscal Oversight Board must have an independent audit of the CETF and publish its findings on its website. Each LEA is required to submit a form to the Fiscal Oversight Board each year. Any party who knowingly uses the funds inappropriately will be investigated, and if found guilty, charged with felony.

Bond debt

For the first 4 years after this Act is implemented, 30% of all revenue is allocated to pay for bond debts. The Education Debt Service Fund is created to receive this revenue and all excess CETF funds. Money in the Education Debt Service Fund is used to pay off education bonds first, then child healthcare and general obligation bonds. Starting in 2017, all revenue generated by this Act is to be used for educational purposes.

Education

K-12

For the first 4 years after this Act is implemented, 70% of all new revenue generated by this Act will be used as specified in the Act for education funding. After 2017, 100% of all new revenue generated by this Act will be used for education funding.

Of the money in the CETF going towards education, 85% is allocated to K-12 schools. Funds are allocated on a per-pupil basis, with students in the higher grades receiving more money than students in the lower grades, but students in the same grade receive the same amount. Of the funds allocated to K-12 schools, 70% is used for student spending. 18% of those funds are evenly distributed among all low-income students, defined as students that qualify for a free lunch. 12% of those funds are used for training, technology, and teaching material grants, also on a per pupil basis. At least 90% of all funds allocated to an LEA must be spent within one year. Each LEA is allowed to carry over 10% of its allocated funds to the next year, while amounts in excess of the 10% are redistributed to other LEAs in need of funding.

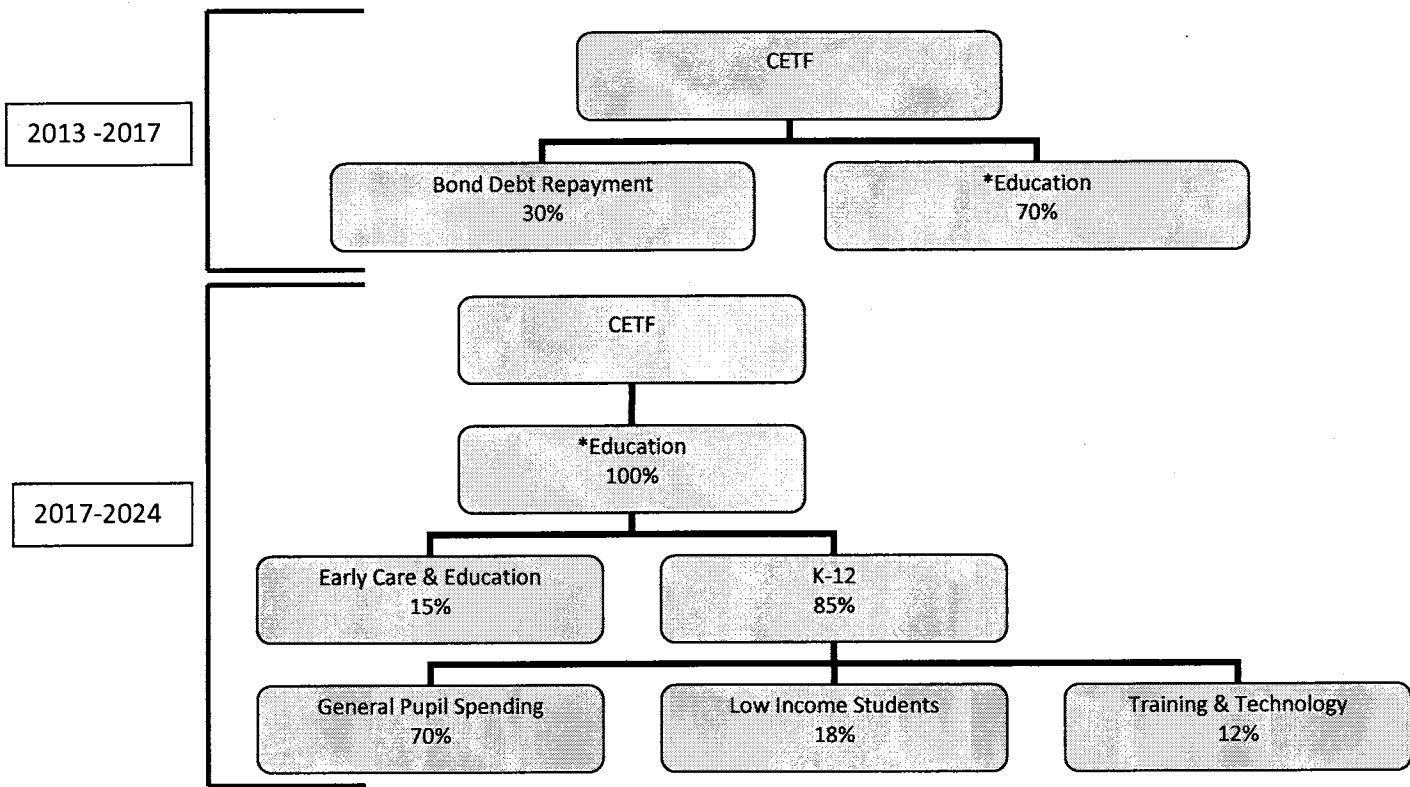
Each LEA is required to create a separate account for CETF funds it receives, called the California Education Trust Fund account. LEAs must annually publish on their websites an account of how their CETF funds were spent, the last year's expenditures, and the current year's budget. Only the governing board of an LEA has authority to decide how funds are spent. Each year, each LEA's governing board is required to hold a public hearing about how the funds are spent and why, then another public hearing to receive input from the school's community about their budget decisions.

Early Care and Education (Birth to Pre-School)

Of the money in the CETF going towards education, 15% is allocated to the State Superintendent to distribute to early care and education programs. The Act specifies amounts to be used on specified early care and education (ECE) programs. Amounts in excess of the

stipulated ECE expenses are deposited into an account that strengthens and expands ECE programs, called "SAE funds." This Act also specifies how SAE funds are allocated in order to establish and maintain the California Early Head Start program and preschool programs. Funds are distributed based on an area's income, with the lowest median income areas receiving funds first. The Early Learning Advisory Council (ELAC) is required to create the Early Learning Quality and Rating and Improvement System (QRIS), which is a voluntary quality rating scale, intended to help ECE providers increase the quality of their program.

CHART 3: ALLOCATION OF CETF FUNDS



*Funds designated to education for 2013-2017 are divided into the same percentages as funds designated to education for 2017-2024.

Tax Changes

This Act imposes surtax on the current personal income tax rates to generate revenue for the CETF. The surtax rates are graduated, with higher income earners paying a higher surtax. All revenue generated from this surtax must be deposited into the CETF fund and allocated as prescribed by this Act. The lowest surtax rate begins at 0.40% for non-heads of household earning over \$7,316 and heads of household earning over \$14,642. The highest surtax rate is

2.20% for non-heads of household earning over \$2,500,000 and heads of household earning over \$3,402,944. The surtax calculation is according to the following chart.

This Act is estimated to raise about \$10 billion per year in new revenue.

CHART 4: PROPOSITION 38 PROPOSED SURTAX RATES

Personal Income Tax

Non-head of Household		
If the taxable income is		
Over	But not over	Surtax is
\$0	\$7,316	0.00%
\$7,316	\$17,346	0.40%
\$17,346	\$27,377	0.70%
\$27,377	\$38,004	1.10%
\$38,004	\$48,029	1.40%
\$48,029	100,000	1.60%
\$100,000	\$250,000	1.80%
\$250,000	\$500,000	1.90%
\$500,000	\$1,000,000	2.00%
\$1,000,000	\$2,500,000	2.10%
\$2,500,000	And over	2.20%

Head of Household		
If the taxable income is		
Over	But not over	Surtax is
\$0	\$14,642	0.00%
\$14,642	\$34,692	0.40%
\$34,692	\$44,721	0.70%
\$44,721	\$55,348	1.10%
\$55,348	\$65,376	1.40%
\$65,376	\$136,118	1.60%
\$136,118	\$340,294	1.80%
\$340,294	\$680,589	1.90%
\$680,589	\$1,361,178	2.00%
\$1,361,178	\$3,402,944	2.10%
\$3,402,944	And over	2.20%

CHART 5: PROPOSITION 38 CURRENT AND PROPOSED RATES

Personal Income Tax

Non-head of Household				
If the taxable income is				
Over	But not over	Current rates		Of amount over
		Tax is	Plus	
\$0	\$3,650	\$0.00	1.00%	\$0
\$3,650	\$8,650	\$36.50	2.00%	\$3,650
\$8,650	\$13,650	\$136.50	4.00%	\$8,650
\$13,650	\$18,950	\$336.50	6.00%	\$13,650
\$18,950	\$23,950	\$654.50	8.00%	\$18,950
\$23,950	And over	\$1,054.50	9.30%	\$23,950
Plus				
If the taxable income is				
Over	But not over	New rates		Of amount over
		Tax is	Plus	
\$0	\$7,316	\$0	0.00%	\$0
\$7,316	\$17,346	\$0	0.40%	\$7,316
\$17,346	\$27,377	\$40	0.70%	\$17,346
\$27,377	\$38,004	\$110	1.10%	\$27,377
\$38,004	\$48,029	\$227	1.40%	\$38,004
\$48,029	\$100,000	\$368	1.60%	\$48,029
\$100,000	\$250,000	\$1,199	1.80%	\$100,000
\$250,000	\$500,000	\$3,899	1.90%	\$250,000
\$500,000	\$1,000,000	\$8,649	2.00%	\$500,000
\$1,000,000	\$2,500,000	\$18,649	2.10%	\$1,000,000
\$2,500,000	And over	\$50,149	2.20%	\$2,500,000

Head of Household				
If the taxable income is				
Over	But not over	Current rates		Of amount over
		Tax is	Plus	
\$0	\$7,300	\$0.00	1.00%	\$0
\$7,300	\$17,300	\$73.00	2.00%	\$7,300
\$17,300	\$22,300	\$273.00	4.00%	\$17,300
\$22,300	\$27,600	\$473.00	6.00%	\$22,300
\$27,600	\$32,600	\$791.00	8.00%	\$27,600
\$32,600	And over	\$1,191.00	9.30%	\$32,600
Plus				
If the taxable income is				
Over	But not over	New rates		Of amount over
		Tax is	Plus	
\$0	\$14,642	\$0	0.00%	\$0
\$14,642	\$34,692	\$0	0.40%	\$14,642
\$34,692	\$44,721	\$80	0.70%	\$34,692
\$44,721	\$55,348	\$150	1.10%	\$44,721
\$55,348	\$65,376	\$267	1.40%	\$55,348
\$65,376	\$136,118	\$408	1.60%	\$65,376
\$136,118	\$340,294	\$1,540	1.80%	\$136,118
\$340,294	\$680,589	\$5,215	1.90%	\$340,294
\$680,589	\$1,361,178	\$11,680	2.00%	\$680,589
\$1,361,178	\$3,402,944	\$25,292	2.10%	\$1,361,178
\$3,402,944	And over	\$68,169	2.20%	\$3,402,944

CHART 6: WHAT HAPPENS IF VOTERS APPROVE BOTH PROP 30 AND 38?

According to the Legislative Analyst's Office:

State Constitution specifies what happens if two measures conflict.

If provisions of two measures approved on the same 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.

The 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.

Proposition 30 Conflict Measure Language

"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."

Proposition 38 Conflict Measure Language

"(a) In the event that this measure and another measure or measures amending the California personal income tax rate for any taxpayer or group of taxpayers, or amending the rate of tax imposed on retailers for the privilege of selling tangible personal property at retail, or amending the rate of excise tax imposed on the storage, use or other consumption in this state of tangible personal property purchased from any retailer for storage, use or other consumption in this state, shall appear on the same statewide election ballot, the rate-amending provisions of the other measure or measures and all provisions of that measure that are funded by its rate-amending provisions, shall be deemed to be in conflict with this measure. In the event that this measure receives a greater number of affirmative votes than any such other measure, the rate-amending provisions of the other measure, and all provisions of that measure that are funded by its rate-amending provisions, shall be null and void, and the provisions of this measure shall prevail instead.

(b) Conflicts between other provisions not subject to subdivision (a) of this section shall be resolved pursuant to article II, section 10, subdivision (b) of the California Constitution."

IV. Proposition 39: “The California Clean Energy Jobs Act”

Proponent	Tom Steyer, Californians for Clean Energy & Jobs
Initiative Type	Statute initiative
Main Proposals	<ul style="list-style-type: none"> • Mandatory single sales factor • Investment in clean energy
Goals	<ul style="list-style-type: none"> • Acquire funds for the clean energy market • Retrofit schools and public buildings to be more energy efficient • Create jobs
Estimated Revenue Increase	\$1.1 billion/year
Severability	Terms are not severable
Expiration	<ul style="list-style-type: none"> • Fund transfers to Clean Energy expire in 2018 • Mandatory single sales factor does not expire

Stated Purpose

“The California Clean Energy Jobs Act” finds and declares that California is currently undergoing a recession that has resulted in many job cuts, but its current tax code discourages corporations from locating jobs in California. According to the Legislative Analyst’s Office, by taxing corporations on how much of their total sales occur in California, the state can increase revenue and create 40,000 new jobs. The additional revenue can create even more jobs if it is invested in the clean energy market, as well as increase energy efficiency in California. By adding revenue into the General Fund, there would also be more available funds for education.

Clean Energy

Between 2013 and 2018, a sum of five hundred fifty million dollars (\$550,000,000) will be transferred from the General Fund to the Clean Energy Job Creation Fund, created by this measure, which will be used to improve energy efficiency and expand clean energy generation. Specifically, funds will be used to retrofit schools and public facilities to improve energy efficiency, provide job training and workforce development, and support public-private partnerships. If the increased revenue does not equal one billion one hundred million dollars (\$1,100,000,000), half of the total revenue will be transferred to the Job Creation Fund.

This Act creates the Citizens Oversight Board, composed of nine members appointed by the State Treasurer, State Controller, and the Attorney General whose expertise may contribute to the effective execution of energy projects. The Citizens Oversight board ensures that the funds are used appropriately, audits projects, and evaluates the projects’ cost effectiveness.

This Act stipulates that existing state and local governments with expertise in energy shall select projects. Projects must be selected based on in-state job creation and energy benefits. All projects must be cost effective, be subject to audit, and be selected in coordination with the

California Energy Commission and the California Public Utilities Commission to avoid duplication. Program overhead costs cannot exceed 4% of total funding.

Tax Changes

Currently, California has a **corporate income tax**, which is a tax on the gross income generated by a corporation, with an elective single sales factor apportionment method. Corporations can elect between two formulas to calculate their annual corporate income tax. The first formula is called the **3-factor formula**, which uses the proportion of the corporation’s property, payroll, and sales that occur in California, to calculate the corporation’s tax liability. The second formula is called the **single sales factor formula**, which uses only the proportion of the corporation’s sales that occurs in California, to calculate the corporation’s tax liability.

This Act repeals the elective system for the corporate income tax on December 1, 2013. This Act requires that all corporations considered to be doing business in California use the single sales factor formula to calculate their corporate income tax. A corporation is “doing business” in California if it actively engages in any transaction for the purpose of making a profit. Specifically, a corporation is considered to be doing business in California if its sales exceed \$500,000 or 25% of its total sales; its property exceeds \$50,000 or 25% of its total property value; or its wages and compensation exceed \$50,000 or 25% of its total compensation take place in California. For qualified taxpayers and qualified groups, as defined, only 50% of its qualified sales in the State are used to calculate its tax.

This Act is estimated to raise about \$1.1 billion per year in new revenue.

CHART 7: CALIFORNIA'S CORPORATE INCOME TAX FORMULAS

<p>California currently has an elective system for corporate income tax. Corporations can choose between using the 3-factor formula or the single sales factor formula to calculate their state tax liability. Proposition 39 would require that all corporations use the single sales factor formula.</p>	
<p>3-Factor Formula</p>	<p>Single Sales Factor Formula</p>
<p>Unqualified Corporation</p> $income \times \frac{property + payroll + 2(sales)}{4}$	<p>$income \times sales$</p>
<p>*Qualified Corporation</p> $income \times \frac{property + payroll + sales}{3}$	
<p>* A qualified corporation is a corporation that engages mostly in the agriculture, extractive, business and loans, or finance industries</p>	

CHART 8: TAX INITIATIVES COMPARISON

	Net Revenue	Tax Source	Spending	Rate Change	Tax Reform	Severability	Expiration
Proposition 30 (Schools and Public Safety)	\$6 billion/year	Sales and Use →	Public Safety →	Yes	No	No	SUT: 2017
		Personal Income →	Education (K-14) →				PIT: 2019
Proposition 38 (Schools, Early Education, and Bond Reduction)	\$10 billion/year	Personal Income →	Education (K-12) →	Yes	No	Yes	2024
Proposition 39 (Clean Energy)	\$1.1 billion/year	Corporate Income	Clean Energy ↗	No	Mandatory Single Sales Factor	No	Fund Transfers to Clean Energy: 2018
			Public Facilities ↘				Education ↘

VI. GLOSSARY

1. **2011 Realignment Legislation** – legislation that shifted state program responsibilities and revenues to local governments. These programs include fire, juvenile justice, public safety, mental health, foster care, and child welfare programs.
2. **3-factor formula** – method of calculating a corporation’s income subject to state corporate taxes based on the percentage of the corporation’s property, compensation, and sales that occur in the state.
3. **Biennial budgeting** – budgeting method whereby the budget is calculated over two years. In general, under biennial budgeting, states enact separate budgets for each of two fiscal years, but do so at the same time. True biennial budgeting—enacting a single two-year budget—is rare. Biennial budgeting is intended to improve the planning horizon for departments, from one year to two years, although states typically adjust budget decisions during the second year of the two-year biennium.
4. **Corporate income tax** – tax on the gross income generated by a corporation.
5. **Gross income** – all income, regardless of source, including but not limited to wages, salary, bonuses, interest, dividends, business income, rents, royalties, alimony, pensions and annuities, and income tax refunds.
6. **Head of household** – a person considered to be unmarried and pay more than half the cost of keeping up a home.
7. **Pay-Go legislation** – stands for “pay-as-you-go,” is a budget rule that requires changes in policy or programming, whether they increase costs or decrease revenues, to include provisions to cover those costs. Costs are typically covered through commensurate expenditure reductions in other parts of the budget, or through revenue increases. As implemented by the Federal Government through the Budget Enforcement Act of 1990, which has now expired, legislation needed to be “funded” over an agreed upon period of time, which typically consisted of the budget year, and a number of years beyond the budget year. Congress initially established Pay-Go as federal law. More recently it has been established as a procedural rule.
8. **Performance based budgeting** – similar to program budgeting but are constructed with a focus on program goals and objectives. They are measured by short-term outputs, projected longer term outcomes, and cost/benefits analysis. Appropriations are not only linked with programs, but also with expected results specified by these performance criteria.
9. **Personal income tax** – tax on the gross income generated by individuals.
10. **Sales tax** – tax applied to the purchase of tangible goods.
11. **Single sales factor formula**– method of calculating a corporation’s income subject to state corporate taxes based on the percentage of the corporation’s sales that occur in the state.
12. **Surtax** – a tax levied on top of another tax.
13. **Use tax** – the companion to the sales tax, which applies to the use, storage, or consumption of a good.

Section 2: LEGISLATIVE ANALYSES

Proposition 30
Temporary Taxes to Fund Education. Guaranteed Local Public Safety Funding. Initiative Constitutional Amendment.

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.

Figure 1 Overview of Proposition 30
State Taxes and Revenues <ul style="list-style-type: none">• Increases sales tax rate by one-quarter cent for every dollar for four years.• Increases personal income tax rates on upper-income taxpayers for seven years.• Raises about \$6 billion in additional annual state revenues from 2012-13 through 2016-17, with smaller amounts in 2011-12, 2017-18, and 2018-19.
State Spending <ul style="list-style-type: none">• If approved by voters, additional revenues available to help balance state budget through 2018-19.• If rejected by voters, 2012-13 budget reduced by \$6 billion. State revenues lower through 2018-19.
Local Government Programs <ul style="list-style-type: none">• Guarantees local governments receive tax revenues annually to fund program responsibilities transferred to them by the state in 2011.

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—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.

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.

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 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.

Figure 3	
2012-13 Spending Reductions If Voters Reject Proposition 30	
<i>(In Millions)</i>	
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.

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.

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.

Proposition 31
State Budget. State and Local Government.
Initiative Constitutional Amendment and Statute.

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.

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.

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.

Fiscal Effects

In addition to the shift of the \$200 million described above, 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.

Proposition 38
Tax for Education and Early Childhood Programs. Initiative Statute.

OVERVIEW

This measure raises personal income taxes on most California taxpayers from 2013 through 2024. The revenues raised by this tax increase would be spent on public schools, child care and preschool programs, and state debt payments. Each of the measure's key provisions is discussed in more detail below.

STATE TAXES AND REVENUES

Background

Personal Income Tax (PIT). 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 for 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 PIT Rates. This measure increases state PIT rates on all but the lowest income bracket, effective over the 12-year period from 2013 through 2024. As shown in Figure 1, the additional marginal tax rates would increase with each higher tax bracket. For example, for joint filers, an additional 0.7 percent marginal tax rate would be imposed on income between \$34,692 and \$54,754, increasing the total rate to 4.7 percent. Similarly, an additional 1.1 percent marginal

tax rate would be imposed on income between \$54,754 and \$76,008, increasing the total rate to 7.1 percent. These higher tax rates would result in higher tax liabilities on roughly 60 percent of state PIT returns. (Personal, dependent, senior, and other tax credits, among other factors, would continue to eliminate all tax liabilities for many lower-income tax filers even if they have income in a bracket affected by the measure's rate increases.) The additional 1 percent rate for mental health services would still apply to income in excess of \$1 million. This measure's rate changes, therefore, would increase these taxpayers' marginal PIT rates from 10.3 percent to as much as 12.5 percent. Proposition 30 on this ballot also would increase PIT rates. The nearby box describes what would happen if both measures are approved.

Figure 1
Current and Proposed Personal Income Tax Rates Under Proposition 38

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	0.4%
17,346-27,377	34,692-54,754	34,692-44,721	4.0	0.7
27,377-38,004	54,754-76,008	44,721-55,348	6.0	1.1
38,004-48,029	76,008-96,058	55,348-65,376	8.0	1.4
48,029-100,000	96,058-200,000	65,376-136,118	9.3	1.6
100,000-250,000	200,000-500,000	136,118-340,294	9.3	1.8
250,000-500,000	500,000-1,000,000	340,294-680,589	9.3	1.9
500,000-1,000,000	1,000,000-2,000,000	680,589-1,361,178	9.3	2.0
1,000,000-2,500,000	2,000,000-5,000,000	1,361,178-3,402,944	9.3	2.1
Over 2,500,000	Over 5,000,000	Over 3,402,944	9.3	2.2

^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. For example, a single tax filer with taxable income of \$15,000 could have had a 2011 tax liability under current tax rates of \$227: the sum of \$73 (which equals 1 percent of the filer's first \$7,316 of income) and \$154 (2 percent of the filer's income over \$7,316). This tax liability would be reduced—and potentially eliminated—by personal, dependent, senior, and other tax credits, among other factors. The proposed additional tax rates would take effect beginning in 2013 and end in 2024. Current tax rates listed exclude the mental health tax rate of 1 percent for taxable income in excess of \$1 million.

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. (See the analysis of Proposition 30 for more information on the trigger cuts.)

Provides Funds for Public Schools, Early Care and Education (ECE), and Debt Service.

The revenues raised by the measure would be deposited into a newly created California Education Trust Fund (CETF). These funds would be dedicated exclusively to three purposes. As shown in Figure 2, in 2013-14 and 2014-15, the measure allocates 60 percent of CETF funds to schools, 10 percent of funds to ECE programs, and 30 percent of funds to make state debt payments. In 2015-16 and 2016-17, the same general allocations are authorized but a somewhat higher share could be used for state debt payments. This is because beginning in 2015-16, the measure: (1) limits the growth in total allocations to schools and ECE programs based on the average growth in California per capita personal income over the previous five years and (2) dedicates the funds collected above the growth rate to state debt payments. From 2017-18 through 2023-24, up to 85 percent of CETF funds would go to schools and up to 15 percent would go to ECE programs, with revenues in excess of the growth rate continuing to be used for state debt payments.

Figure 2			
Allocation of Revenues Raised by Proposition 38			
	2013-14	2014-15	2015-16 to 2023-24
Schools	60%	60%	85%
Early Care and Education (ECE)	10	10	15
State debt payments	30	30 ^a	— ^a
Totals	100%	100%	100%
Growth limit on allocations to schools and ECE programs ^a	No	Yes	Yes

^a Reflects minimum share dedicated to state debt payments. Revenues beyond growth limit also would be used to make debt payments.

Cannot Be Amended by the Legislature. If adopted by voters, this measure could be amended only by a future ballot measure. The Legislature would be prohibited from making any modifications to the measure without voter approval.

Fiscal Effect

Around \$10 Billion of Additional Annual State Revenues. In the initial years—beginning in 2013-14—the annual amount of additional state revenues raised would be around \$10 billion. (In 2012-13, the measure would result in additional state revenues of about half this amount.) The total revenues generated would tend to grow over time. Revenues generated in any particular year, however, could be much higher or lower than the prior year. This is mainly because the measure increases tax rates more for upper-income taxpayers. The income of these individuals tends to swing more significantly because it is affected to a much greater extent by changes in the stock market, housing prices, and other investments. Due to the 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.

SCHOOLS

Background

Most Public School Funding Tied to State Funding Formula. California provides educational services to about 6 million public school students. These students are served through more than 1,000 local educational agencies—primarily school districts. Most school funding is provided through the state's school funding formula—commonly called the Proposition 98 minimum guarantee. (Community college funding also applies toward meeting the minimum guarantee.) The minimum guarantee is funded through a combination of state General Fund and local property tax revenues. In 2010-11, schools received \$43 billion from the school funding formula.

Most School Spending Decisions Are Made by Local Governing Boards. Roughly 70 percent of state-related school funding can be used for any educational purpose. In most

cases, the school district governing board decides how the funds should be spent. The governing board typically will determine the specific activities for which the funds will be used, as well as how the funds will be distributed among the district's school sites. The remaining 30 percent of funds must be used for specified purposes, such as serving school meals or transporting students to and from school. School districts typically have little flexibility in how to use these restricted funds.

Proposal

Under this measure, schools will receive roughly 60 percent of the revenues raised by the PIT rate increases through 2016-17 and roughly 85 percent annually thereafter. These CETF funds would be in addition to Proposition 98 General Fund support for schools. The funds support three grant programs. The measure also creates spending restrictions and reporting requirements related to these funds. These major provisions are discussed in more detail below.

Distributes School Funds Through Three Grant Programs. Proposition 38 requires that CETF school funds be allocated as follows:

- *Educational Program Grants (70 Percent of Funds).* The largest share of funds—70 percent of all CETF school funding—would be distributed based on the number of students at each school. The specific per-student grant, however, would depend on the grade of each student, with schools receiving more funds for students in higher grades. Educational program grants could be spent on a broad range of activities, including instruction, school support staff (such as counselors and librarians), and parent engagement.

- ***Low-Income Student Grants (18 Percent of Funds).*** The measure requires that 18 percent of CETF school funds to be allocated at one statewide rate based on the number of low-income students (defined as the number of students eligible for free school meals) enrolled in each school. As with the educational program grants, low-income student grants could be spent on a broad range of educational activities.
- ***Training, Technology, and Teaching Materials Grants (12 Percent of Funds).*** The remaining 12 percent of funds would be allocated at one statewide rate based on the number of students at each school. The funds could be used only for training school staff and purchasing up-to-date technology and teaching materials.

Requires Funds Be Spent at Corresponding School Sites. Funds received by school districts from this measure must be spent at the specific school whose students generated the funds. In the case of low-income student grants, for example, if 100 percent of low-income students in a school district were located in one particular school, all low-income grant funds would need to be spent at that specific school. As with most other school funding, however, the local governing board would determine how CETF funds are spent at each school site. To ensure that Proposition 38 funds would result in a net increase in funding for all schools, the measure also would require school districts to make reasonable efforts to avoid reducing per-student funding from non-CETF sources at each school site below 2012-13 levels. If a school district reduces the per-student funding for any school site below the 2012-13 level, it must explain the reasons for the reduction in a public meeting held at or near the school.

Requires School Districts to Seek Public Input Prior to Making Spending Decisions. Proposition 38 also requires school district governing boards at an open public hearing to seek

input from students, parents, teachers, administrators, and other school staff on how to spend CETF school funds. When the governing board decides how to spend the funds, it must explain—publicly and online—how CETF school expenditures will improve educational outcomes and how those improved outcomes will be measured.

Creates Budget Reporting Requirements for Each School. The measure also includes several reporting requirements for school districts. Most notably, beginning in 2012-13, the measure requires all school districts to create and publish an online budget for each of their schools. The budget must show funding and expenditures at each school from all funding sources, broken down by various spending categories. The state Superintendent of Public Instruction must provide a uniform format for budgets to be reported and must make all school budgets available to the public, including data from previous years. In addition, school districts must provide a report on how CETF funds were spent at each of their schools within 60 days after the close of the school year.

Other Allowances and Prohibitions. The measure allows up to 1 percent of a school district's allocation to be spent on budgeting, reporting, and audit requirements. The measure prohibits CETF school funds from being used to provide salary or benefit increases unless the increases are provided to other like employees that are funded with non-CETF dollars. The measure also has a provision that prohibits CETF school monies from being used to replace state, local, or federal funding provided as of November 1, 2012.

Fiscal Effect

Provides Additional Funding for Schools. In the initial years, schools would receive roughly \$6 billion annually, or \$1,000 per student, from the measure. Of that amount, \$4.2 billion would

be provided for education program grants, \$1.1 billion for low-income student grants, and \$700 million for training, technology, and teaching materials grants. (The 2013-14 amounts would be higher because the funds raised in 2012-13 also would be available for distribution.) The amounts available in future years would tend to grow over time. Beginning in 2017-18, the amount spent on schools would increase further as the amount required to be used for state debt payments decreases significantly.

EARLY CARE AND EDUCATION

Background

ECE Programs Serve Children Ages Five and Younger. Prior to attending kindergarten—which usually starts at age five—most California children attend some type of ECE program. Families participate in these programs for a variety of reasons, including supervision of children while parents are working and development of a child's social and cognitive skills. Programs serving children ages birth to three typically are referred to as infant and toddler care. Programs serving three to five year-old children often are referred to as preschool and typically have an explicit focus on helping prepare children for kindergarten. Whereas all programs must meet basic health and safety standards to be licensed by the state, the specific characteristics of programs—including staff qualifications, adult-to-child ratios, curriculum, family fees, and cost of care—vary.

Some Children Are Eligible for Subsidized ECE Services. While many families pay to participate in ECE programs, public funds also subsidize services for some children. These subsidies generally are reserved for families that are low income, participate in welfare-to-work programs or other work or training activities, and/or have children with special needs. Generally,

eligibility for ECE subsidies is limited to families that earn 70 percent or less than the state median income level (for example, currently the limit is \$3,518 per month for a family of three). The state pays a set per-child rate to providers for subsidized ECE "slots." The payment rate varies by region of the state and care setting. It typically is about \$1,000 per month for full-time infant/toddler care and \$700 per month for full-time preschool.

Current Funding Levels Do Not Subsidize ECE Programs for All Eligible Children. In 2010-11, state and federal funds provided roughly \$2.6 billion to offer a variety of child care and preschool programs for approximately 500,000, or about 15 percent, of California children ages five and younger. Roughly half of all California children, however, meet income eligibility criteria for subsidized programs. Because state and federal ECE funding is not sufficient to provide subsidized services for all eligible children, waiting lists are common in most counties.

Proposal

As noted earlier, ECE programs will receive roughly 10 percent of the revenues raised by the PIT rate increases through 2016-17 and roughly 15 percent annually thereafter. The measure provides specific allocations of these funds, as summarized in Figure 3. As shown in the top part of the figure, up to 23 percent of the funds raised for ECE programs would be dedicated to restoring recent state budget reductions to child care slots and provider payment rates as well as implementing certain statewide activities designed to support the state's ECE system. The remaining ECE funds, shown in the bottom part of the figure, would expand child care and preschool programs to serve more children from low-income families and increase payment rates for certain ECE providers. The measure also prohibits the state from reducing existing support for ECE programs. Specifically, the state would be required to spend the same proportion of state

General Fund revenues for ECE programs in future years as it is spending in 2012-13 (roughly 1 percent). As described in more detail below, the measure includes extensive provisions relating to: (1) a rating system for evaluating ECE programs, (2) preschool, and (3) infant and toddler care.

Figure 3	
Proposition 38's Early Care and Education (ECE) Provisions	
"Restoration and System Improvement"	
<i>Program Restorations</i> —Partially restores state budget reductions made to existing subsidized ECE programs since 2008-09. Restorations would include serving more children, increasing how much a family can earn and still be eligible for benefits, and increasing state per-child payment rates.	19.4%
<i>Rating System</i> —Establishes system to assess and publicly rate ECE programs based on how they contribute to children's social/emotional development and academic preparation.	2.6
<i>ECE Database</i> —Establishes statewide database to collect and maintain information about children who attend state-funded ECE programs. Would include details about a child's ECE program as well as his/her performance on a kindergarten readiness assessment. Would be linked to state's K-12 database.	0.6
<i>Licensing Inspections</i> —Increases how frequently ECE programs receive health and safety inspections from the state licensing agency.	0.3
Subtotal	(23.0%)
"Strengthen and Expand ECE Programs"	
<i>Services for Children Ages Three to Five</i> —Expands subsidized preschool to more children from low-income families, prioritizing services in low-income neighborhoods.	51.6%
<i>Services for Children Ages Birth to Three</i> —Establishes new California Early Head Start program to provide child care and family support for young children from low-income families.	16.6
<i>Provider Payment Rates</i> —Provides supplemental per-child payments to state-subsidized ECE programs that receive higher scores on new rating scale, with most funding targeted for preschool programs. Also increases the existing per-child payment rate for all licensed state-subsidized ECE programs serving children ages birth to 18 months.	8.9
Subtotal	(77.0%) ^b
Total	100.0%
^a Because the amount dedicated to restoration and system improvement is capped at \$355 million, a slightly lower share of funding would go toward these activities and a slightly higher share toward strengthening and expanding ECE programs when the measure's debt service payments cease in 2017-18.	
^b Not more than 3 percent of these funds can be used for state-level administrative costs. Not more than 15 percent of funding allocated to ECE providers can be used for facility costs.	

Establishes Statewide Rating System to Assess the Quality of Individual ECE Programs.

The measure requires the state to implement an “Early Learning Quality Rating and Improvement System” (QRIS) to assess the effectiveness of individual ECE programs. Building on initial work the state already has undertaken, the state would have until January 2014 to develop a scale to evaluate how well programs contribute to children’s social and emotional development and academic preparation. All ECE programs could choose to be rated on this scale, and ratings would be available to the public. The state also would develop a training program to help providers improve their services and increase their ratings. Additionally, Proposition 38 would provide supplemental payments—on top of existing per-child subsidy rates—to child care and preschool programs that achieve higher scores on the QRIS scale.

Provides Preschool to More Children from Low-Income Families. Proposition 38 expands the number of slots available in state-subsidized preschool programs located in neighborhoods with high concentrations of low-income families. Funding to offer these new slots would only be available to preschool providers with higher quality ratings. Funding would be allocated to providers based on the estimated number of eligible children living in the targeted neighborhoods who do not currently attend preschool. (At least 65 percent of these new slots must be in programs that offer full-day, full-year services.) Program participation would be limited to children meeting existing family income eligibility criteria, with highest priority given to certain at-risk children (including those in foster care).

Establishes New Program for Infants and Toddlers from Low-Income Families.

Proposition 38 establishes the California Early Head Start (EHS) Program, modeled after the federal program of the same name. Up to 65 percent of funding for this program would offer

both child care and family support services to low-income families with children ages birth to three. (At least 75 percent of these new slots must be for full-day, full-year care.) At least 35 percent of EHS funding would provide support services for families and caregivers not participating in the child care component of the program. In both cases, family support services could include home visits from program staff, assessments of child development, family literacy programs, and parent and caregiver training.

Fiscal Effect

Provides Additional Funding to Support and Expand ECE Programs. In the initial years, roughly \$1 billion annually from the measure would be used for the state's ECE system. (The 2013-14 amount would be higher because the funds raised in 2012-13 also would be available for distribution.) The majority of funding would be dedicated to expanding child care and preschool—serving roughly an additional 10,000 infants/toddlers and 90,000 preschoolers in the initial years of implementation. The amount available in future years would tend to grow over time. Beginning in 2017-18, the amount spent on ECE programs would increase further as the amount required to be used for state debt payments decreases significantly.

STATE DEBT PAYMENTS

Background

General Obligation Bond Debt Payments. Bond financing is a type of long-term borrowing that the state uses to raise money, primarily for long-lived infrastructure (including school and university buildings, highways, streets and roads, land and wildlife conservation, and water-related facilities). The state obtains this money by selling bonds to investors. In exchange, the state promises to repay this money, with interest, according to a specified schedule. The majority of the state's bonds are general obligation bonds, which must be approved by the voters and are

guaranteed by the state's general taxing power. General obligation bonds are typically paid off with annual debt-service payments from the General Fund. In 2010-11, the state made \$4.7 billion in general obligation bond debt-service payments. Of that amount, \$3.2 billion was to pay for debt service on school and university facilities.

Proposal

At Least 30 Percent of Revenues for Debt-Service Relief Through 2016-17. Until the end of 2016-17, at least 30 percent of Proposition 38 revenues would be used by the state to pay debt-service costs. The measure requires that these funds first be used to pay education debt-service costs (pre-kindergarten through university school facilities). If, however, funds remain after paying annual education debt-service costs, the funds can be used to pay other state general obligation bond debt-service costs.

Limits Growth of School and ECE Allocations Beginning 2015-16, Uses Excess Funds for Debt-Service Payments. Beginning in 2015-16, total CETF allocations to schools and ECE programs could not increase at a rate greater than the average growth in California per capita personal income over the previous five years. The CETF monies collected in excess of this growth rate also would be used for state debt payments. (The measure provides an exception for 2017-18, given the changes in the revenue allocations.)

Fiscal Effect

General Fund Savings of Roughly \$3 Billion Annually Through 2016-17. Until the end of 2016-17, at least 30 percent of the revenue raised by the measure—roughly \$3 billion annually—would be used to pay general obligation debt-service costs and provide state General Fund

savings. This would free up General Fund revenues for other public programs and make it easier to balance the budget in these years.

Potential Additional General Fund Savings Beginning in 2015-16. The measure's growth limit provisions also would provide General Fund savings in certain years. The amount of any savings would vary from year to year depending on the growth of PIT revenue and per capita personal income but could be several hundred million dollars annually.

Proposition 39
Tax Treatment for Multistate Businesses.
Clean Energy and Energy Efficiency Funding. Initiative Statue.

Background

State Corporate Income Taxes. The amount of money a business owes the state in corporate income taxes each year is based on the business' taxable income. For a business that operates both in California and in other states or countries (a multistate business), the state taxes only the part of its income that was associated with California. While only a small portion of corporations are multistate in nature, multistate corporations pay the vast majority of the state's corporate income taxes. This tax is the state's third largest General Fund revenue source, raising \$9.6 billion in 2010-11.

Multistate Businesses Choose How Their Taxable Income Is Determined. Currently, state law allows most multistate businesses to pick one of two methods to determine the amount of their income associated with California and taxable by the state:

- *“Three-Factor Method” of Determining Taxable Income.* One method uses the location of the company's sales, property, and employees. When using this method, the more sales, property, or employees the multistate business has in California, the more of the business' income is subject to state tax.
- *“Single Sales Factor Method” of Determining Taxable Income.* The other method uses only the location of the company's sales. When using this method, the more sales the multistate business has in California, the more of the business' income is taxed. (For example, if one-fourth of a company's product was sold in California and

the remainder in other states, one-fourth of the company's total profits would be subject to California taxation.)

Multistate businesses generally are allowed to choose the method that is most advantageous to them for tax purposes.

Energy Efficiency Programs. There are currently numerous state programs established to reduce energy consumption. These efforts are intended to reduce the need to build new energy infrastructure (such as power plants and transmission lines) and help meet environmental quality standards. For example, the California Public Utilities Commission (CPUC) oversees various types of energy efficiency upgrade and appliance rebate programs that are funded by monies collected from utility ratepayers. In addition, the California Energy Commission (CEC) develops building and appliance standards that are intended to reduce energy consumption in the state.

School Funding Formula. Proposition 98, passed by voters in 1988 and modified in 1990, requires a minimum level of state and local funding each year for public schools and community colleges (hereafter referred to as schools). This funding level is commonly known as the Proposition 98 minimum guarantee. Though the Legislature can suspend the guarantee and fund at a lower level, it typically decides to provide funding equal to or greater than the guarantee. The Proposition 98 guarantee can grow with increases in state General Fund revenues (including those collected from state corporate income taxes). Accordingly, a measure—such as this one—that results in higher revenues also can result in a higher school funding guarantee. Proposition 98 expenditures are the largest category of spending in the state's budget—totaling roughly 40 percent of state General Fund expenditures.

Proposal

Eliminates Ability of Multistate Businesses to Choose How Taxable Income Is

Determined. Under this measure, starting in 2013, multistate businesses would no longer be allowed to choose the method for determining their state taxable income that is most advantageous for them. Instead, most multistate businesses would have to determine their California taxable income using the single sales factor method. Businesses that operate only in California would be unaffected by this measure.

This measure also includes rules regarding how all multistate businesses calculate the portion of some sales that are allocated to California for state tax purposes. These include a set of specific rules for certain large cable companies.

Provides Funding for Energy Efficiency and Alternative Energy Projects. This measure establishes a new state fund, the Clean Energy Job Creation Fund, to support projects intended to improve energy efficiency and expand the use of alternative energy. The measure states that the fund could be used to support: (1) energy efficiency retrofits and alternative energy projects in public schools, colleges, universities, and other public facilities; (2) financial and technical assistance for energy retrofits; and (3) job training and workforce development programs related to energy efficiency and alternative energy. The Legislature would determine spending from the fund and be required to use the monies for cost-effective projects run by agencies with expertise in managing energy projects. The measure also (1) specifies that all funded projects must be coordinated with CEC and CPUC and (2) creates a new nine-member oversight board to annually review and evaluate spending from the fund.

The Clean Energy Job Creation Fund would be supported by some of the new revenue raised by moving to a mandatory single sales factor. Specifically, half of the revenues so raised—up to a maximum of \$550 million—would be transferred annually to the Clean Energy Job Creation Fund. These transfers would occur for only five fiscal years—2013-14 through 2017-18.

Fiscal Effects

Increase in State Revenues. As shown in the top line in Figure 1, this measure would increase state revenues by around \$1 billion annually starting in 2013-14. (There would be a roughly half-year impact in 2012-13.) The increased revenues would come from some multistate businesses paying more taxes. The amounts generated by this measure would tend to grow over time.

Figure 1 Estimated Effects of Proposition 39 on State Revenues and Spending			
	2012-13	2013-14 Through 2017-18	2018-19 And Beyond
Annual Revenues	\$500 million	\$1 billion, growing over period	Over \$1 billion
Annual Spending			
Amount dedicated to energy projects	None	\$500 million to \$550 million	None
Increase in school funding guarantee	\$200 million to \$500 million	\$200 million to \$500 million, growing over period	\$500 million to over \$1 billion

Some Revenues Used for Energy Projects. For a five-year period (2013-14 through 2017-18), about half of the additional revenues—\$500 million to \$550 million annually—would be transferred to the Clean Energy Job Creation Fund to support energy efficiency and alternative energy projects.

School Funding Likely to Rise Due to Additional Revenues. Generally, the revenue raised by the measure would be considered in calculating the state's annual Proposition 98 minimum

guarantee. The funds transferred to the Clean Energy Job Creation Fund, however, would not be used in this calculation. As shown in the bottom part of Figure 1, the higher revenues likely would increase the minimum guarantee by at least \$200 million for the 2012-13 through 2017-18 period. In some years during this period, however, the minimum guarantee could be significantly higher. For 2018-19 and beyond, the guarantee likely would be higher by at least \$500 million. As during the initial period, the guarantee in some years could be significantly higher. The exact portion of the revenue raised that would go to schools in any particular year would depend upon various factors, including the overall growth in state revenues and the size of outstanding school funding obligations.

Section 3:
BALLOT
ARGUMENTS

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:

**SUBJECT TO COURT
ORDERED CHANGES**

- **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:

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- **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.

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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

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Prop. 30 Rebuttal

REBUTTAL TO ARGUMENT IN FAVOR OF

FINAL

PROPOSITION 30

7-19-12

Supporters of Prop. 30 say we either have to approve a huge take 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

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Argument Against
FINAL
7-10-12

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:

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ORDERED CHANGES**

REBUTTAL TO ARGUMENT AGAINST
PROPOSITION 30

- 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

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REBUTTAL TO ARGUMENT AGAINST
PROPOSITION 30

Joshua Pechthalt

President, California Federation of Teachers

Scott R. Seaman

President, California Police Chiefs Association

**SUBJECT TO COURT
ORDERED CHANGES**

ARGUMENTS IN FAVOR OF PROPOSITION 31

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

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ORDERED CHANGES**

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

**SUBJECT TO COURT
ORDERED CHANGES**

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.

Word count: 498

Signed by:

The Hon. Cruz Reynoso, California Supreme Court Justice (Ret.)

The Hon. Delaine A. Eastin, Former Superintendent of Public Instruction

Prof. James Fishkin, PhD, Stanford University

**SUBJECT TO COURT
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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."

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REBUTTAL TO ARGUMENT IN FAVOR OF

PROPOSITION 31

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

**SUBJECT TO COURT
ORDERED CHANGES**

ARGUMENT AGAINST PROPOSITION **31**

PROPOSITION 31 IS SO POORLY WRITTEN AND CONTRADICTORY 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

**SUBJECT TO COURT
ORDERED CHANGES**

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} ~~has~~ 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~~ it will raise the costs of government by tens of millions of dollars per year for new budgeting practices, ~~with~~ with no guarantee ~~any~~ 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

**SUBJECT TO COURT
ORDERED CHANGES**

President
Peace Officers Research Association of California

**SUBJECT TO COURT
ORDERED CHANGES**

REBUTTAL TO ARGUMENT AGAINST
PROPOSITION 31

PROPOSITION 31 REBUTTAL ARGUMENTS

“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 (ret.)**

“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.

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ORDERED CHANGES**

REBUTTAL TO ARGUMENT AGAINST

PROPOSITION 31

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.

Word count: 247

Signer: Bill Hauck, former Chairman, California Constitution Revision Commission

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ORDERED CHANGES**

ARGUMENT IN FAVOR OF PROPOSITION 38

Education is our future because children are our future. Without quality schools, our state will lack the skilled workforce needed to grow our economy and create jobs.

Instead of investing in our schools, political leaders from both parties have been cutting. Since 2008, they've cut school budgets by \$20 billion. Over 40,000 educators have been laid off, and California now has the largest class sizes in the nation.

RESTORE AND EXPAND SCHOOL FUNDING.

Proposition 38 makes schools a priority again. It provides guaranteed funding to restore a well-rounded education and improve educational outcomes.

It guarantees billions of dollars to local schools based on enrollment, averaging \$10 billion annually over twelve years.

School sites can use the money to reduce class sizes or restore classes in art, music, math, science, vocational and technical education and college preparation – based on different needs at different schools.

Learn how much new funding Proposition 38 sends directly to schools in your community at: www.moneyforlocalschools.org/restore.

PREVENT MORE CUTS.

Proposition 38 helps prevent more budget cuts by setting aside \$3 billion annually through 2016-17 to reduce the state deficit by repaying state education bond debt.

PREPARE CHILDREN TO SUCCEED.

38 provides over \$1.1 billion annually to restore budget cuts to early childhood education, improve quality, and expand access to preschool.

A FAIR-SHARE WAY TO INVEST IN OUR SCHOOLS.

As Californians, we should all contribute something to improve our schools because we will all share in the benefits better schools will bring to our state's economy and quality of life.

Proposition 38 provides \$10 billion annually to restore school funding by raising state tax rates on income after all deductions, using a sliding scale based on ability to pay. The wealthiest taxpayers pay the most, with rates rising 2.2% for individuals on incomes over \$2.5 million. At the low end, taxpayers with incomes under \$25,000 would pay an annual average of \$7.00.

Learn how Proposition 38 affects taxpayers like you at:

www.moneyforlocalschools.org/taxcalculator.

FIVE GUARANTEES TO PARENTS AND TAXPAYERS:

[1] *The Legislature can't touch the money.* 38 PROHIBITS the Legislature from diverting or borrowing the money, and it cannot use the new money to replace money schools currently receive.

[2] *School funding MUST go per pupil to every school and must be spent at the school.*

The funds will be audited and any attempted misallocation is a felony punishable by jail time and a ban on holding public office.

[3] *The money CANNOT be spent to increase salaries or pensions of school personnel,* and 38 prohibits spending more than 1% on administration.

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ORDERED CHANGES**

[4] *Spending decisions will be made locally, after public input.* Districts **MUST** hold open meetings at each school site to get input from parents, educators and the community before spending the money.

[5] *School districts will be accountable for improvement at each school.* They **MUST** set annual educational improvement goals for each school, and publicly report how the money was spent and whether improvement goals were achieved.

MAKE SCHOOLS A PRIORITY AGAIN. YES ON 38.

Carol Kocivar, President, California State Parent Teacher Association

Edward James Olmos, Actor

Arun Ramanathan, Executive Director, Education Trust-West

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ORDERED CHANGES**

REBUTTAL TO ARGUMENT IN FAVOR OF
PROPOSITION 38

[Prop. 38
Rebuttal to "yes" argument
FINAL
7-19-12]

We all want better schools.

But throwing \$120 BILLION NEW TAX DOLLARS into a new unaccountable state bureaucracy will not bring back quality education for our children.

Instead of reforming the system, cleaning up waste and abuses, Prop. 38 raises taxes and throws more money into an unaccountable bureaucracy:

- Prop. 38 is a massive income tax hike for middle class taxpayers and small businesses. If you earn \$8,000 or more per year in taxable income, your rates go up by as much as 21% for the next TWELVE YEARS.
- Prop. 38 will damage small businesses by drastically raising taxes on family businesses that file and pay incomes taxes as individuals, not as corporations.
- Prop. 38 kills jobs in small and family businesses where most job growth is taking place. California has the third-highest unemployment rate in the country.
- Prop. 38 can't be changed for twelve years – even in the case of fraud or waste.
- Prop. 38 gives Sacramento politicians \$3 billion a year for four years to spend as they choose.

**SUBJECT TO COURT
ORDERED CHANGES**

REBUTTAL TO ARGUMENT IN FAVOR OF

PROPOSITION 38

- Prop. 38 creates a costly new bureaucracy by forcing schools to go through complex red tape just to receive basic funding, and mandates new programs while necessary school functions have been cut back.
- Prop. 38 does virtually nothing to improve student performance.

Join California educators, doctors, law enforcement officials, taxpayer organizations and small business leaders in voting No on 38. www.StoptheMiddleClassTaxHike.com.

Andrew Wong, Member
Pomona Unified School District, Board of Education

Keith Royal, President
California State Sheriffs' Association

Richard Rider, Chairman
San Diego Tax Fighters

**SUBJECT TO COURT
ORDERED CHANGES**

[Argument Against'
FINAL
7-10-12]

No on Prop. 38:

\$120 Billion Income Tax Hike on Most Californians

If you earn \$17,346 or more per year in taxable income, Prop. 38 raises your California personal income tax rate by as much as 21%, on top of what you pay the Federal government.

The Prop. 38 tax increase continues until 2024. If you have a child entering first grade, you'll be paying higher income taxes until that child graduates from high school.

Even as the economy improves and more people get back to work, the tax increases continue. Even without necessary reforms to our education system, like the ability to fire bad teachers, the tax increases still continue. Prop. 38 locks us into higher income tax rates for the next twelve years – no matter what!

The politicians and bureaucrats get billions of dollars in new taxes, with virtually no accountability on how the money is spent and how much actually gets into the classroom.

Targets Small Business and Kills Jobs

Approximately 3.8 million California small businesses pay individual taxes on their earnings, rather than corporate taxes. Consequently, small businesses will be devastated by these higher taxes – even businesses making as little as \$30,000 or \$40,000 a year.

Instead of creating jobs and improving the economy, Prop. 38 will force family businesses to cut jobs, move out of state, or even close. If they can stay in business, they'll raise prices to pay the higher taxes, which will ultimately be passed on to consumers.

No Requirements to Improve School Performance

Under 38, there are no requirements to improve school performance or get rid of bad teachers. Too much money will continue to be spent on administration, consultants, pensions, benefits and overhead and too little will be spent in the classroom. Currently, 24% of California students don't graduate from high school. Prop. 38 pours more money into a system that is failing our kids without requiring improvements in outcomes for students.

No Changes, Even for Fraud or Waste, for Twelve Years

Prop. 38 contains a special provision hidden in its twenty-seven pages of fine print that prohibits any changes in the measure through 2024 (without another vote of the people), even in the case of waste, fraud or abuse.

\$120 Billion in New Taxes, but Nothing to Reduce Our Deficit

Prop. 38 allows the politicians in Sacramento to keep spending. There is nothing in Prop. 38 that requires any of the funds to be used specifically for deficit reduction and nothing that stops the politicians from getting us back into the same mess we're in now, even with \$120 billion in new taxes.

**SUBJECT TO COURT
ORDERED CHANGES**

No on Prop. 38:

- 27 pages of fine print and flaws
- \$120 billion in higher taxes
- Increases income taxes for taxable incomes above \$17,346
- Damages small business and kills jobs
- No Requirements to Improve School Performance
- Can't be changed for twelve years – even for fraud or waste – without another vote

No on Prop. 38 – Another flawed, costly and misleading initiative.

Allan Zaremberg, President
California Chamber of Commerce

Ken Williams, Member
Orange County Board of Education

Thomas Hudson, Executive Director
California Taxpayer Protection Committee

**SUBJECT TO COURT
ORDERED CHANGES**

REBUTTAL TO ARGUMENT AGAINST
PROPOSITION 38

REBUTTAL TO THE ARGUMENT AGAINST PROPOSITION 38

Our schools are in trouble. \$20 billion in budget cuts. 47th out of 50 states in per pupil spending. 40,000 educators laid off. Instead of prioritizing education, politicians are cutting back.

Prop 38 offers a solution. Its opponents offer no solutions, only misleading attacks.

- Don't believe the scare tactics about taxes. Under 38, tax rates on income go up between 0.4% and 2.2%, not 21%.
- Small businesses earning \$30,000 to \$40,000 will NOT be "devastated." 38's average increase for incomes between \$25,000 and \$50,000 is \$54.
- 38's money for schools MUST go per pupil to every local school site. It MUST be spent there – where the students are – and it MUST be used to improve student outcomes. SACRAMENTO POLITICIANS CANNOT TOUCH THE MONEY.
- 38 PROHIBITS using the school money to increase salaries, pensions or other benefits; spending on administration CANNOT exceed 1%.
- There is real accountability. 38 REQUIRES publicly disclosed independent audits and reports on educational results. Attempted misallocation is a felony.
- VOTERS can amend 38, but NOT POLITICIANS. This protects 38's guarantee that the Legislature cannot divert money away from schools.

Proposition 38 guarantees schools new funding averaging \$10 billion dollars annually for twelve years to restore cuts and improve educational outcomes.

**SUBJECT TO COURT
ORDERED CHANGES**

REBUTTAL TO ARGUMENT AGAINST

PROPOSITION 38

We rely on public schools to educate our children and provide employers with skilled, productive employees. Failing to invest in schools hurts our children and our economy.

Read 38 for yourself at prop38forlocalschools.org.

Make schools a priority. Yes on 38.

Ceila Jaffe, President, 4th District PTA, Orange County

Alex Kajitani, 2009 California Teacher of the Year

Tina Repetti-Renzullo, 2010-2011 Los Angeles County Teacher of the Year

IN 2009, A POLITICAL DEAL CREATED A BILLION DOLLAR TAX LOOPHOLE FOR OUT-OF-STATE CORPORATIONS...

At the end of the 2009 budget negotiations in Sacramento, in the middle of the night, legislators and lobbyists for out-of-state corporations made a deal – with no public hearings and no debate. They put a loophole into state law that allows out-of-state corporations to manipulate our tax system every single year, and avoid paying their fair share to California.

The cost of this loophole: \$1 billion per year in lost revenues for California.

YES on 39 ELIMINATES THE OUT-OF-STATE TAX LOOPHOLE

Prop 39 simply closes this loophole. It ends this manipulation of our tax system – and requires that all corporations doing business in California pay taxes determined by their sales here, no matter where they are based.

Prop 39 *LEVELS THE PLAYING FIELD*, ensuring that multistate companies play by the same rules as California employers.

YES on 39 – ELIMINATING THE LOOPHOLE IS GOOD FOR CALIFORNIA'S JOB MARKET

The current tax loophole lets corporations pay less tax to California if they have FEWER employees here – giving companies a reason to send jobs out of state.

In fact, the state's nonpartisan, independent Legislative Analyst has cited studies showing that the tax policy in Prop 39 will bring California as many as 40,000 jobs. That's why the independent Legislative Analyst has called for eliminating the present loophole.

YES on 39 BENEFITS CALIFORNIA TAXPAYERS

**SUBJECT TO COURT
ORDERED CHANGES**

Multistate corporations that provide few jobs here are using the loophole to avoid paying their fair share to California, costing the state \$1 billion per year in lost revenues. Prop 39 will close that loophole and keep these funds in California to provide vitally-needed revenues for public services. Because almost half of all new revenue is legally required to go to education, hundreds of millions of dollars per year will be dedicated to schools.

Additionally, Prop 39 will create savings for taxpayers. 39 will use a portion of the revenues from closing the loophole to fund energy efficiency projects at schools and other public buildings. Using proven energy efficiency measures like improving insulation, replacing leaky windows and roofs and adding small-scale solar panel installations will reduce state energy costs – freeing up dollars for essential services like education, police and fire.

“By increasing energy efficiency, Prop 39 will reduce air pollution that causes asthma and lung disease. In the process of upgrading school buildings, Prop 39 will also remove lead, asbestos, mold and other toxic substances from schools.” – Jane Warner, President, American Lung Association in California

YES on 39 – STRICT ACCOUNTABILITY

Prop 39 contains tough financial accountability provisions – including INDEPENDENT ANNUAL AUDITS, ongoing review and evaluation by a CITIZENS OVERSIGHT BOARD, a COMPLETE ACCOUNTING of all funds and expenditures, and FULL PUBLIC DISCLOSURE.

YES on 39 – IT’S COMMON SENSE: CLOSE the OUT-OF-STATE TAX LOOPHOLE. BRING \$1 BILLION per YEAR BACK TO CALIFORNIA.

<http://www.cleanenergyjobsact.com/>

JANE WARNER
President
American Lung Association in California

**SUBJECT TO COURT
ORDERED CHANGES**

TOM STEYER
Chairman
Californians for Clean Energy and Jobs

MARY LESLIE
President
Los Angeles Business Council

**SUBJECT TO COURT
ORDERED CHANGES**

REBUTTAL TO ARGUMENT IN FAVOR OF

PROPOSITION 39

**REBUTTAL TO ARGUMENT IN FAVOR OF PROP 39
FINAL**

When you read Prop 39's campaign promises, remember that Tom Steyer - whom CNN called "California's Hedge Fund King" - is bankrolling \$20 million on slick poll-tested buzzwords like "loophole," and promising "clean jobs."

California is already losing businesses at a record rate. Ask yourself how raising taxes on companies employing tens of thousands of Californians makes things better?

It won't!

CALIFORNIA IS ALREADY BILLIONS IN DEBT BUT PROP 39 MAKES THINGS WORSE!

California is the *worst state for business for eight consecutive years*, and has the worst credit rating in America. Millions are unemployed.

Loophole? No. Prop 39 repeals a tax law that's been in effect for decades generating billions in state revenue. The nonpartisan Legislative Analyst and the Department of Finance agree: 39 IS A \$1 BILLION TAX INCREASE.

**SUBJECT TO COURT
ORDERED CHANGES**

REBUTTAL TO ARGUMENT IN FAVOR OF
PROPOSITION 39

Here's the truth. A \$1 billion tax increase gives California employers another reason not to invest or hire. Fewer jobs mean lower revenue and more cuts to schools and law enforcement.

Is that good for California?

Prop 39 is ballot box budgeting at its worst. IT RAIDS \$2.5 BILLION FROM THE STATE BUDGET - MONEY THAT COULD GO TO SCHOOLS, ROADS, INFRASTRUCTURE OR PUBLIC SAFETY.

PROP 39 ALSO ADDS NEW BUREAUCRACY - MILLIONS IN SALARIES AND PENSIONS FOR POLITICAL CRONIES. NO ACCOUNTABILITY, AND NO TAXPAYER PROTECTION AGAINST CORRUPTION.

Higher taxes, fewer jobs, more bureaucracy and waste...ZERO accountability and no taxpayer protections against conflicts of interest. That's the story on Prop 39.

Democrats, Independents and Republicans agree - vote NO!

Mike Spence
President California Taxpayer Protection Committee

Robert Ming
Chairman, Friends for Saving California Jobs

Jack Stewart
President, California Manufacturers & Technology Association

**SUBJECT TO COURT
ORDERED CHANGES**

ARGUMENT AGAINST PROPOSITION **39**

Ballot Argument Opposing Proposition 39
500 words

PROPOSITION 39 IS A MASSIVE \$1 BILLION TAX INCREASE ON CALIFORNIA JOB CREATORS THAT WILL RESULT IN THE LOSS OF THOUSANDS OF MIDDLE CLASS JOBS. California's unemployment rate is already third worst in the country at nearly 11%. Prop 39 makes our problems worse.

PROPOSITION 39 IS A RECIPE FOR WASTE AND CORRUPTION. IT SPENDS UP TO \$22 MILLION ON A NEW BUREAUCRACY AND SPECIAL INTEREST COMMISSION. IT GIVES SACRAMENTO POLITICIANS A BLANK CHECK TO SPEND BILLIONS WITHOUT REAL ACCOUNTABILITY OR TAXPAYER PROTECTIONS AGAINST CONFLICTS OF INTEREST.

HERE ARE THE FACTS: A BILLIONARE WHO CNN CALLED "CALIFORNIA'S HEDGE FUND KING" IS BANKROLLING 39, SPENDING \$20 MILLION TO INFLUENCE YOUR VOTE AND BUY THE ELECTION. His political consultants use terms like "closing a loophole" but don't believe them.

PROP 39 IS POLITICS AT ITS WORST. CALIFORNIA NEEDS REFORM, NOT MORE TAXES AND WASTEFUL SPENDING. WE MUST VOTE NO.

**SUBJECT TO COURT
ORDERED CHANGES**

\$2.5 BILLION THAT COULD GO TO SCHOOLS, HEALTH AND WELFARE, ENVIRONMENTAL PROTECTION OR PUBLIC SAFETY IS INSTEAD DIVERTED TO A NEW GOVERNMENT COMMISSION WITH FAT SALARIES AND LITTLE ACCOUNTABILITY. Our state budget deficit today is nearly \$16 billion and Prop 39 makes things worse by wasting money on a new unnecessary bureaucracy.

CALIFORNIA NEEDS TEACHERS AND POLICE OFFICERS, NOT MORE BUREAUCRATS!

PROPOSITION 39 ATTACKS BUSINESSES THAT PROVIDE MIDDLE CLASS CALIFORNIA JOBS. Manufacturing jobs that provide for families are vanishing.

Almost two million hard-working Californians are struggling to find any kind of work. THE \$1 BILLION PROP 39 TAX INCREASE CHANGES TAX LAWS THAT HAVE BEEN IN EFFECT FOR MORE THAN 40 YEARS and will cost more union and non-union workers their jobs.

PROPOSITION 39 GROWS GOVERNMENT AND BUREAUCRACY. You've heard it before. Sacramento has a plan to create jobs. We give them money to create a commission of political appointees with an appealing name like Citizens Oversight Board. They get a blank check to spend (or waste) tax dollars.

**SUBJECT TO COURT
ORDERED CHANGES**

Under Prop 39, money is spent to give contracts to so-called "Green Energy" programs.

Who is likely to get those contracts? Big campaign contributors, that's who. 39 IS SO POORLY WRITTEN THAT IT DOESN'T EVEN PROHIBIT CONTRACTORS FROM GIVING CAMPAIGN MONEY TO SACRAMENTO POLITICIANS THAT AWARD THE CONTRACTS!

CALIFORNIA NEEDS REFORM, NOT TAX INCREASES THAT ELIMINATE MIDDLE CLASS JOBS. Prop 39 raises taxes by \$1 billion on California job creators to help fund more government bureaucracy and more bloated pensions. It doesn't protect against ongoing state budget deficits, high unemployment and continued economic recession.

REMEMBER, A BILLIONAIRE WITH AN AGENDA IS BANKROLLING 39. It's up to voters to protect California taxpayers. By voting NO on Prop 39, you will stop a job-killing \$1 billion tax increase on California job creators. You will support middle class California jobs that provide for families and sustain our economy. AND YOU'LL TELL SACRAMENTO POLITICIANS NO MORE BLANK CHECKS FOR MORE SPECIAL INTEREST SPENDING ON BLOATED GOVERNMENT AND PENSIONS.

SAY NO TO HIGHER TAXES, WASTEFUL SPENDING AND POLITICS AS USUAL. DEMAND GOVERNMENT ACCOUNTABILITY. VOTE NO ON 39.

**SUBJECT TO COURT
ORDERED CHANGES**

Jack Stewart
President, California Manufacturers & Technology Association

Lew Uhler
President, National Tax Limitation Committee

Pat Fong Kushida
President, [REDACTED] California Asian Pacific Chamber of Commerce

**SUBJECT TO COURT
ORDERED CHANGES**

REBUTTAL TO ARGUMENT AGAINST

PROPOSITION 39

FACT: YES ON PROP 39 CLOSES A TAX LOOPHOLE FOR OUT-OF-STATE CORPORATIONS

The opposition argument is shamefully deceptive. Prop 39 does NOT increase taxes on California families by even a penny. It simply closes a loophole that gives out-of-state corporations an unfair tax break, but costs the rest of us.

That's why out-of-state corporations - including those that dominate the "manufacturing group" that signed the above argument - are leading the deceptive campaign against 39: to keep their loophole.

LEGISLATORS AND LOBBYISTS CREATED THE LOOPHOLE IN A BACKROOM DEAL IN 2009

The San Jose Mercury News said that corporate lobbyists "pulled a fast one on California," and that "it was the kind of shenanigan that gives corporations a bad name and makes a mockery of government openness."

Yes on 39 closes the loophole, cleaning up the mess the Legislature created.

FACT: 39 CREATES CALIFORNIA JOBS

The opponents' argument about taxing employers is a farce. The loophole benefits corporations that keep jobs out of state. Proposition 39 will eliminate a barrier to creating jobs in California. Plus, Proposition 39 creates thousands of clean energy jobs.

FACT: REQUIRES STRICT ACCOUNTABILITY

The phony opposition arguments about bureaucracy are nonsense. Prop 39 creates a Citizens Oversight Board to ensure funds dedicated to job creation and energy efficiency are properly spent, including yearly INDEPENDENT AUDITS. Schools will receive hundreds of millions in dedicated funding from closing the loophole.

**SUBJECT TO COURT
ORDERED CHANGES**

REBUTTAL TO ARGUMENT AGAINST

PROPOSITION 39

YES on 39. CLOSE the LOOPHOLE - KEEP DOLLARS and JOBS IN CALIFORNIA.

Alan Joseph Bankman
Professor of Tax Law
Stanford Law School

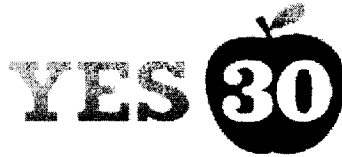
Ruben Guerra
CEO
Latin Business Association

Jane Skeeter
California Small Business Owner

**SUBJECT TO COURT
ORDERED CHANGES**

Section 4:
SUPPORT AND
OPPOSITION
LETTERS

PROPOSITION 30 - SUPPORT



Schools & Local Public Safety
Protection Act

July 30, 2012

The Honorable Lois Wolk
Chair, Committee on Governance and Finance
California State Senate
State Capitol, Room 408
Sacramento, CA 95814

Re: Yes on the Schools & Local Public Safety Protection Act (Proposition 30)

Dear Senator Wolk:

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.

Governor Jerry Brown, the League of Women Voters of California and a statewide coalition of leaders from education, law enforcement and business all support 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.

Thank you for the opportunity to inform Californians why Prop. 30 is so critical for our schools, our public safety and California's future.

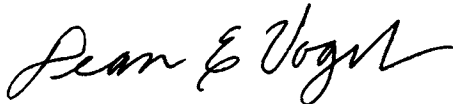
We urge Californians to join the League of Women Voters of California, California teachers and public safety professionals to take a stand for schools and public safety by voting YES on Proposition 30.

To learn more, visit YesOnProp30.com.

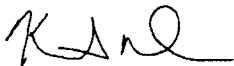
Sincerely,



Jennifer A. Waggoner, President
League of Women Voters of California



Dean E. Vogel, President
California Teachers Association



Sheriff Keith Royal, President
California State Sheriffs' Association

Paid for by Yes on Prop. 30--to Protect our Schools and Public Safety, a broad coalition of business, labor, law enforcement, teachers and Governor Brown. Major funding by Californians Working Together to Restore and Protect Public Schools, Universities and Public Safety, Coalition of Educators, School Employees, Working Men/Women, Doctors, Speaker Perez & Community Org. Yes on Proposition 30 and United Brotherhood of Carpenters and Joiners of America. FPPC: 1343257

PROPOSITION 30 - SUPPORT



California **POLICE CHIEFS** *Association Inc.*

P.O. Box 255745 Sacramento, California 95865-5745 Telephone (916) 481-8000 FAX (916) 481-8008
E-mail: lmcgill@californiapolicechiefs.org • Website: californiapolicechiefs.org

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Ex-Officio Member
LESLIE MCGILL, CAE
Executive Director

July 31, 2012

Honorable Lois Wolk
Chair, Senate Committee on Governance and Finance
State Capitol
Sacramento, CA 95814

Dear Senator Wolk:

The California Police Chiefs Association is strongly in support of Proposition 30, which will provide important protections for public safety and for public education. In fact, our members feel so strongly about Proposition 30, that our Board of Directors unanimously endorsed it on May 31 of this year.

Put simply, public safety and public education are the most fundamentally important functions of government. Without public safety, there is no safe environment for citizens, and without public education, there is no promising future.

Proposition 30 will constitutionally guarantee critical public safety funding. COPS funding, booking fee remediation, meth task forces, sex crime enforcement, as well as critical funding for city police departments will all be protected from future political interference with the passage of Proposition 30. As police chiefs, we are directly responsible for providing front-line protection for 78% of Californians, and Proposition 30's passage is critically important to our efforts to protect our communities. We have enormous public safety challenges and passage of Proposition 30 is an urgent necessity if we are to meet those challenges.

The importance of Proposition 30 to public education is no less critical. It's been no secret that public education has endured years of cuts. In the past four years alone, our schools have suffered \$20 billion in cuts and have lost over 30,000 educators as a direct result of those cuts. Our class sizes are now among the largest in the nation. Moreover, if Proposition 30 does not pass, schools and colleges face an additional \$6 billion in cuts this year.

Proposition 30 speaks directly to the crisis in public education; it is the only ballot measure that prevents cuts to public education and provides billions of dollars in new funding for public education this year – money needed for smaller class sizes, up-to-date textbooks and urgently needed teachers. We need to point out that Proposition 30 assures that public education money will be actually spent for its intended purpose. Proposition 30 provides for mandatory, independent annual audits to assure new funds are spent only for schools. Moreover, Proposition 30 funding for schools cannot be spent on administrative costs and the funds themselves will go into a special fund beyond the reach of politicians.

Senator Lois Wolk
July 31, 2012
Page two

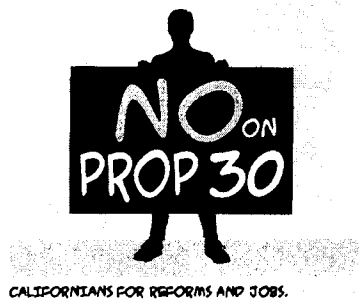
Proposition 30 is a measured and effective response to the very real fiscal crisis facing California. Its passage is imperative if California is to put its fiscal house in order.

Sincerely,

A handwritten signature in cursive script that reads "Scott R. Seaman".

Chief Scott Seaman
President

PROPOSITION 30 - OPPOSE



July 30, 2012

Senator Louis Wolk
Attn: Hai-Vu Phan
California State Capitol, Room 408
Sacramento, CA 95814

Dear Senate Committee on Governance and Finance:

Thank you for the opportunity to discuss the numerous flaws of Proposition 30 with members of the Legislature and the public. As you will see below, we aren't alone in our concerns about Proposition 30. We look forward to the public discourse on this issue in the coming months leading to the November 6th election. We are confident that as voters learn about the many flaws in this measure, they will vote to defeat this massive \$50 billion tax increase.

We all want excellent schools in California, but raising taxes isn't the only way to accomplish this. Rather than streamlining thousands of state funded programs, massive bureaucracy and waste, Proposition 30 continues Sacramento's spending habit.

No New Funds for Schools

Instead of providing new funding for schools, Proposition 30 is simply a "shell game" that allows existing money for schools to be taken away and used for other purposes. Proposition 30's higher taxes would then replace that money originally designated for education with the money from the new taxes.

The fact is, no matter how you move the money around, Proposition 30 does not guarantee one penny of new funding for schools.

Numerous groups, newspapers and even the Legislative Analyst have pointed to the effects of Proposition 30.

- 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

Californians for Reforms and Jobs, Not Taxes | 925 University Avenue, Sacramento, CA 95825
Phone: 866-955-5508 | Fax: 916-923-2931 | www.StopProp30.com

No on 30 - Californians for Reforms and Jobs, Not Taxes, a coalition of taxpayers and small businesses with major funding by the Small Business Action Committee.

secret is that the new revenues are needed to backfill the insolvent teacher's pension fund."
(Editorial, April 22, 2012)

- Even the independent Legislative Analyst says Proposition 30's "additional revenues would be available to fund programs in the state budget."

In addition, there are no requirements or guarantees that any more money actually gets to the classroom. One recent study by Pepperdine's Davenport Institute found that up to 50% of school money doesn't get into the classroom. And nothing in Proposition 30 reforms our education system to cut waste, eliminate bureaucracy or cut administrative overhead.

No Reforms

Prop. 30 raises taxes to pay for more spending, but there are no corresponding meaningful reforms to save taxpayers money:

- We have \$500 billion in unfunded pension liabilities in California and still there have been no real reforms to save taxpayers money.
- There has been a failure to approve real budget reform. We continue to spend more than the state has.
- Even State Controller John Chiang said of Prop. 30, "I'd have liked to have seen some reform first." (California's funding mechanism is fundamentally cockeyed, George Skelton, *Los Angeles Times*, July 18, 2012)

Rather than reform, Prop. 30 rewards this out-of-control spending with billions of dollars in higher taxes to spend with no reforms or accountability, and it provides no guarantee that the money won't be wasted.

More Out-of-Control Spending

Governor Brown is asking voters to approve \$50 billion in higher taxes, but out-of-control spending and mismanagement of our tax dollars is escalating. While there are claims that the money will be audited, there is no assurance that the money won't be wasted or misspent. Recent events show the real risk of providing the state more taxes in special funds.

- Despite a huge budget deficit, the Legislature approved \$5 billion in California bonds for the "bullet train to nowhere," costing taxpayers \$380 million per year – nearly the amount the Governor proposes to cut higher education by if voters don't approve Prop. 30's massive tax hike.

"Any of us who talks to our folks knows that they're asking the same questions. They're saying, 'Really? You made these cuts. We're threatened with more. And you want to build a high-speed train?'"

Senator Joe Simitian, D-Palo Alto
San Francisco Chronicle, July 9, 2012

- Just weeks later, the Legislature provided pay raises to their staff while furloughing state workers.

- And most recently, the Parks Department was found to have provided illegal buyouts to staff and hiding millions in funds from the state.

Senator Mark DeSaulnier, D-Concord, a member of the Senate budget committee said to the *San Jose Mercury News* (July 27, 2012) of the hidden parks funds "It's hard to ask people to increase their taxes when they hear about things like this."

Hurts Small Business and Our Economic Recovery

California remains at the top of the list for states with the highest unemployment. But Proposition 30 targets small businesses with up to a 30% increase in their taxes (According to the IRS, 3.8 million small business owners file taxes as individuals, not corporations). Huge corporations pay nothing, while family businesses will be forced to cut jobs, move out of state or raise prices to pay the higher taxes.

Proposition 30's higher sales tax makes bad matters worse for small businesses, as family businesses will be forced to pay more, increase the costs to run their businesses and give their customers one more reason NOT to patronize their local bakery, book store or auto shop.

Reform and Jobs, Not Taxes

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, assurances of a balanced budget or guarantee new funding for schools.

"[The] Governor wants voters to raise taxes on themselves so he can maintain Sacramento's broken status quo." (*San Diego Union Tribune*, July 26, 2012)

We urge you to consider Proposition 30's specious claims and demand reform and jobs, not higher taxes.

Sincerely,

Jon Coupal, President
Howard Jarvis Taxpayers Association

Joel Fox, President
Small Business Action Committee

John Kabateck, Executive Director
National Federation of Independent Business/California



August 1, 2012

Senator Lois Wolk, Chair
Senate Committee on Governance and Finance
California State Senate

Dear Senator Wolk:

Thank you for the opportunity to comment on Proposition 31, the Government Performance and Accountability Act. In your letter of July 27, 2012 you asked for my response to three issues:

1. The purpose of Proposition 31.

Proposition 31 would give state and local governments the tools to improve the performance of essential public services – and begin to restore the public's confidence in government.

Specifically, Proposition 31 would modernize the state budget process to discourage decisions that lead to structural budget deficits and instability, and encourage decisions that improve results and long-term value to taxpayers. Proposition 31 would do this with a set of fiscal practices that have been proven to work: multi-year budgeting, performance metrics, systematic oversight of programs and a PayGo requirement for new spending and tax reductions. The measure also would establish a minimum standard for transparency, requiring every bill to be in print for three days before a final vote.

Proposition 31 also would require all local governments to declare goals and establish performance measures as part of their budgets. And it would create incentives for local governments to work together to pursue common goals, such as effective education, public safety and social service programs.

Together, these elements would put into the California Constitution a results-oriented framework, enabling and encouraging elected and appointed leaders to solve priority problems at the state and community levels.

In addition to solving problems, these provisions have been used effectively in federal, state and local governments to communicate clearly to voters and taxpayers what government is doing to educate children, reduce crime and poverty, improve health and economic opportunities.

The public is squarely behind these reforms. Most Californians don't trust government – but they want to. They know these programs are important – and they want to know that they work.

California Forward, in its extensive civic outreach efforts, has found that a majority of Californians are willing to pay higher taxes for essential programs – but only if they are confident the money will be well spent on high priorities.

2. My position on Proposition 31.

I strongly support Proposition 31.

3. Reasons for my position.

Over the last 25 plus years, I have been involved in several efforts to improve the governance of California and the performance of state programs. I was the Chairman of the Constitution Revision Commission and I was Co-Chair of the California Performance Review Commission. As the CEO of the California Business Roundtable, I coordinated the efforts of business leaders to positively influence policies that are essential to California's long-term vitality. And as trustee for the California State University System, I have worked to sustain and improve the potential for higher education to transform lives and communities.

In each of these efforts, I have experienced common obstacles to getting better results:

1. A reluctance – even an aversion – to focus on what we are trying to accomplish and honestly assess what it will take to make progress.
2. A weakness – almost an addiction – to take the easy way out of difficult challenges. Too often officials cannot say “no” to a special interest, even when those officials know they will be creating bigger problems – bigger deficits – down the line.
3. A parochialism – hubris, really – that we know best, that we don't have to work together and that we can't trust that other level of government or that other public agency to do the right thing.

Both the Constitution Revision Commission and the California Performance Review Commission – different efforts, at different times and with different motivations – reach a couple of common conclusions.

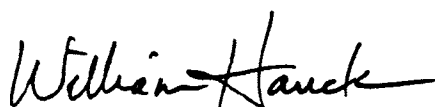
1. Without a focus on performance, money will not be well spent, programs will not deliver better results and public confidence in government will continue to erode.
2. Governments must work together to improve the results of critical programs.

Proposition 31 is the first and only citizen's initiative to squarely address those issues. It was crafted after extensive consultation with experts throughout the nation and throughout California. It is not the solution offered by one interest group or another, one party or the other. It was thoughtfully developed with the public interest as a guide.

Proposition 31 will not solve all of the problems facing Californians – no citizen's initiative can. It does not lock you as lawmakers into rigid rules – which some opponents erroneously assert that it would and other opponents wish it would.

It gives you – as elected leaders – the tools to make smarter choices. It gives Californians the information to know whether you did or not.

Thank you for your consideration of Proposition 31 and my reasons for supporting this measure. Please let me know if I can be of further assistance to you or the committee.



William Hauck
Co-Chair, Californians for Accountability - Yes on
31
Sponsored by the California Forward Action Fund

California Federation
of Teachers 
AFT, AFL-CIO
A Union of Professionals

Representing faculty
and classified workers in
public and private schools
and colleges, from early
childhood through higher
education

August 1, 2012

The Honorable Lois Wolk
Chair, Senate Governance and Finance Committee
1020 N Street, Room 584
Sacramento, CA 95814

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American Federation of
Teachers, AFL-CIO

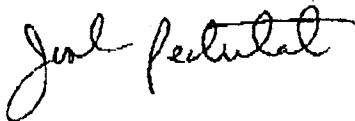
Dear Senator Wolk:

Thank you for the opportunity to provide comments against Proposition 31. This measure creates constitutional restrictions on government spending that will permanently eliminate our ability to properly fund education, health and human services, and other vital services.

The changes to public budgeting and oversight procedures will cost tens of millions of dollars annually, and the new experimental local government planning processes will cost \$200 million in annual revenue - shifting funds away from state programs even with the current budget problems.

Most notably, this measure prevents the state from increasing funding for schools unless taxes are raised or other programs are cut, even during a budget surplus. As a representative of educators and other educational employees, this provision will be extremely detrimental to the education system in California, from Head Start to the University of California. We oppose this measure because Prop 31 creates unnecessary bureaucracy and undermines the importance of education in California.

Sincerely,



Joshua Pechthalt
President
JP;je-opciu29;afl-cio

cc: Members, Senate Governance and Finance Committee



PROPOSITION 31 - OPPOSE



August 1, 2012

Senator Lois Wolk
Attn: Hai-Vu Phan
California State Capitol, Rm. 408
Sacramento, CA 95814

Dear Senator Lois Wolk,

We are pleased to provide comments in opposition to Proposition 31, an initiative that allows local governments to override crucial environmental, public health, and safety laws in California.

Prop 31 will allow county governments to write their own rules with regards to environmental protection and public health, and even challenge landmark environmental laws such as CEQA and the endangered species act. As an organization whose mission it is establish accountability in government for environmental protection, we oppose Prop 31 and its attempt to undermine environmental law in California.

California is a leader in environmental policy and protections for clean air and water, but Proposition 31 could eliminate key protections and create a patchwork of inconsistent local rules that undermine the progress our state has made. For these reasons, we oppose this measure.

Sincerely,

Sarah Rose
Chief Executive Officer
California League of Conservation Voters

California League of Conservation Voters | ecovote.org

6310 San Vicente Blvd., Suite 425 Los Angeles, CA 90048
350 Frank H. Ogawa Plaza, Suite 1100 Oakland, CA 94612

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everychild.one voice.

2327 L Street, Sacramento, CA 95816-5014

916.440.1985 • FAX 916.440.1986 • E-mail info@capta.org • www.capta.org

August 1, 2012

Senator Lois Wolk
Chair, Senate Committee on Governance and Finance
California State Capitol, Room 408
Sacramento, CA 95814

Dear Senator Wolk,

Thank you for the opportunity to let people know why the California State PTA helped write and is supporting Proposition 38 on the November ballot.

The reason is simple: Parents, families and voters throughout California believe adequate funding for our schools and a complete quality education for all children is an urgent priority for our state.

We must STOP engaging parents and communities in heartbreaking decisions on how to cut more out of our schools and START engaging parents and communities in the important decisions on how we can restore programs and services in every school in California

Proposition 38 guarantees billions of dollars in new money for our schools, averaging \$10 billion annually over 12 years. This money goes directly to every one of our local schools based on enrollment. And Proposition 38 spells out very clearly how this new can be spent – on programs and services that will help all our children succeed.

Proposition 38 empowers local communities to help decide how we invest in our local schools, because our local communities know our local schools the best. And it puts the money in the classroom, right where it belongs.

As you know, massive budget cuts have dismantled our public schools. We are 47th in the nation in education funding. Our children deserve more than just preventing deeper cuts. Our children deserve more than a new normal that maintains school funding at a level way below the national average.

Proposition 38 starts to restore the California dream of a quality education for all our children. And Proposition 38 significantly and dramatically relieves the budget deficit – \$3 billion dollars every year for 4 years and millions more for eight more years – by paying down state bond debt. This money can be used to support higher education and other important programs.

California's public school system is the engine that drives our economy. Proposition 38 begins the needed investment in our school system right now so our state can produce a well-education, highly skilled workforce.

Proposition 38 generates revenue for this investment through a sliding scale income tax that asks the wealthy to pay the most. It's a fair share approach because public education benefits all of us. Multimillionaires will pay 2.2% more, while those making \$50,000 or less will pay little or nothing. According to the independent legislative analyst, personal, dependent, senior, and other tax credits, among other factors, would continue to eliminate all tax liabilities for many lower-income tax filers even if they have income in a bracket affected by the measure's rate increases.

Everyone benefits from a quality education: Our children, our state, and our nation.

On behalf of our nearly 900,000 members, California State PTA is proud to support Proposition 38. It is the bold step needed right now in our state to transform California's public schools and ensure that every child has the opportunity to succeed.

Sincerely,

A handwritten signature in black ink that reads "Carol Kocivar". The signature is written in a cursive style with a large initial "C".

Carol Kocivar
President
California State PTA



Fourth District PTA

1520 Brookhollow Dr. Unit 40 • Santa Ana, CA 92705 • 714-241-0495 Fax 714-241-0497

every child. one voice.

August 1, 2012

Senator Lois Wolk
Chair, Senate Committee on Governance and Finance
California State Capitol, Room 408
Sacramento, California 95814

Dear Senator Wolk:

In response to your letter of July 27, 2012, I am happy to explain my thoughts about Proposition 38. I am a signer on the rebuttal to the argument against Proposition 38 as the president of Fourth District PTA, the umbrella organization for the over 400 local PTA associations in Orange County.

1. The Purpose of Prop 38

I believe the purpose of Proposition 38 is to bring crucial resources to the public schools of California. It creates a new, 12-year funding stream to be used directly at local schools, according to plans made by local school boards with local public input. The new funds will be apart from the rest of the California state budget process and therefore not subject to the funding manipulations and deferrals which have plagued the rest of public school funding in our state.

Proposition 38 brings additional support to preschool programs, which serve as a first defender against the achievement gap. For the first four years it also pays down education bond debt, which has the effect of relieving the general fund by \$3 billion annually during the current financial crisis. This proposition is funded by a sliding scale income tax spread appropriately across income brackets, with the wealthiest paying the most.

Proposition 38 will have a positive impact on student success throughout the state which in turn improves our state economic power and overall prosperity.

2. My position on Proposition 38

I am fully in support of Proposition 38. It is THE education initiative which brings substantial and sustainable new funds to local schools, supports preschool programs, and brings relief to the current budget crisis. Proposition 38 gives me hope that the trend of higher burdens and lower funding for our public education system can be reversed and this generation of California children will have the kind of school experience that they deserve and that supports our state into the future.

3. My reasons for Supporting Proposition 38

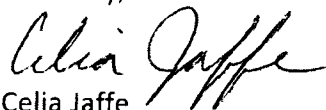
Proposition 38 gives us the opportunity to make transformative change in our public schools. Programs that children in other states take for granted, like credentialed PE and music teachers at the elementary level, an appropriately staffed library or computer center, high school classes of fewer than 30 students, tutoring, and summer school, are the types of priorities that a local school district can put into effect through Proposition 38.

A plan for each school site ensures that use of the funds reflects the particular needs and priorities of the local community. With a 1% limit on administrative fees and a prohibition against use for increasing current salaries and benefits, Proposition 38 funding will not get absorbed into business as usual. It will bring immediate, noticeable enhancements directly to each school in our state.

Strong preschool programs are shown to be the most effective, high-impact use of our education dollars because early intervention has the greatest effect on later outcomes.

In conclusion, through PTA I have been advocating for appropriate support of public schools for 15 years. Our recent survey of local PTA leaders showed that their number one issue of concern is adequate funding of public education. California public schools have been underfunded for decades, but the last four years have made schools not only cut to the bone, but amputate limbs! Proposition 38 is the first thing in a long time which is not just damage control but instead is tangible hope for California public schools.

Sincerely,



Celia Jaffe

President

Fourth District PTA

PROPOSITION 38 - SUPPORT

July 30, 2012

Dear Senator Wolk,

I welcome the opportunity to respond to your questions about my support of Proposition 38 for the Senate Committee on Governance and Finance. I feel proud that I have been given the opportunity to support an initiative which will markedly change the way schools are funded – a change long overdue.

I have worked in education for twenty-two years, and as a result I have witnessed times of prosperity and times of scarcity. The quality and amount of support given to teachers and to students is substantially influenced by the swings inherent in the current funding structure. Under circumstances in which education funding has been expanded, budgets have been able to cover necessary resources and effective professional development; however, when education funding has been significantly reduced, difficult decisions were left to schools about which services to students had to be cut. Irrespective of the budgetary circumstances in which options have been discussed and decisions taken, the constitution of a high-quality education has remained central to the public discourse. I think one of the largest obstacles to the effective provision of meaningful and useful education to our children is the level of support we give to our schools and to our teachers, as well as the consistency with which that support is provided.

The severe cuts to education funding in California have placed unfair burdens on our children and they have removed resources essential to their academic success. The direct impacts of the budget crisis on students include: the increase of class sizes; the elimination of tutoring programs; the reduction or elimination of summer school; the widespread cancellation of arts, elective, and sports classes; and the laying-off of

teachers and support staff. Years of bare-bones services have resulted in lost opportunities for student success. Increasing student-teacher ratios has meant less time for individual student-teacher interaction. In my own school district, kindergarten class sizes have increased from a ratio of 20:1 up to 25:1 and first through third grade class sizes have increased from 20:1 up to 29:1. Canceling arts, electives, music, and sports classes has stifled emerging talents. The loss of remedial support and the personnel who provide it has left students who struggle to master the curriculum far behind their grade-level peers.

Our schools are engines of social mobility. By ensuring that all of our children have access to high-quality education, we give them the skills they will need to be able to lead rich and fulfilling lives. This is a huge responsibility, and doing everything in our power to ensure we do it well is therefore of paramount importance.

The optimal provision of education to our children can at times be a complex issue. At times, it is unclear which options before us hold the greatest potential for the social good. However, the above-mentioned policy options are not those thorny issues. We know that decreasing class sizes impacts student achievement largely – and that this is particularly true of early education. We know that encouraging our children to pursue their interests makes them more successful. And we know that ensuring that those of our children who need extra attention in order to achieve their potential receive the attention they require is transformative. The solutions to at least these problems are known to us, and they are within our grasp, if only we choose to implement them well.

That is exactly why Proposition 38 is a step toward a brighter future for our children and our state. Proposition 38 will direct to our public schools funding which is

apportioned based on enrollment. That funding can add back school days which have been lost to cutbacks and thereby increase the amount of time we are able to offer our children. It can bring back smaller class sizes, which we have prioritized in the past because we know that they have so large an impact. And it can update classroom technology and provide for the effective training of teachers. We will be able to restore art, music, and other electives, and bring back the nurses and counselors who are so instrumental to the physical and mental health of our community.

There are certainly matters before your attention as our elected leaders and before the citizenry more broadly which are complicated, about which there are no firm conclusions, and for which there are no easy answers. However, the funding of education as proposed in Proposition 38 is precisely what is needed. The expansion of funding for our schools can and will be applied in ways we know are effective. I urge you to support the proposition, and I thank you for your time.

Sincerely,

Tina M. Repetti-Renzullo

Teacher of the Year, Los Angeles County, 2010-2011

Teacher of the Year Finalist, California, 2011

PROPOSITION 38 - SUPPORT

July 31, 2012

Dear Ms. Wolk:

Thank you very much for the opportunity to respond to your request regarding my support of Proposition 38 for the Senate Committee on Governance and Finance.

As the *2009 California Teacher of the Year*, I have come into contact with thousands of teachers, parents and students throughout our state. I teach every day to ensure that our students receive the high-quality, equitable education that they deserve. Unfortunately, years of budget cuts have eroded these opportunities, and have already begun to take a toll on California's future.

There is hope. *Proposition 38 is the ONLY initiative on the November ballot that will make a real and transformative investment in our children's education. Proposition 38 makes schools a priority by guaranteeing billions of dollars for our public schools – money that goes directly to every school based on enrollment.*

As an experienced teacher in one of San Diego's poorest neighborhoods, I am on the front lines daily, working to connect with and motivate students. However, I've watched as chronic underfunding has pushed far too many brilliant, eager new teachers to leave the profession after being handed a pink slip at the end of each school year – and other teachers to simply burn out from managing overcrowded classrooms. In addition, we often teach with outdated textbooks (our district was forced to forego purchasing new textbooks two years ago, so we are still using the textbooks from 10 years ago). We receive less and less professional development each year, making it very difficult to stay abreast of the latest tools that will help make our students successful.

There is hope. *Proposition 38 will mean smaller class sizes, up-to-date classroom supplies and technology, and teacher training.*

As a parent, each day I watch my six-year old daughter and three-year old son discover and delight at the world around them. I revel at the wonder in their eyes, and the curiosity of their thoughts. But I also worry. I worry about the issues of school safety, underfunding, commercialism, peer pressure, and even failing test scores. I worry for every parent whose children need support and extra support, but will not have an opportunity to speak to a counselor, as many counselors are splitting time between several schools and are managing overwhelming caseloads – or who need medical support, as my kids do, but they have no school nurse on staff. I worry for every parent who wants their child to grow up learning art, music, PE and science, but is getting short-changed due to the lack of programs that currently exist in our schools due to underfunding.

There is hope. *Proposition 38 provides funding to restore art, music, PE, and science programs and helps provide counselors, librarians, school nurses and other support staff.*

As students, our children enter our classrooms with dreams for their future, and the same goals: to connect, to grow, and to be successful in life. And each year, as school calendars are slashed shorter with budget cuts, they get less and less instructional time. With each furlough day, our

students are robbed of opportunities to learn the skills they need to compete in the new global economy.

There is hope. *Proposition 38 can restore school days, summer school, and instruction, which is especially valuable to students in our schools of greatest need.*

I support Proposition 38 because it will stem the tide of years of devaluing our students. Proposition 38 will be in effect long enough to show the public that their taxpayer money was well spent and accounted for. California voters understand this, and they are ready to take action. We are ready to create a future that is bright for our children, and the state of California.

Sincerely,

Alex Kajitani

*California Teacher of the Year, 2009
Escondido Union School District*

PROPOSITION 38 - SUPPORT



The Education Trust—West
Closing the gaps in opportunity and
achievement, pre-k through college.

August 6, 2012

Senator Lois Wolk
Chair, Senate Committee on Governance and Finance
California State Capitol, Room 408
Sacramento, CA 95814

Dear Senator Wolk:

Thank you for the opportunity to offer information on The Education Trust—West's support for Proposition 38 for the Senate Committee on Governance and Finance.

As California's leading organization working to close the opportunity and achievement gaps for low-income students and students of color, we believe that California's schools must have adequate and equitable funding. Over the last five years, our schools have suffered billions of dollars in cuts. Our research reveals that there continue to be wide funding gaps between the wealthiest and poorest school districts in California and between high and low poverty schools within districts.

Proposition 38 will deliver billions in additional funding to all schools, and provide additional funding to schools serving large percentages of underserved students. These schools desperately need additional resources to help their students achieve their highest potential.

Proposition 38 recognizes that our schools have suffered disproportionate budget cuts over the last five years, and that districts and schools have often cut programs necessary to close opportunity and achievement gaps. The funding from Proposition 38 can be used to restore cuts to these vital supports and provide the additional enrichment that all students deserve in their neighborhood schools.

Just as important, Proposition 38 requires long overdue financial transparency and ensures stakeholder involvement in decision-making on school spending. School districts must set annual educational goals for each school and publicly report on school spending and educational progress.

Our children are our future. In the coming decade, California will need millions of college and career-ready graduates just to meet our workforce needs. Proposition 38 can help provide our schools with the resources necessary to meet these needs and make the college and career dreams of our students a reality.

Sincerely,

A handwritten signature in black ink, appearing to read "Arun Ramanathan".

Dr. Arun Ramanathan, Ed.D.
Executive Director, Education Trust-West



San Diego Tax Fighters

10969 Red Cedar Dr.
San Diego, CA 92131
Voice: (858) 530-3027
Email: RRider@san.rr.com
30 July, 2012

Authored by Richard Rider, Chairman

Dear California State Senators:

As Chairman of San Diego Tax Fighters – a grassroots, unabashedly pro-taxpayer outfit – I signed the opposition rebuttal argument concerning Prop 38 – the “Munger” proposition. I see no need to here cover the ballot arguments further.

Instead I’ll discuss below the “millionaire’s tax” aspect – and the unintended consequences if either the Brown or Munger tax is passed. This subject is seldom broached even by opponents (even in the ballot arguments), as it’s felt that many people so hate rich folks that it’s “bad form” to speak out in their defense. I disagree.

There’s a core fact to keep in mind – rich people seldom will leave the U.S. to avoid taxes, but – if taxes are deemed too high – many WILL leave a state. Other states have experienced this outflow of the wealthy – and with FAR lower increases in their millionaire’s tax.

Moreover, the really rich (the much-hated “investor class”) don’t even have to leave to avoid most CA income taxes. Most have second homes in other states and travel quite a lot. They can relocate their official residence to such a home, while still visiting California several months a year (but no longer than 6 months total).

It’s not that easy to relocate for tax purposes – one must do it right and really relocate. There are over 20 criteria a wealthy current “Golden State” taxpayer should meet to no longer be a California resident. But for a rich person with proper financial advice and assistance, it’s a logical decision that offers huge annual savings.

How many wealthy folks will relocate – or take their businesses elsewhere? No telling. But most rich people are presumed to be greedy by the Occupy movement – let’s accept that premise. I think we can agree that they didn’t become wealthy by being financially stupid.

It’s important to realize how California income taxes stack up against the other 49 states. California **already** has the 2nd highest state income tax rate in the nation (behind Hawaii’s 11.0%). Our 9.3% tax bracket starts at \$48,029 for people filing as individuals. Our 10.3% tax starts at \$1,000,000.

Consider the Brown “millionaires’ tax.” It would raise that rate to 13.3%, starting at \$500,000 – including capital gains. If approved, CA will be by far #1 in income tax rates. We will be 21% higher than the 2nd highest state (Hawaii), 34% higher than the 3rd highest state (Oregon), and a heck of a lot higher than all the rest – including seven states with zero state income tax. <http://taxfoundation.org/sites/taxfoundation.org/files/docs/ff2012.pdf> Table #11

The Munger top bracket is 12.5%. While lower than the top Brown tax bracket, it’s still much higher than the other states. We will be 14% higher than Hawaii and 26% higher than Oregon.

Note that in 2011 California had the 3rd highest state income tax rate. Now we are 2nd. What changed?

What changed was that Oregon, an extremely liberal state, decided it would be best to LOWER their top tax bracket from 11% to 9.9%. Was it because they decided to coddle the wealthy? I think not. They concluded that their state would receive more revenue (and the economy would do better) if they didn't soak the rich so much.

BTW, Oregon has ZERO state or local sales tax – one of only three states without a sales tax. In contrast, California has the highest state sales tax rate in the nation.

It's not just Oregon moving to reduce their state income taxes. Here's a blog item I wrote in February of this year, based on a WALL ST JOURNAL article (link below):

http://open.salon.com/blog/richard_rider/2012/02/22/several_states_cutting_or_eliminating_their_income_tax

Several states cutting or eliminating their income tax.

by Richard Rider

It's tragic how some desperate states experiencing runaway state government spending are raising their income taxes to soak the rich. But for those states such as California, it's MORE tragic that many other states are now moving to cut or eliminate their state income tax on corporations and/or individuals. This little-reported tax cutting trend rates wider publicity.

Why would states CUT their income tax collections? Could it be that they want our refugee millionaires and businesses, and don't want to lose theirs? Or maybe they are just stark raving mad (the dismissive likely liberal explanation). Here's the obvious reason -- low tax states do better economically than high tax states. Below is the latest quick bottom line comparison:

Comparing High- and Low-Tax States

Percentage average growth by category for nine states without personal income taxes and nine states with the highest personal tax rates, 2001-2010

	No income tax	Highest rate
Population	13.7	5.5
State product	58.5	42.1
Employment	5.4	-1.7

Note: States without a personal income tax are Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming. The states with the highest rates are California, Hawaii, Maine, Maryland, New Jersey, New York, Ohio, Oregon and Vermont.
Source: American Legislative Exchange Council, 2011

You WILL want to read this WALL ST JOURNAL editorial. It names names (actually, states) -- Oklahoma, South Carolina, Kansas and Indiana. In addition, Idaho, Maine, Nebraska, New Jersey and Ohio are debating income-tax cuts this year. Already 7 other states charge zero income tax.

<http://online.wsj.com/article/SB10001424052970203889904577200872159113492.html>

I maintain a fact sheet, comparing California with the other 49 states. Included are taxes, regulations, litigation, utility costs and other factors. Sadly, the Golden State is not so golden after all. And our annual California state net domestic outmigration reflects this. http://open.salon.com/blog/richard_rider/2012/07/20/breaking_bad_ca_vs_the_other_states_rev_72012

To further raise our already sky-high tax rates is madness. CA IS the engine of prosperity – for the other 49 states.

Richard Rider



California State Sheriffs' Association

Organization Founded by the Sheriffs in 1894

Officers

- President*
Keith Royal
Sheriff, Nevada County
- 1st Vice President*
Greg Ahern
Sheriff, Alameda County
- 2nd Vice President*
Adam Christianson
Sheriff, Stanislaus County
- Secretary*
Martin Ryan
Sheriff, Amador County
- Treasurer*
Donny Youngblood
Sheriff, Kern County
- Sergeant-at-Arms*
Bill Brown
Sheriff, Santa Barbara County
- Al Cooper
Sergeant-at-Arms, Emeritus
- Immediate Past President*
Mark N. Pazin
Sheriff, Merced County

Directors

- Tom Bosenko
Sheriff, Shasta County
- John Crawford
Sheriff, Alpine County
- Steve Durfor
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- Steve Freitas
Sheriff, Sonoma County
- Sandra Hutchens
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- David Livingston
Sheriff, Contra Costa County
- Margaret Mims
Sheriff, Fresno County
- Steve Moore
Sheriff, San Joaquin County
- Ed Prieto
Sheriff, Yolo County
- Gary Stanton
Sheriff, Solano County
- Bill Wittman
Sheriff, Tulare County
- Presidents' Counsel**
- Ed Bonner
Sheriff, Placer County
- Robert Doyle
Sheriff, Marin County
- Laurie Smith
Sheriff, Santa Clara County
- M. Carmen Green
Deputy Executive Director
- Nick Warner
Legislative Director
- Martin J. Mayer
General Counsel

July 31, 2012

The Honorable Lois Wolk
Chair, Senate Committee on Governance & Finance
Attn: Hai-Vu Phan
California State Capitol Room 408
Sacramento, CA 95814

Dear Senate Committee on Governance and Finance:

On behalf of California's 58 Sheriffs working to strengthen our state's system of law enforcement and public safety, I'm grateful for the opportunity to discuss our organization's opposition to Proposition 38, which we believe contains serious flaws that will do immediate damage to California's schools, middle-class families, small businesses and, most disconcerting to us, public safety.

Many Californians will oppose Proposition 38 because it increases Personal Income Tax income tax rates on nearly every taxpayer in every bracket – including Californians earning as little as \$7,316 per year. In fact, it raises income tax rates by as much as 21 percent – and locks in those increases for 12 years.

Others will oppose the costly, new, unaccountable bureaucracy it creates that forces California schools to go through a maze of complex red tape just to receive basic funding.

But California's law enforcement community opposes Proposition 38 because it contains two critical defects which risk blowing a massive hole in our state's budget, thereby threatening funding for education, health services and public safety:

One, Proposition 38 delivers no new revenue to schools in Fiscal Year 2012-13. Under the measure, money doesn't begin to flow until late 2013, at the earliest.

Two, if Proposition 38 finishes ahead of Proposition 30, it would necessarily trigger an immediate General Fund emergency, forcing direct and devastating State Budget cuts of at least \$6 billion. Every state program would be put at risk, including K-14 education, UC and CSU systems, critical health services and public safety programs – many of which have already been cut to the bone in prior budget cycles.

Proposition 38 claims to raise money for schools, but its drafting errors will create an immediate education funding crisis and force both our schools and our state into an even deeper fiscal hole before seeing a penny of relief.

That's why California's Sheriffs, joined by educators, physicians, business leaders and middle-class families have given Proposition 38 a failing grade.

Sincerely,

Keith Royal, CSSA President
Sheriff, Nevada County

KR/cmc

CALIFORNIA CHAMBER of COMMERCE

ALLAN ZAREMBERG
President and Chief Executive Officer



July 31, 2012

Senator Lois Wolk
Attn: Hai-Vu Phan
California State Capitol, Room 408
Sacramento, CA 95814

Dear Senate Committee on Governance and Finance:

Thank you for the opportunity to discuss our serious concerns about Proposition 38 with members of the Legislature and the public. In the coming months we are confident that as voters learn about the many flaws in the complicated 28 pages of fine print, they will vote to defeat Proposition 38.

We all want better schools -- schools like California used to have where our children learned and graduated. But throwing \$120 billion new tax dollars at our failed schools will not bring back quality education for our children.

\$120 Billion Income Tax Hike on Most Californians

Every Californian who earns \$17,346 or more per year in taxable income will face a tax increase. Proposition 38 raises California personal income tax rates by as much as 21%, on top of Federal government tax rate.

The Proposition 38 tax increase continues until 2024. For families that have a child entering first grade, they'll be paying higher income taxes until that child graduates from high school.

Even as the economy improves and more people get back to work, and funding for schools naturally increases, the tax increases continue. Even without necessary reforms to our education system, like the ability to fire bad teachers, the tax increases still continue. Prop. 38 locks in higher income tax rates for the next twelve years – no matter what.

Proposition 38 raises billions of dollars in new taxes, with virtually no accountability on how the money is spent and how much actually gets into the classroom.

Targets Small Business and Kills Jobs

Approximately 3.8 million California small businesses pay individual taxes on their earnings, rather than corporate taxes. Consequently, small businesses will be devastated by these higher taxes – even businesses making as little as \$30,000 or \$40,000 a year.

Instead of creating jobs and improving the economy, Proposition 38 will force family businesses to cut jobs, move out of state, or even close. If they can stay in business, they'll raise prices to pay the higher taxes, which will ultimately be passed on to consumers. With over 11 percent unemployment and over 20 percent under employment we can't afford to lose more jobs or raise costs for working families who are struggling to make ends meet.

Under Proposition 38, there are no requirements to improve school performance or get rid of bad teachers.

No Changes, Even for Fraud or Waste, for Twelve Years

Proposition 38 contains a special provision hidden in its twenty-seven pages of fine print that prohibits any changes in the measure through 2024 (without another costly vote of the people), even in the case of waste, fraud or abuse.

\$120 Billion in New Taxes, but Nothing to Reduce Our Deficit

There is nothing in Proposition 38 that requires any of the funds to be used specifically for deficit reduction, even with \$120 billion in new taxes.

Instead of reforming the system, cleaning up waste and abuses, Proposition 38 raises taxes and throws more money at a broken system. We urge voters to vote no on Proposition 38, it is just another flawed, costly and misleading initiative.

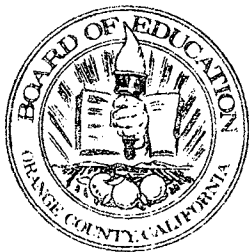
Sincerely,

A handwritten signature in black ink, appearing to read 'Allan Zaremborg', with a long horizontal flourish extending to the right.

Allan Zaremborg

AZ:dh

PROPOSITION 38 - OPPOSE



DR. KEN L. WILLIAMS

TRUSTEE DISTRICT 3

ORANGE COUNTY BOARD OF EDUCATION

200 KALMUS DRIVE, PO Box 9050, COSTA MESA, CA 92628-9050

PHONE 714.966.4012 FAX 714.432.1916

WEBSITE: <http://www.ocde.us> E-MAIL: ocbe@ocde.us

August 4, 2012

Hon. Lois Wolk, Chair
Senate Governance and Finance Committee
California State Capitol, Room 408
Sacramento, California 95814

Hon. Bob Dutton, Vice Chair
Senate Governance and Finance Committee
1020 N Street, Room 234
Sacramento, California 95814

Dear Chair Wolk, Vice Chair Dutton, and Members of the Governance and Finance Committee:

In response to your letter written July 27, although I am currently president of the Orange County Board of Education, I am writing this letter as an individual board member and thus my views do not represent the Board of Education or any member on my honorable board.

Proposition 38 is a well-intentioned, but deeply-flawed measure. It seeks to raise income taxes on every Californian to fund K-12 schools, child care, and preschool, along with four years of state debt repayment. I am urging Californians to vote **NO on Proposition 38** as well as all taxes raising propositions.

The text of Prop 38 clearly shows that every single Californian who earns more than \$7,316 in taxable income will see their taxes raised. At a time when families across this state are struggling to put food on their tables and roofs over their heads, every single dollar counts.

Small businesses were responsible for 65% of new jobs created between 1993 and 2009, and 3,800,000 small businesses in California pay personal rather than corporate taxes on their earnings. The Prop 38 tax increase would force these businesses to create fewer jobs, or even worse, devastate these businesses to the point where they would have to close their doors.

Furthermore, Prop 38 is designed to hamstring the Legislature: its proponents have explicitly stated so. This measure is so stringent that a new legislator first elected on the same day that Prop 38 passes would term out before the Legislature could even touch the terms of this measure.

Imagine if a measure had been passed in 2000 that could not be modified until 2012. In 2000, we were at the height of the dot-com boom, and no one could have foreseen the crises that would follow: two recessions, the September 11th attacks, two wars, a gubernatorial recall, a mortgage crisis, a banking crisis, several municipal bankruptcies, and a series of budget crises.

Simply stated: Proposition 38 is too expensive and too rigid for California.

Sincerely,


DR. KEN L. WILLIAMS
Trustee, District 3

cc: Senators DeSaulnier, Fuller, Hancock, Hernandez, Kehoe, LaMalfa, and Liu
Hai-Vu Phan, Senate Governance and Finance Committee
Scott Chavez and Ryan Eisberg, Senate Republican Caucus



CALIFORNIANS *for*
Clean Energy & Jobs

August 1, 2012

Senator Lois Wolk
Attn: Hai-Vu Phan
California State Capitol, Rm. 408
Sacramento, CA 95814

Dear Senator Lois Wolk,

As Co-Chair of Prop 39, I support this measure's goal to close a corporate tax loophole and create jobs in California. Prop 39 will make all corporations pay their fair share, closing a tax loophole for multi-state businesses that will generate billions to help balance our budget and help our schools, create construction jobs in the fast-growing clean energy industry, and save taxpayers millions of dollars in energy costs for schools and other public buildings.

Moving to a mandatory single sales factor for multi-state corporations is what states like New York, New Jersey, Texas, and Michigan have done to protect jobs and business in their states. Shifting to this tax system puts all multi-state businesses on a level playing field and reverses the current California tax policy that rewards out-of-state corporations for creating jobs outside the state.

More than one million Californians are unemployed right now. This initiative will move forward energy retrofit projects in schools and public buildings, saving taxpayer dollars in energy costs, giving our state more clean energy and air, and putting Californians back to work. School districts will save millions in energy costs that can then be re-invested in education.

These energy efficiency and clean energy projects will create quality jobs all over the state, and help California continue to be the nation's leader in energy efficiency and renewable energy. Proposition 39 will create jobs and tax fairness in California, and for these reasons, I support it.

Sincerely,

Tom Steyer
Chairman
Californians for Clean Energy and Jobs



424 Pendleton Way
Oakland, CA 94621
510-638-5864 phone
510-638-8984 fax

lung.org/california

August 1, 2012

Senator Lois Wolk
Attn: Hai-Vu Phan
California State Capitol, Rm. 408
Sacramento, CA 95814

Board of Directors

Re: Support for Proposition 39 – The California Clean Energy Jobs Act

Marsha Ramos
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Billy Kim
Stephen Legg
Malissa McKeith
Stephen O'Kane
Sue Padernacht
David Pogue
John Rodgers
Robert Sawyer, Ph.D.
Eneida Talleda
Kristi VandenBosch

Dear Senator Lois Wolk,

Thank you for the opportunity to provide official comments on our support for Proposition 39, the California Clean Energy Jobs Act. This measure closes a corporate tax loophole, creates tens of thousands of jobs, and generates \$1 billion in annual revenue for California that will fund clean energy and efficiency projects, as well as vital state programs in public health, education, social services, and healthcare through the general fund.

The American Lung Association in California supports Prop 39's investments in clean energy and energy efficiency because they improve the health of California citizens by reducing air pollutants that contribute to asthma, lung disease and premature deaths. Electricity consumption is a major contributor to greenhouse gases and air pollution. In high-heat, high usage times of the year, old, inefficient power plants, often located in high pollution areas of the state, come on-line to provide power. While this generation may be necessary to assure continued operation of the electricity system, the best approach to phasing out this need for peak power plants is extensive energy efficiency programs.

Prop 39's five-year investments in clean energy and energy efficiency will produce immediate benefits to air quality and public health, and will also generate energy cost savings for California in the long-term. By investing in energy upgrades in schools, Prop 39 will also simultaneously rid these buildings of toxic substances such as lead, asbestos, and mold that threaten children's health.

In sum, the American Lung Association in California supports Prop 39 because its passage will improve the overall quality of our air and bring jobs back to California.

Sincerely,

Jane Warner
President and CEO

Jane Warner
President and CEO,
American Lung Association in California

PROPOSITION 39 - SUPPORT



August 1, 2012

Executive Officers

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Psonas

Brad Cox, Immediate Past
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Joaquin DeMonet, Arden Realty

Kevin Dow, Turner Construction Co.

John Ek, Ek & Ek

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Melinda Franklin, United Airlines

Amy Frelich, Armbruster Goldsmith &
Delvac LLP

Sean Gallagher, K Road Power

Ron Griffith, Century Housing Corporation

Arno Harris, Recurrent Energy

Mary Hemmingsen, Brookfield Renewable
Power

Carlos Illingworth, Safeway/Vons

Deborah Kalicki, Cedars-Sinai Health System

Sharon Keyser, Paramount Pictures

Janet Lamón, Bank of America

Antonio Manning, J.P. Morgan Chase & Co.

Mike Massey, National ITC Corporation

Allan McArtor, Airbus Americas, Inc.

George Mhister, Latham & Watkins

Andrew Miller, Hensel Phelps Construction
Co.

Ron Nichols, LA Dept. of Water & Power

Kelly Olson, HMC Architects

Jerry Porter, CresaPartners

Kevin Ratner, Forest City

Tom Roel, Parsons

Michael Rosenfeld, Next Century Associates,
LLC

David C. Sears, J.P. Morgan

Carmel Sella, Wells Fargo Bank

Sarah Shaw, JMB Realty Corporation

Patti Shwayder, AIMCO

Lori Tierney, Unisource Solutions

Nadine Watt, Watt Companies

Mike Whatley, SunPower

Jim Wilson, National Electrical Contractors
Association

Gillian Wright, Sempra Energy Utilities

Senator Lois Wolk
Attn: Hai-Vu Phan
California State Capitol, Rm. 408
Sacramento, CA 95814

Dear Senator Wolk,

The Los Angeles Business Council is pleased to support Prop 39, which will create a level playing field for all California businesses and provide direct investment in clean energy jobs.

Prop 39 will reform the tax system for multi-state companies, encouraging these companies to bring jobs back to California, and generating \$1 billion in annual revenue for the state. As a representative of business leaders from all industry sectors, we support closing this loophole to create a fair and level playing field for all businesses in California.

Los Angeles clean tech businesses have contributed significantly to California's leadership in clean energy and energy efficiency programs. Clean technology is a fast growing sector, and the clean energy investments from Prop 39's passage will stimulate the economy, encourage more private investment in the sector, and create tens of thousands of jobs for California. In addition to allowing our state's clean energy and energy efficiency sectors to continue to thrive, Prop 39 also improves the State's financial status by generating revenue for the general fund.

We strongly support the goals of this initiative to create tax fairness for businesses and clean energy jobs for Californians.

Sincerely,

Mary Leslie
President

Californians to Close the Out of State Corporate Tax Loophole

August 3, 2012

Senator Lois Wolk
Chair, Senate Committee on Governance and Finance
California State Capitol, Room 408
Sacramento, California
95814

Dear Madame Chair,

Californians to Close the Out-of-State Corporate Tax Loophole is pleased that the Senate Committee on Governance and Finance is reviewing Proposition 39 which seeks to close California's corporate tax loophole for out-of-state corporations that was passed in the middle of the night back in 2009 with no public disclosure. As you know, to this day, no one has take responsibility for inserting the language into state law.

As you may know, Senator Kevin De Leon has asked four of the companies that are fighting hard to keep the loophole open to submit in writing their reasons for supporting the loophole that is costing the state \$1 billion in revenues and tens of thousands of jobs. Closing the loophole would not only create jobs and help the budget, but it would create a level playing field for California businesses that are currently at a competitive disadvantage due to the loophole.

The states of Colorado, Georgia, Illinois, Indiana, Iowa, Maine, Michigan, Nebraska, New York, Oregon, South Carolina, Texas and Wisconsin have all adopted a mandatory single sales factor approach – without a loophole – to provide an incentive to companies to invest in state. Only California and one other state – Missouri – have this glaring loophole.

In advance of the Committee's hearing on August 8 to discuss closing the loophole through Proposition 39, and in light of Senator De Leon's inquiry to the companies, we would like to share with you a report that was released today. The report, "The Tax Dodger Hypocrisy," reveals that the very same companies that are opposed to closing the tax loophole are on record as supporting the very same law in the state where they do the bulk of their business.

For example:

- In Wisconsin, Kimberly Clark led the charge in 2003 to change the Wisconsin law to a single sales factor method. The company spent 66 hours and \$6,781 lobbying

Paid for by Yes on 39 - Californians to Close the Out-of-State Corporate Tax Loophole. Major funding by Thomas F. Steyer and Californians for Clean Energy and Jobs, sponsored by environmental organizations and business for clean energy and jobs - Yes on 39.

members of the Wisconsin State Senate in support of the single sales factor bill, including an appearance by its lobbyist at a Senate Committee on Economic Development, Job Creation and Housing in support of the bill.

- General Motors did the same in Indiana in 2006, where it was a member of the Indiana Single Sales Coalition, a group of 24 businesses that lobbied the state's legislature to adopt a single sales factor method in order to "level the playing field." GM paid its own lobbyist and an independent lobbyist for "taxation" businesses in 2005-2006.
- And in 1995 in Michigan, Chrysler and GM were part of the Good Jobs Coalition's effort to change the law in that state and in doing so "send a powerful message to job providers to locate and expand in Michigan."

In other words, when it comes to protecting their own interests in their own state, these businesses are all for closing the loophole so that they are not at a competitive disadvantage. But here in California, where out-of-state corporations have an advantage over California businesses, the out-of-state corporations are fighting any attempt to close the loophole and level the playing field for California businesses.

We believe this information is relevant to the discussion you will be having this week. Please let us know if you have any questions about anything in the report.

Sincerely,

Californians to Close the Out-of-State Corporate Tax Loophole

PROPOSITION 39 - OPPOSE



Dorothy Rothrock
Vice President, Government Relations

August 2, 2012

The Honorable Lois Wolk
California State Senate
Chair, Senate Governance and Finance Committee
California State Capitol, Room 5114
Sacramento, CA 95814

Re: Proposition 39 - Statement of Opposition
Hearing: August 8

Dear Senator Wolk:

BACKGROUND:

Proposition 39 would eliminate the three-factor apportionment formula that has been a part of California law since 1966 and instead impose a single sales factor (SSF) calculation on all multistate businesses. In 1966, California adopted an equally weighted, three-factor apportionment formula for taxing multistate businesses – payroll, property and sales. In 1974, California joined an interstate compact adopting this formula. The compact requires that participating states offer the three-factor formula, but allows states to offer an alternative apportionment formula, so long as the taxpayer can elect which formula to apply. In 1993, the Legislature amended the three-factor apportionment formula by giving double weight to the sales factor. In 2009, the Legislature retained the revised three-factor apportionment formula (double weight on sales) but provided an alternative SSF apportionment formula that allows multistate businesses to apportion income to California using only their percentage of sales in California.

CMTA POSITION:

On June 27, CMTA adopted an "oppose" position on Prop 39. Maintaining the taxpayers' ability to choose either the longstanding three-factor apportionment formula or the SSF will encourage new investment and employment in California while protecting taxpayers who opt for the longstanding formula.

The proponents argue that Prop 39 "repeals a shady backroom legislative deal enacted in 2009" that created a tax "loophole" for "out-of-state" companies. That is false and misleading. In fact, Prop 39 would repeal a longstanding method for income apportionment based on three factors that has been acknowledged by California and most other states as a comprehensive way to apportion income for tax purposes. Income apportionment is necessary because many large corporations have "multistate" operations. It is inaccurate to label companies that prefer to pay taxes under the 3 factor formula as "out-of-state" companies.

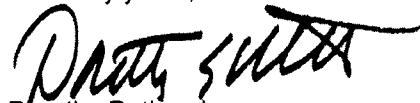
Prop 39 fails to recognize the importance of all taxpayers' contributions to the state's economic health. Many companies have significant investments of property, equipment, facilities and payroll in California, but have sales in the state that are relatively large in comparison. In California, SSF is particularly ill-suited for manufacturers producing consumer products that cannot be produced here and shipped across the country and world to other customers.

Forcing these companies to use SSF would be a \$1.2 billion tax increase even though they would be operating as they have for many years. Nothing justifies this increase – they are imposing no additional burden on government services, nor will they be able to avoid the tax increase through reasonable in-state investments and/or hiring.

The bi-partisan agreement in February 2009 allowed use of SSF to help stimulate investment and hiring in the state for the companies who might otherwise invest elsewhere. At that time the Legislature rightfully allowed for the method to be elective in nature, allowing the longstanding method to be used by employers for which SSF is actually a disincentive to invest. By moving to mandatory SSF, Prop 39 punishes taxpayers who neither sought SSF nor ever planned to use it.

Current California law already imposes a tax burden on companies that ranks the state 48th (2012 Tax Foundation Business Tax Climate Index) and measures sales as 50% of the income calculation (double weight). Mandating SSF also magnifies the uncertainty and unpredictability of the tax climate in the state. This will further erode California's ability to attract and compete with other states for business investment and hiring.

Sincerely yours,



Dorothy Rothrock

cc: Honorable Members, Senate Governance and Finance Committee
Ms. Gayle Miller, Staff Director, Senate Governance and Finance Committee
Mr. Scott Chavez, Governance and Finance Consultant, Senate Republican Caucus

Section 5:
**TEXTS OF PROPOSED
LAW**

PROPOSITION 30

12-0009

March 14, 2012

VIA MESSENGER

Office of the Attorney General
1300 "I" Street
Sacramento, CA 95814

Attention: Ashley Johansson

Re: *The Schools and Local Public Safety Protection Act of 2012 - ver. 3*

Dear Ms. Johansson:

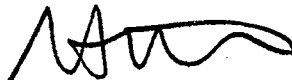
In accordance with the requirements of Elections Code section 9001(a), I request that the Attorney General prepare a circulating title and summary for a measure entitled "The Schools and Local Public Safety Protection Act of 2012." The text of the measure, a check for \$200.00, and the certifications required by Elections Code sections 9001(b) and 9608 are enclosed.

This initiative is substantively identical to The Schools and Local Public Safety Protection Act of 2012 (ver. 2), AG number 12-0001, except that (1) the sales and use tax increase is only ¼ cent; (2) the income tax rate for the top two brackets is raised by an additional .5 and 1.0 percent, respectively; and (3) the income tax rate increases remain in effect through the end of the 2018 tax year.

Please direct all correspondence and inquiries regarding this measure to:

Karen Getman
Thomas A. Willis
Remcho, Johansen & Purcell, LLP
201 Dolores Avenue
San Leandro, CA 94577
Phone: (510) 346-6200
Fax: (510) 346-6201

Sincerely,



Thomas A. Willis

Enclosures
(00166767)

RECEIVED

MAR 14 2012

INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

THE SCHOOLS AND LOCAL PUBLIC SAFETY PROTECTION ACT OF 2012

Sec. 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 4 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 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 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 (d), commencing in fiscal year 2011-2012 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 30th of each year thereafter through 2018, 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 ten days of the quarter of each of the first three quarters of each fiscal year from 2013-14 through 2018-19, 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 2012-13 through 2020-21, 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 through 2018-19, 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 through 2021, 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 the enactment 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 enactment 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 enactment 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 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 enactment of this section. The amounts so calculated shall be offset by the amounts specified in subdivision (c) of Section 2558, paragraphs (1) through (7) of subdivision (h) of Section 42238, and Section 47635 of the Education Code for county offices of education, school districts, and charter schools, respectively, as those sections read upon enactment of this section, which 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 enactment 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, Governor or any agency of state government.

(6) A community college district, county office of education, school district, and 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 cease to be operative 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 and 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 and 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 provision shall be considered to be chaptered on the date it becomes effective.

(ii) For purposes of Part 10 (commencing with Section 17001) 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 cease to be operative on December 1, 2019.

(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 provision shall be considered to be chaptered on the date it becomes effective.

(ii) For purposes of Part 10 (commencing with Section 17001) 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 cease to be operative 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, 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, as added by this measure, shall be operative as of January 1, 2012. All other provisions of this measure shall take effect 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.

RECEIVED

NOV 03 2011

November 1, 2011

INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

VIA MESSENGER

Office of the Attorney General
1300 "I" Street
Sacramento, CA 95814

Attention: Dawn McFarland

Re: *The Government Performance and Accountability Act*

Dear Ms. McFarland:

Pursuant to Elections Code section 9001(a), we request that the Attorney General prepare a title and summary of a measure entitled "The Government Performance and Accountability Act." The text of the measure, a check for \$200.00, the addresses at which we are registered to vote and the certifications required by Elections Code sections 9001(b) and 9608 are enclosed.

Please direct all correspondence and inquiries regarding this measure to:

Robin B. Johansen
James C. Harrison
Remcho, Johansen & Purcell, LLP
201 Dolores Avenue
San Leandro, CA 94577
Phone: (510) 346-6200
Fax: (510) 346-6201

Sincerely,



November 3, 2011

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Sincerely,



Enclosures
(00156289)

The Government Performance and Accountability Act

SECTION ONE. 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.

SECTION TWO. 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.

SECTION THREE. Section 8 of Article IV of the California Constitution is hereby 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 in printed 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.

SECTION FOUR. Section 9.5 is hereby 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.

SECTION FIVE. Section 10 of Article IV of the California Constitution is hereby 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.

SECTION SIX. Section 12 of Article IV of the California Constitution is hereby 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 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.

(be) 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.

(ef) (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.

(dg) 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.

(eh) (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 (dg) 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.

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

(gj) (1) 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. 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)~~ Notwithstanding any other provision of law or of this Constitution, including subdivision ~~(e)~~ 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.

SECTION SEVEN. Article XI A is hereby added to the California Constitution to read:

ARTICLE XI A. COMMUNITY STRATEGIC ACTION PLANS

SEC. 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); and

(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) of this section.

(c) This section shall become operative in the budget year of the local government entity which 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 the following:

(1) A statement that (A) outlines how the Action Plan will achieve the purposes and goals set forth in paragraphs (1) through (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; and

(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 which have adopted an Action Plan pursuant to this section and that 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 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 only apply 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 this Act 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) through (5), inclusive, of subdivision (a) of Section 1 of this article, 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 of this article. 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 of this article.

(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) through (5), inclusive, of subdivision (a) of Section 1 of this article.

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.

SECTION EIGHT. Section 29 of Article XIII of the California Constitution is hereby 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 entity, 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.

SECTION NINE. Chapter 6 (commencing with Section 55750) is hereby added to Part 2 of Division 2 of Title 5 of the Government Code to read:

CHAPTER 6. COMMUNITY STRATEGIC ACTION PLANS.

SEC. 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 2013-2014 fiscal year.

SEC. 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.

SEC. 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.

SECTION TEN. Section 42246 is hereby added to Article 2 of Chapter 7 of Part 24 of Division 3 of Title 2 of the Education Code to read:

SEC. 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.

SECTION ELEVEN. Section 9145 is hereby added to Article 7 of Chapter 1.5 of Part 1 of Division 2 of Title 2 of the Government Code to read:

SEC. 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.

SECTION TWELVE. Section 11802 is hereby added to Article 1 of Chapter 8 of Part 1 of Division 3 of Title 2 of the Government Code to read:

SEC. 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.

SECTION THIRTEEN. Section 13308.03 is hereby added to Article 1 of Chapter 3 of Part 3 of Division 3 of Title 2 of the Government Code to read:

SEC. 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.

SECTION FOURTEEN. 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.

SECTION FIFTEEN. 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.

SECTION SIXTEEN. Effective Date.

Sections Four, Five, and Six 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.

SECTION SEVENTEEN. 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.

RECEIVED

JAN 11 2012

INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

January 11, 2012

VIA MESSENGER

Office of the Attorney General
1300 "I" Street
Sacramento, CA 95814

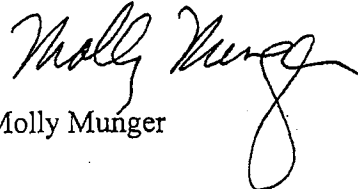
Attention: Ashley Johansson

Re: *Our Children, Our Future: Local Schools and Early Education
Investment and Bond Debt Reduction Act*

Dear Ms. Johansson:

I am a proponent of the "Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act," which has been submitted to your office for preparation of a title and summary. I am registered to vote at:

Sincerely,



Molly Munger

RECEIVED

DEC 23 2011

INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

December 22, 2012

VIA MESSENGEROffice of the Attorney General
1300 "I" Street
Sacramento, CA 95814

Attention: Dawn McFarland

Re: *Our Children, Our Future: Local Schools and Early Education
Investment and Bond Debt Reduction Act*

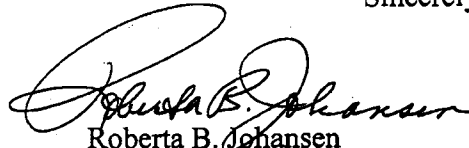
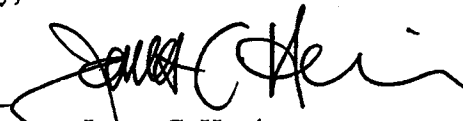
Dear Ms. McFarland:

Pursuant to Elections Code section 9001(a), we request that the Attorney General prepare a title and summary of the "Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act." The text of the measure, a check for \$200.00, the address at which we are registered to vote and the certifications required by Elections Code sections 9001(b) and 9608 are enclosed.

Please direct all correspondence and inquiries regarding this measure to:

Robin B. Johansen
Remcho, Johansen & Purcell, LLP
201 Dolores Avenue
San Leandro, CA 94577
Phone: (510) 346-6200
Fax: (510) 346-6201

Sincerely,


Roberta B. Johansen
James C. HarrisonEnclosures
(00158066)

**OUR CHILDREN, OUR FUTURE: LOCAL SCHOOLS AND EARLY
EDUCATION INVESTMENT AND BOND DEBT REDUCTION ACT**

SECTION 1. Title.

This measure shall be known and may be cited as "Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act."

SECTION 2. Findings and Declaration of Purpose.

1. California is shortchanging the future of our children and our state. Today, our state ranks 46th nationally in what we invest to educate each student. California also ranks dead last, 50th out of 50 states, with the largest class sizes in the nation.
2. Recent budget cuts are putting our schools even farther behind. Over the last 3 years, more than \$20 billion has been cut from California schools; essential programs and services that all children need to be successful have been eliminated or cut; and over 40,000 educators have been laid off.
3. We are also failing with our early childhood development programs, which many studies confirm are one of the best educational investments we can make. Our underfunded public preschool programs serve only 40 percent of eligible 3 and 4 year olds. Only five percent of very low income infants and toddlers, who need the support most, have access to early childhood programs.
4. We can and must do better. Children are our future. Investing in our schools and early childhood programs to prepare children to succeed is the best thing we can do for our children and the future of our economy and our state. Without a quality education, our children will not be able to compete in a global economy. Without a skilled workforce, our state will not be able to compete for jobs. We owe it to our children and to ourselves to improve our children's education.
5. It is time to make a real difference: no more half-measures but real, transformative investment in the schools on which the future of our state and our families depends. This Act will enable schools to provide a well-rounded education that supports college and career readiness for every student, including a high quality curriculum of the arts, music, physical education, science, technology, engineering, math and vocational and technical education courses; smaller class sizes; school libraries, school nurses, and counselors.
6. This Act requires that decisions about how best to use new funds to improve our schools must be made not in Sacramento, but locally, with respect for the voices of parents, teachers, other school staff and community members. It requires local school boards to work with parents, teachers, other school staff and community members to decide what is most needed at each particular school.

7. In order for all our schools to be transformed, so that all our children benefit, this Act makes sure that new funding gets to every local school – including charter schools, county schools and schools for children with special needs – and is allocated fairly and transparently. New funding will be allocated to every local school on a per-pupil basis, with funds required to be spent at local schools, not district headquarters.

8. This measure holds local school boards accountable for how they spend new taxpayer money. They are required to explain how expenditures will improve educational outcomes and how they propose to determine whether the expenditures were successful. They will be required to report back on what results were achieved so that parents, teachers, and the community will know whether their money is being used wisely.

9. This Act limits what schools can spend from these new funds on administrative costs to no more than 1 percent and ensures schools may not use these new funds to increase salaries and benefits.

10. This Act will help prepare disadvantaged young children to succeed in school and in life by raising standards for early childhood education programs and by expanding the number of children who can attend.

11. As Californians, we all should share in the cost of improving our schools and early education programs because we all share in the benefits that better schools and a well-educated workforce will bring to our economy and the quality of life in our state.

12. Our schools and early childhood programs have suffered from years of being shortchanged. Rather than allow further cutbacks, we need to increase funding to provide every child an opportunity to succeed. If we all join together to send more resources to all our children and classrooms, and we all participate in ensuring good decisions are made about how to use these funds effectively, we can once again make California schools great and grow our economy.

13. This measure raises the money needed to invest in our children through a sliding scale income tax increase which varies with taxpayers' ability to pay, with the highest income earners contributing the most.

14. During the first four years of this initiative, as described below, 60% of the funds will go to K-12 schools, 10% will go to early education and 30% will go to reduce state debt and prevent further harmful budget cuts that could undermine these new educational investments. For the remaining eight years of the initiative, from 2017 on, one hundred percent of the funds will go to increase K-12 and early education funding. To avoid wide fluctuations in revenue and ensure continued investment in needed school and early education facilities, any revenues that exceed the rate of growth of California per capita personal income will be used to help service and pay down existing state education bond debt, ensuring California's ability to issue new bonds, as needed, to build and modernize school and early education facilities.

15. All the new money raised by this initiative will be put in a separate trust fund that can *only* be spent for local schools, for early childhood care and education, and to help service and retire school bond debt, according to the provisions of this Act. The Legislature and Governor will not be allowed to use this money for anything else, nor will they be able to change the per-pupil allocation system that ensures money flows fairly to every local school.

16. This initiative contains tough, effective accountability provisions that require oversight, audits and public disclosure. For the first time, we will have transparent school site budgets and know exactly how our money is being spent in every school. Anyone who knowingly violates the allocation or distribution provisions of this Act will be guilty of a felony.

17. The initiative also builds in an extra layer of accountability by ending the tax after twelve years unless it is re-approved by the voters. That gives our schools enough time to show that the new funds have actually improved educational outcomes, while protecting taxpayers by eliminating the tax if voters decide they don't want to keep it.

18. This initiative will be taking effect as California grapples with one of the worst economic downturns in its history. If the initiative were fully implemented immediately and nothing were done to help close our state's budget deficit, continuing extreme budget cuts could deprive our schools and children of the support they need to fully benefit from the educational investments provided by this Act. Therefore, this initiative will be implemented in two phases. For the first four fiscal years, until the end of 2016-2017, thirty percent (30%) of the funds—about \$3 billion—will go to service and retire state school bond and other bond debt, freeing up a like amount to meet other budget needs critical to the overall well-being of children and the families and communities in which they live. Beginning in fiscal 2017-2018, the initiative will be fully implemented, and one hundred percent of the funds will be new money, which cannot be used in place of Proposition 98 or any other current funding for K-12 education or early childhood programs. The result of this phased approach will be that, beginning immediately, seventy percent (70%) of the funds will be used to increase funding for schools and early education programs as required by this Act, and after four years, all of the funds—one hundred percent (100%)—must be spent for that purpose to fulfill our obligation to our children and our future..

SECTION 3. Purpose and Intent.

The people of the State of California declare that this Act is intended to do the following:

1. To strengthen and support California's public schools, including charter schools, by increasing per-pupil funding to improve academic performance, graduation rates, and vocational, college, career and life readiness.

2. To strengthen and support the education of California's children by restoring funding, improving quality, and expanding access to early care and education programs for disadvantaged and at-risk children.
3. To create more accountability, transparency, and community involvement in how public education funds are spent.
4. To ensure that the revenues generated by this Act will be used for K-12 educational activities at the school site; to expand and strengthen early care and education for disadvantaged children; and, to the limited extent and under the limited circumstances specifically permitted by this Act, to strengthen the overall fiscal position of the state and encourage adequate future investment in educational facilities by reducing the burden of current state education bond debt.
5. To ensure that the revenues generated by this Act cannot be used to supplant existing state funding for K-12 education or early care and education.
6. To ensure that the Legislature cannot borrow or divert the revenues generated by this Act for any other purpose, nor dictate to local school communities how those funds shall be spent.

SECTION 4. Part 9.7 is added to Division 1 of the Education Code, to read:

Part 9.7. Our Children, Our Future: Local Schools, Early Education Investment and Bond Debt Reduction Act.

SEC. 14800. This part shall be known and may be cited as the Our Children, Our Future: Local Schools, Early Education Investment and Bond Debt Reduction Act.

SEC. 14800.5. For purposes of this Part, and of Chapter 1.8 of Part 6, Division 1 of this Code, the following definitions apply:

(a) "Local education agency" or "LEA" includes school districts, county offices of education, governing boards of independent public charter schools, and the governing bodies of direct instructional services provided by the state, including the California Schools for the Deaf and the California School for the Blind.

(b) "K-12 school" or "school" means any public school, including but without limitation any charter school, county school or school for special needs children, that annually enrolls, and provides direct instructional services to, students in any or all of grades kindergarten through 12 and that is under the operational jurisdiction of any LEA. The term "kindergarten" in this Part includes Transitional Kindergarten.

(c) "Early care and education" or "ECE" means preschool and other programs that are designed to care for and further the education of children from birth to kindergarten eligibility, including both programs providing early care and education to

children and programs that strengthen the early care and education capacity of parents and caregivers so that they can better serve children.

(d) For the 2013-2014 school year, a school's "enrollment" means the October enrollment figures reported for the 2012-13 school year, reduced or increased by the average percentage growth or decline in its October enrollment figures over the past three school years. For all subsequent years, a school's "enrollment" means the average monthly active enrollment for the prior school year calculated pursuant to section 46305 of this Code, or the October enrollment for the prior school year if the section 46305 figure is not available, reduced or increased by the average percentage growth or decline in these enrollment figures over the past three school years. Each LEA's enrollment shall be the sum of enrollments at all schools under that LEA's jurisdiction. Statewide enrollment shall be the sum of all LEAs' enrollments.

(e) "Educational program" means expenditures for the following purposes at a K-12 school site, approved at a public hearing by the governing board of the LEA with jurisdiction over the school, to improve the students' academic performance, graduation rates, and vocational, career, college and life readiness:

- (1) instruction in the arts, physical education, science, technology, engineering, mathematics, history, civics, financial literacy, English and foreign languages, and technical, vocational or career education;
- (2) smaller class sizes;
- (3) more counselors, librarians, school nurses and other support staff at the school site;
- (4) extended learning time through longer school days or longer school years, summer school, preschool, after school enrichment programs and tutoring;
- (5) additional social and academic support for English language learners, low income students and students with special needs;
- (6) alternative education models that build students' capacity for critical thinking and creativity; and
- (7) more communication and engagement with parents as true partners with schools in helping all children succeed.

(f) "CETF funds" means those revenues deposited in the California Education Trust Fund pursuant to Section 17041.1 of the Revenue and Taxation Code, together with all interest earned on those funds pending their initial allocation and all interest earned on any recaptured funds pending their reallocation.

(g) "Superintendent" or "State Superintendent" means the California State Superintendent of Public Instruction.

SEC. 14801. (a) The California Education Trust Fund is hereby created in the State Treasury. CETF funds are held in trust and, notwithstanding section 13340 of the Government Code, are continuously appropriated, without regard to fiscal years, for the exclusive purposes set forth in this Act.

(b) CETF funds transferred and allocated to or from the California Education Trust Fund shall not constitute appropriations subject to limitation for purposes of Article XIII B of the California Constitution. CETF funds are held in trust for purposes of this Act only and shall not be considered General Fund revenues or proceeds of taxes, and thus shall not be included in the calculations required by section 8 of article XVI of the California Constitution, nor subject to the provisions of section 12 of article IV or section 20 of article XVI of the California Constitution.

(c) CETF funds shall be allocated and used exclusively as set forth in this Act and shall not be used to pay administrative costs except as specifically authorized by the Act. Notwithstanding any other provision of law, CETF funds shall not be transferred or loaned to the General Fund or to any other fund, person or entity for any purpose or at any time except as expressly permitted in section 14813.

(d) CETF funds allocated to LEA's and the State Superintendent from the California Education Trust Fund shall supplement state, local and federal funds committed for public K-12 schools and early care and education as of November 1, 2012, and shall not be used to supplant or replace the per capita state, local or federal funding levels that were in place for these purposes as of that date, corrected for changes in the cost of living and, with respect to federal funds, for any overall decline in federal funding availability. The amounts appropriated from funds other than the CETF for support of the K-12 education system and early care and education programs, whether constitutionally mandated or otherwise, shall not be reduced as a result of funds allocated pursuant to this Act.

SEC. 14802. (a) The Fiscal Oversight Board is hereby created to provide oversight and accountability in the distribution and use of all CETF funds. The members of the Board are the State Controller, State Auditor, State Treasurer, Attorney General, and Director of Finance. The Fiscal Oversight Board shall be responsible for ensuring that CETF funds are distributed exactly as provided by this Act and are used solely for the purposes set forth in this Act.

(b) Notwithstanding any other provision of law, the actual costs incurred by the Fiscal Oversight Board, the Controller, and the State Superintendent in administering the California Education Trust Fund shall be paid by CETF funds; provided, however, that such costs may not exceed three-tenths of one percent of all revenues collected in the Fund over any three-year period, an average of one-tenth of one percent annually. Until the end of fiscal year 2016-2017, thirty percent (30%) of the costs authorized by this

section shall be deducted from the temporary support funds provided pursuant to section 14802.1, sixty percent (60%) of the costs authorized by this section shall be deducted from the funds set aside for K-12 pursuant to section 14803, and ten percent (10%) of the costs authorized by this section shall be deducted from the funds set aside for ECE pursuant to section 14803. Thereafter, eighty-five percent (85%) of the costs authorized by this section shall be deducted from the funds set aside for K-12, and fifteen percent (15%) shall be deducted from the funds set aside for ECE, pursuant to section 14803.

(c) The Fiscal Oversight Board may adopt such regulations, including emergency regulations, as are necessary to fulfill its obligations under this Act.

SEC. 14802.1. (a) Until the end of fiscal year 2016-17, the Controller shall allocate thirty percent (30%) of CETF Funds as provided in this section and the remainder in accordance with sections 14803, 14804, 14805, 14806 and 14807. Thereafter, all CETF Funds (100%) shall be allocated pursuant to sections 14803, 14804, 14805, 14806, and 14807.

(b) Until the end of fiscal year 2016-17, the term "CETF funds" as used in section 14803 shall refer to the seventy percent (70%) of CETF funds that are allocated in accordance with sections 14803, 14804, 14805, 14806 and 14808, and the term "temporary support funds" shall refer to the thirty percent (30%) of CETF funds that are allocated pursuant to this section.

(c) Until the end of fiscal year 2016-2017, on a quarterly basis, the Controller shall draw warrants on and distribute the temporary support funds to the Education Debt Service Fund established by section 14813 for distribution pursuant to that section.

SEC. 14803. (a) During the first two full fiscal years following the effective date of this Act, the Controller shall set aside eighty-five percent of CETF funds for allocation to local education agencies for K-12 schools, and fifteen percent of CETF funds for allocation to the State Superintendent for provision to early care and education programs, in the amounts and manner set forth in this Act. These funds, minus actual costs pursuant to subdivision (b) of section 14802, shall be deemed "available revenues" under section 14804.

(b) In order to provide stability and avoid wide fluctuations in funding, CETF funds shall be distributed as follows in each fiscal year subsequent to the first two full fiscal years following the effective date of this Act:

(1) (A) Commencing with the year 2015-16 and for every year other than 2017-18, at the beginning of the fiscal year, the Fiscal Oversight Board shall determine the average rate at which California personal income per capita has grown over the previous five years and shall apply that percentage rate of growth to the CETF funds that were distributed to LEAs and the State Superintendent from the California Education Trust Fund in the fiscal year just ended.

(B) For 2017-2018 only, in order to make the transition from the temporary support funds provided by subdivision (a) of 14802.1 to full funding of K-12 schools and ECE programs, at the beginning of the fiscal year, the Fiscal Oversight Board shall determine the average rate at which California personal income per capita has grown over the previous five years and shall apply that percentage rate of growth to the product of 1.429 times the amount of CETF funds that were distributed to LEAs and the State Superintendent from the California Education Trust Fund in the fiscal year just ended.

(2) The amount determined pursuant to paragraph (1), minus actual costs pursuant to subdivision (b) of section 14802, shall be deemed "available revenues" under section 14804 and shall be available for distribution on a quarterly basis to LEAs and the State Superintendent in the fiscal year then beginning.

(c) CETF funds that exceed available revenues shall be distributed at the end of the fiscal year pursuant to section 14813.

(d) All CETF funds allocated to LEAs must be spent by LEAs within one year of receipt; provided, however, that LEAs may carry over no more than ten percent of these moneys for expenditure in the following school year. The Fiscal Oversight Board shall recapture any funds not expended within the original one-year period and any funds carried over but not spent within the following year. All funds that are recaptured shall be deemed available revenues, shall be combined with other available revenues, and shall be reallocated in accordance with section 14804.

SEC. 14804. (a) On a quarterly basis, the Controller shall draw warrants on and distribute fifteen percent of the available revenues to the Superintendent of Public Instruction for provision to early care and education programs and supports in the manner and amounts provided by Chapter 1.8 of Part 6 of Division 1 of this Code.

(b) On a quarterly basis, the Controller shall draw warrants on and distribute eighty-five percent of the available revenues to LEAs, earmarked for expenditure at each K-12 school within each LEA's jurisdiction, in the amounts calculated by the Controller pursuant to sections 14805 through 14807.

(c) This section, and sections 14802.1, 14803, 14805, 14806 and 14807 are self-executing and require no legislative action to take effect. Distribution of CETF funds and temporary support funds 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 of the California Constitution, nor by any other action or inaction on the part of the Governor or the Legislature.

SEC. 14805. Of the available revenues allocated for quarterly distribution to LEAs under section 14804(b), the Controller shall distribute seventy percent as per-pupil educational program grants. The number and size of the educational program grants to be distributed to each LEA, and the number and size of the educational program grants to be earmarked for each K-12 school under the LEA's jurisdiction, shall be as follows:

(a) The Controller shall establish a uniform, statewide per-pupil grant for each of three grade level groupings: kindergarten through third grade (the "K-3 grant"), 4th through 8th grade (the "4-8 grant") and 9th through 12th grade (the "9-12 grant").

(b) These uniform grants shall be based on total statewide enrollment in each of the three grade level groupings. The per-pupil 4-8 grant amount shall be one hundred twenty percent of the per-pupil K-3 grant amount, and the per-pupil 9-12 grant amount shall be one hundred forty percent of the per-pupil K-3 grant amount.

(c) Each LEA shall receive the same number of K-3 grants as it has enrollment in kindergarten through third grade; the same number of 4-8 grants as it has enrollment in fourth through eighth grade; and the same number of 9-12 grants as it has enrollment in ninth through twelfth grade.

(d) Each of these per-pupil grants shall be earmarked for the specific K-12 school whose enrollment gave rise to the LEA's eligibility for that grant.

(e) The grade level adjustments provided in subdivisions (a) and (b) of this section shall be the only deviation allowed in the equal per-pupil distribution of the educational program funds to all K-12 schools according to their enrollments.

SEC. 14806. Of the available revenues allocated for quarterly distribution to LEAs under section 14804(b), the Controller shall distribute eighteen percent (18%) as low income per-pupil grants. The number and size of the low income per-pupil grants to be distributed to each eligible LEA, and the number and size of the low income per-pupil grants to be earmarked for each K-12 school under the LEA's jurisdiction, shall be as follows:

(a) Based on the total statewide enrollment of students in all K-12 schools who are identified as eligible for free meals under the Income Eligibility Guidelines established by the United States Department of Agriculture to implement the Richard B. Russell National School Lunch Act and the Child Nutrition Act of 1966 ("free meal eligible students"), the Controller shall establish a uniform, statewide per-pupil grant to provide additional educational support for these low income students ("the low income per-pupil grant").

(b) Each LEA shall receive the same number of low income per-pupil grants as it has free meal eligible students.

(c) Each of these low income per-pupil grants shall be earmarked for the specific K-12 school whose free meal eligible student enrollment gave rise to the LEA's eligibility for that grant.

SEC. 14807. Of the available revenues allocated for quarterly distribution to local education agencies under section 14804(b), the Controller shall distribute twelve percent

for training, technology and teaching materials grants on a per pupil basis. The number and size of these grants to be distributed to each LEA, and the number and size of the grants to be earmarked for each K-12 school under the LEA's jurisdiction, shall be as follows:

(a) Based on total statewide enrollment for all K-12 schools, the Controller shall establish a uniform, statewide per-pupil grant to support increased instructional skills for K-12 school staff and up-to-date technology and teaching materials ("training, technology and teaching materials grants" or "3T grants").

(b) Each LEA shall receive the same number of 3T grants as it has students, based on the LEA's enrollment.

(c) Each of these per-pupil 3T grants shall be earmarked for the specific K-12 school whose enrollment gave rise to the LEA's eligibility for that grant.

SEC. 14808. (a) With the limited exceptions provided in subdivision (c)(2) of this section, funds LEAs receive pursuant to sections 14805, 14806 and 14807 shall be expended or encumbered only at the specific K-12 school for which they were earmarked pursuant to subdivisions 14805(d), 14806(c) and 14807(c), respectively, and shall be used exclusively for purposes authorized by this section.

(b) Educational program and low income student grants may be used for educational programs or, up to a total of 200 percent of any school's 3T grants, for any purpose permitted for a 3T grant. 3T grants must be spent exclusively for up-to-date teaching materials and technology and to strengthen skills of school staff in ways that improve students' academic performance, graduation rates, and vocational, career, college and life readiness.

(c)(1) Other than as specifically provided for in paragraph (2) of this subdivision, all funds received pursuant to sections 14805 through 14807 shall be spent only for the direct provision of services or materials at K-12 school sites and cannot be spent on any service or material not physically delivered to the school or its students; nor for any full-time personnel who do not spend at least ninety percent of their compensated time physically present at the school or with the school's students; nor for any personnel except to cover the amount of time the personnel are physically present at the school or with the school's students; nor for any direct or indirect administrative costs incurred by the LEA.

(2)(i) The governing board of each LEA may withhold, on an equal percentage basis from each of the per-pupil grants it receives, an amount sufficient to cover its actual costs in complying with this Part's public meeting, audit, budget and reporting requirements. Funds withheld for such purposes may not exceed two percent of total grants received in any two-year period, an average of one percent per year.

(ii) Costs of skills improvement programs provided off-site to members of the school's staff specifically to enhance their skills in providing services at the site or to the school's students may be covered by these per-pupil grants, when the off-site provision of such services is more cost effective than on-site provision.

(d) No CETF funds may be used to increase salary or benefits for any personnel or category of personnel beyond the salary and benefits that were in place for those personnel or that category of personnel as of November 1, 2012; provided, however, that positions partially or totally funded by the Act may receive from CETF funds salary and benefit increases adopted by a governing board and equivalent to increases being received by other like employees in the school on a proportional basis to their partial or full-time status.

SEC. 14809. (a) No later than 30 days following each quarterly allocation of CETF funds to LEAs, the Fiscal Oversight Board shall create a list of each LEA that received funds and the amount of funds earmarked for each school within that LEA under each of the funding categories specified in sections 14805, 14806 and 14807. The Board shall publish this list online at a suitable location, and the Superintendent shall publish a link to the online listing in a prominent spot on the home page of the Superintendent's website.

SEC. 14810. Neither the Legislature nor the Governor, nor any other state or local governmental body except the governing board of the LEA that has operational jurisdiction over a school, may direct how CETF funds are used at that school. Each LEA's governing board shall have sole authority over that decision, subject, however, to the following: Each year the governing board, in person or through appropriate representatives, shall seek input, at an open public meeting with the school's parents, teachers, administrators, other school staff and students, as appropriate (the "school community"), at or near that school's site, about how CETF funds will be used at that school and why. Following that meeting, the LEA or its appropriate representatives shall offer a written recommendation for use of CETF funds at a second open public meeting at or near the school site at which the school community is given an opportunity to respond to the LEA's recommendation. The governing board shall ensure that, during the decision-making process regarding use of CETF funds, all members of the school community are provided an opportunity to submit input in writing or online. At the time it makes its decision about the use of the funds each year, the governing board shall explain, publicly and online, how its proposed expenditures of CETF funds will improve educational outcomes and how the board will determine whether those improved outcomes have been achieved.

SEC. 14811. (a) As a condition of receiving any CETF funds, each LEA shall establish a separate account for the receipt and expenditure of those moneys, which account shall be clearly identified as the California Education Trust Fund account. Each LEA shall allocate and spend the funds in that account solely in accordance with sections 14805 through 14808.

(b) The independent financial and compliance audit required of school districts shall, in addition to all other requirements of law, ascertain and verify whether CETF funds have been properly disbursed and expended as required by this Part. This requirement shall be added to the audit guide requirements for school districts and shall be part of the audit reports annually reviewed and monitored by the Controller pursuant to section 14504.

(c) LEAs shall annually prepare and post on their websites, within 60 days after the close of each school year, a clear and transparent report of exactly how CETF funds were spent at each of the schools within their jurisdiction, what the goals for those expenditures were as relayed to the school community under section 14810, and the extent to which they achieved the goals established. The State Superintendent shall provide a link on his or her website that enables community members and researchers to access all such reports statewide within two weeks after they are posted by LEAs.

SEC. 14812. (a) Beginning with the 2012-13 school year, as a condition of receiving CETF funds, the governing board of each LEA that receives funds under this Act shall create and publish online a budget for every school within the LEA's jurisdiction that compares actual funding and expenditures for that school from the prior fiscal year with the budgeted funding and expenditures for that school for the current fiscal year. The website of the Superintendent shall provide a link enabling community members and researchers to access all such budgets statewide, for current and past years, dating back to 2012-2013. The budget shall show the source and amount of all funds being spent at the school, including but not limited to funds provided under this Act, and how each source category of funds is being spent. The budget shall be in a uniform format designed and approved by the Superintendent of Public Instruction. Expenditures shall be reported overall per pupil and by average teacher salary, as well as by instruction, instructional support, administration, maintenance and other important categories. The Department of Education shall require and ensure that districts and schools uniformly report expenditures by appropriate category and uniformly distinguish between school and district expenditures. The budget shall also include personnel costs described by number, type, and seniority of personnel and use actual salary and benefit figures for employees at the school without any individual identifying information. Each K-12 school receiving money from the California Education Trust Fund shall also include these funds as a separate section in a single school plan which substantially meets the criteria of sections 64001(d), (f) and (h).

(b) Allocations from the California Education Trust Fund are intended to provide students with additional supports and programs beyond those currently provided from other state, local, and federal sources. Beginning in fiscal year 2013-14, LEAs shall make every reasonable effort to maintain, from funds other than those provided under this Act, per-pupil expenditures at each of their schools at least equal to the 2012-13 per-pupil expenditures, adjusted for changes in the cost of living. This shall be known as the "maintenance of effort target" for that school. The uniform school site budget required by subdivision (a) shall include a clear statement of what the per-pupil expenditures were at that school in 2012-13 from all fund sources other than those provided under this Act,

and a projection of what those expenditures would be for the current school year if the school had annually met its maintenance of effort target. If in any year an LEA cannot meet its maintenance of effort target for any of its schools, it will explain why in its school site budget for that school and will discuss that explanation at a public meeting to be held at or near the school site pursuant to section 14810. At that meeting, officials from the LEA shall address why it is not possible to meet the maintenance of effort target for that particular school, and how the agency proposes to keep the failure to meet the target from having a negative impact on students and their families.

SEC. 14813. (a) Funds allocated pursuant to section 14802.1(a) and CETF funds that are determined by the Fiscal Oversight Board to exceed both available revenues and the Board and Controller's actual reimbursable costs pursuant to section 14803 shall be transferred on a quarterly basis by the Controller to the Education Debt Service Fund, which is hereby created in the State Treasury. Education Debt Service Fund moneys are held in trust and, notwithstanding Section 13340 of the Government Code, are continuously appropriated, without regard to fiscal years, for the exclusive purposes set forth in this section.

(b) Moneys in the Education Debt Service Fund shall be used solely to pay debt service on bonds, or to redeem or defease bonds, maturing in a subsequent fiscal year, that either (i) were or are issued by the state for the construction, reconstruction, rehabilitation, or replacement of pre-kindergarten through university school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for such school facilities ("school bonds"); or (ii) to the limited extent permitted by subdivision (c) of this section, were or are issued by the state for children's hospital or other general obligation bonds.

(c) From moneys transferred to the Education Debt Service Fund, the Controller shall transfer, as an expenditure reduction to the General Fund, amounts necessary to offset the cost of current year debt service payments made from the General Fund on school bonds, children's hospital, or other general obligation bonds, or to redeem or defease school bonds, children's hospital, or other general obligation bonds, as directed by the Director of Finance; provided, however, that no funds in the Education Debt Service Fund shall be used to offset the cost of current year debt service payments on children's hospital or other general obligation bonds, or to redeem or defease children's hospital or other general obligation bonds, until and unless the Controller, at the direction of the Director of Finance, has first fully reimbursed the General Fund for the cost of current year debt service payments on all outstanding school bonds. Funds so transferred shall not constitute General Fund proceeds of taxes appropriated pursuant to article XIII B for purposes of section 8 of article XVI of the California Constitution.

SEC. 14814. (a) No later than six months following the end of each fiscal year, the Fiscal Oversight Board shall cause an independent audit to be conducted of the California Education Trust Fund and shall submit to the Legislature and Governor, and shall post prominently on the website of the Fiscal Oversight Board, with a link to the report clearly displayed on the Superintendent's home page, both the full audit report and

an easily understandable summary of the results of that audit. The report shall include an accounting of all proceeds of the personal tax increments established pursuant to sections 17041.1 of the Revenue and Taxation Code, all transfers of those proceeds to the California Education Trust Fund, a listing of the amount of funds received from the California Education Trust Fund that fiscal year by each LEA and each school within that LEA's jurisdiction, and a summary, based on the reports required of all LEAs by section 14811(c), showing the way each LEA used the funds at each of its schools and the results the LEA was seeking and achieved.

(b) The Superintendent of Public Instruction, in consultation with the Fiscal Oversight Board, shall design and provide to each LEA and early care and education provider a form or format for ensuring uniform reporting of the information required for the audit report.

(c) The costs of performing the annual audit, and of creating, distributing and collecting the required reports, shall be determined by the Fiscal Oversight Board to ensure prudent use of funding while ensuring the intent of this Act is carried out. Such costs shall be included within the items whose actual cost may be paid for by CETF funds pursuant to subdivision (b) of section 14802.

(d) In the course of performing and reporting on the annual audit, the independent auditor shall promptly report to the Attorney General and the public any suspected allocation or use of funds in contravention of this Act, whether by the Fiscal Oversight Board or its agents, or by any LEA.

(e) Every officer charged with the allocation or distribution of funds pursuant to Sections 14803, 14804, 14805, 14806, and 14807 who knowingly fails to allocate or distribute the funds to each LEA and each local school on a per-pupil basis as specified in those sections is guilty of a felony subject to prosecution by the Attorney General, or if he or she fails to act promptly, the district attorney of any county, pursuant to subdivision (a) of Section 425 of the Penal Code. The Attorney General, or if the Attorney General fails to act the district attorney of any county, shall expeditiously investigate and may seek criminal penalties and immediate injunctive relief for any allocation or distribution of funds in contravention of Sections 14803, 14804, 14805, 14806, and 14807 of this Code.

SECTION 5. Section 46305 of the Education Code is amended to read:

SEC. 46305. Each elementary, high school, and unified school district, *and each independent charter school, county office of education and state-run school*, shall report to the Superintendent of Public Instruction on forms prepared by the Department of Education in addition to all other attendance data as required, the active enrollment as of the third Wednesday of each school month and the actual attendance on the third Wednesday of each school month; except that if such day is a school holiday, the active enrollment and actual attendance of the first immediate preceding schoolday shall be reported. "Active enrollment" on a day a count is taken means the pupils in enrollment in

the regular schooldays of the district on the first day of the school year on which the schools were in session, plus all later enrollees, minus all ~~withdrawals since that day~~ pupils who have not been in attendance for at least one day between the first day of the school year or the first schoolday immediately following the next preceding day for which a count was taken pursuant to this section, whichever is later, and the day the count is being taken, inclusive. The Superintendent of Public Instruction may, as necessary, modify the collection dates or methodologies in order to reduce any local agency's administrative duties in the implementation of this section.

SECTION 6. Chapter 1.8 is added to Part 6 of Division 1 of the Education Code to read:

EARLY CHILDHOOD QUALITY IMPROVEMENT AND EXPANSION PROGRAM

ARTICLE 1. GENERAL PROVISIONS

SEC. 8160. The following definitions shall apply throughout this Chapter:

(a) The terms "early care and education program" or "ECE program" mean any state-funded or state-subsidized preschool, child care or other state-funded or state-subsidized early care and education program for children from birth to kindergarten eligibility, including but not limited to programs supported in whole or in part with funds from the California Children and Families Trust Fund. Where an ECE program is not funded exclusively with state funds, the term "ECE program" means that portion of the program that is state-funded.

(b) The term "ECE provider" or "provider" means any person or agency legally authorized to deliver an ECE program.

(c) The term "take-up rates" means the degree to which ECE providers apply for and are granted program funding under the provisions of this Chapter.

(d) The term "reimbursement rate" means the per-child payment ECE providers receive on behalf of eligible families from state funds to cover their costs in providing ECE services.

(e) The term "ECE funds" means the funds allocated to early care and education pursuant to sections 14803 and 14804 of this Code.

(f) The term "SAE funds" means funds set aside for strengthening and expanding ECE programs pursuant to section 8161(b) of this Chapter.

(g) The term "highly at-risk children" means children who are from low income birth families, low income foster families or low income group homes and who also (1) are in foster care or have been referred to Child Protective Services, (2) are the

children of young parents who are themselves in foster care, or (3) are otherwise abused, neglected or exploited, or provably in danger of being abused, neglected or exploited, as will be further defined by the State Superintendent.

SEC. 8161. ECE funds shall be allocated annually to the State Superintendent to be used as follows:

(a) No more than twenty-three percent of the ECE funds shall be used as follows:

(1) \$300 million for existing ECE programs to restore funding to fiscal year 2008-2009 levels in proportion to reductions made to each ECE program in fiscal years 2009-10 through 2012-2013, subject to the following:

- (i) Restoration will apply equally to all types of reductions, whether accomplished by reduced child eligibility, reduced reimbursement rates, reduction in contract amounts, reduction in number of contracts let, or otherwise;
- (ii) To the extent the State Superintendent must allocate funds to the Department of Social Services or any successor agency to accomplish this restoration of funds, he/she will do so;
- (iii) If the State Superintendent and the Department of Social Services jointly find that any funds cannot be restored due to shortfalls in take-up rates, those funds shall be used to increase the baseline quality reimbursement rates established pursuant to Section 8168(b) of this Chapter.

(2) \$5 million to the Community Care Licensing department of the Department of Social Services, or any successor agency, to increase the frequency of licensing inspections of ECE providers beyond 2011-12 levels under terms agreed upon by the State Superintendent and the Department of Social Services or any successor agency by no later than July 1, 2013.

(3) Up to \$10 million to develop and implement the database established pursuant to Section 8171 of this Chapter to track the educational progress of children who have participated in the state's ECE programs.

(4) \$40 million to develop, implement, and maintain the Early Learning Quality Rating and Improvement System ("the QRIS system") established pursuant to Article 4 of this Chapter. Funds provided by this section shall not be used for increases in provider reimbursement rates or other provider compensation but rather for the design, implementation, and evaluation of the system, for ECE provider assessment and skills development, for improving and expanding the ECE skills development programs offered by community colleges and other high-quality trainers, for data keeping and analysis, and for communication with the public about the quality levels being achieved by ECE providers.

(5) The amounts set forth in paragraphs 1 through 4 of this subdivision shall be adjusted annually by the inflation adjustment calculated pursuant to subdivision (b) of Section 42238.1 as it read on the date of enactment of this section.

(6) In any year in which ECE funds are insufficient to cover the requirements of paragraphs (1), (3) and (4) of this subdivision, the amounts required by those paragraphs shall be reduced pro-rata.

(b) After allocating the restoration and system improvement funds provided in subdivision (a) of this section, the State Superintendent shall use the remaining ECE funds, to be known as "the SAE funds" pursuant to section 8160(f), to Strengthen And Expand ECE programs as set forth in this Chapter.

(c) ECE funds allocated to the State Superintendent must be spent for the purposes provided in this Chapter within one year of their receipt by the State Superintendent. The Fiscal Oversight Board established pursuant to section 14802 of this Code shall annually recover any unspent funds, and they shall again become part of the ECE funds, to be re-allocated pursuant to this Chapter.

SEC. 8162. (a) Except as may be required by federal law, any child's eligibility for any ECE program, including but not limited to any ECE program established, improved, or expanded with funds allocated under this Chapter, shall be established once annually upon the child's enrollment in the program. Subsequent to enrollment, a child shall be deemed eligible to participate in the program for the remainder of the program year, and then may re-establish eligibility in subsequent years on an annual basis.

(b) Beginning in fiscal year 2013-2014, the annual appropriation for ECE programs as a percentage of the General Fund shall not be reduced as a result of funds allocated pursuant to this Act below the percentage of General Fund revenues appropriated for ECE programs in 2012-2013.

SEC. 8163. The State Superintendent shall allocate SAE funds as follows:

(a) Twenty-five percent of the SAE funds shall be allocated for the benefit of children aged birth to 3 years pursuant to this subdivision as follows:

(1) Up to one percent of the SAE funds shall be allocated to raise the reimbursement rate in contracted group care programs for children younger than 18 months to the baseline quality reimbursement rate established pursuant to section 8168(b);

(2) Up to two and a half percent of the SAE funds, as take-up rates permit, shall be allocated to increase reimbursement rates above 2012-13 rates through a supplement provided under the QRIS system for those ECE programs and providers serving children aged birth to 3 years that improve their quality standards under the QRIS system or

demonstrate that they already meet a QRIS quality standard higher than the baseline quality standard established pursuant to section 8168(b);

(3) Twenty-one and a half percent of the SAE funds shall be allocated to the California Early Head Start program established pursuant to Article 2. No less than thirty-five percent of the SAE funds allocated to the California Early Head Start program under this paragraph shall be used specifically for strengthening parents and other caregivers pursuant to section 8164(d) of Article 2.

(b) Seventy-five percent of the SAE funds shall be used to expand and strengthen preschool programs for children ages 3-5 years, as set forth in Article 3.

(c) No more than three percent of the SAE funds shall be spent for administrative costs incurred at the state level.

(d) No more than fifteen percent of the funding an ECE provider receives from SAE funds may be used for re-purposing, renovation, development, maintenance or rent and lease expense for an appropriate program facility. The State Superintendent shall promulgate appropriate regulations to oversee and structure appropriate use of SAE funds for facilities.

ARTICLE 2. CALIFORNIA EARLY HEAD START PROGRAM

SEC. 8164. Using the funds allocated pursuant to section 8163(a)(3), the State Superintendent shall develop and implement the California Early Head Start Program to expand care for children ages birth to 3 years as follows:

(a) The program shall be under the ongoing regulation and control of the State Superintendent, but it shall be modeled on the federal Early Head Start program established pursuant to 42 U.S.C. § 9840a. In consultation with the Early Learning Advisory Council described in section 8167 (the "ELAC"), the State Superintendent shall ensure that, at minimum, the program complies with all content and quality standards and requirements in place as of November, 2011 for the federal Early Head Start program. The Superintendent may adopt subsequent Early Head Start program standards and requirements at his or her discretion.

(b) Funds used for the California Early Head Start program shall not be used to supplant money currently spent on any other state or federal program for children ages birth to 3.

(c) The Superintendent shall adopt the same eligibility standards used by the federal Early Head Start program as of November, 2011; provided, however, that highest priority for enrollment will go first to highly at-risk children as defined in Section 8160(g)(1), then to highly at-risk children as defined in Section 8160(g)(2), and then to highly at-risk children as defined in Section 8160(g)(3).

(d) In addition to providing high quality group care in licensed centers and family child care homes, the California Early Head Start program shall provide services to families and caregivers of children who are not enrolled in a California Early Head Start group care setting. These services shall be designed to strengthen the capacity of parents and caregivers of children ages birth to 3 to improve the care, education and health of very young children both in group care settings and at home. Services may include any of those that may be offered to families of federal or California Early Head Start group care enrollees, including but not limited to voluntary home visits, early developmental screenings and interventions, family and caregiver literacy programs, and parent and caregiver trainings. Among programs provided to caregivers pursuant to this subdivision, priority will go to programs for license-exempt family, friend and neighbor providers.

(e) In consultation with the ELAC, the State Superintendent shall establish quality standards for the services provided under subdivision (d) of this section, incorporating the standards and training regimens of the federal Early Head Start program. The State Superintendent shall coordinate with other public agencies that operate similar programs to ensure uniform standards across these programs.

(f) California Early Head Start funds may be used to expand the number of children served by existing ECE programs for children ages birth to 3, provided that the programs meet the quality standards described in subdivisions (a) and (e) of this section and the children served meet the eligibility criteria of subdivision (c) of this section.

(g) At least seventy-five percent of the group care spaces created statewide with California Early Head Start funds shall provide full-day, full-year care.

ARTICLE 3. STRENGTHENING AND EXPANDING PRESCHOOL PROGRAMS

SEC. 8165. (a) SAE funds allocated to strengthen and expand preschool programs for 3-5 year olds pursuant to Section 8163(b) shall be allocated as follows:

(1) Up to eight percent of SAE funds, as take-up rates permit, to increase reimbursement rates above 2012-2013 rates through a supplement provided under the QRIS system for those ECE programs and providers serving children ages 3 to 5 years that improve their quality standards under the QRIS system or demonstrate that they already meet a QRIS quality standard higher than the baseline quality standard established pursuant to section 8168(b);

(2) The remainder, no less than sixty-seven percent of all SAE funds, shall be used to expand the number of children served by high quality preschool programs for 3 to 5 year-olds in licensed or K-12 based programs that meet the two highest quality ratings established under the QRIS system. Until the statewide QRIS is established and able to assess the quality of significant numbers of programs, the State Superintendent may issue temporary regulations authorizing use of the expansion funds described in this subdivision for programs otherwise shown to meet high quality standards, including but

not limited to programs having ratings in the top two tiers of pre-existing local or regional QRIS systems, programs with nationally-recognized quality accreditations, or programs meeting the quality standards applicable to Transitional Kindergarten. QRIS program standards shall be established and publicly available no later than January 1, 2014. Providers qualified under the Superintendent's temporary regulations shall receive priority for evaluation under the new system. The temporary regulations shall sunset on January 1, 2015 and the provisionally certified providers must then, to retain funding, be qualified under the established QRIS program standards by no later than January 1, 2017.

(3) At least sixty-five percent of the new spaces created statewide pursuant to subdivision (2) of this section shall be full-day, full-year spaces, which may be created solely through this Chapter or by combining funding from two or more sources to create a combined school day, after-school, and summer enrichment program.

(b) Children shall be deemed to be "3 to 5" and thus eligible for programs funded pursuant to subdivision (a)(2) of this section, if they are 3 or 4 years old as of September 1 of the school year in which they are enrolled in the programs and are not yet eligible to attend kindergarten.

SEC. 8166. (a) Using data from the United States Census Bureau, the State Superintendent shall disburse the funds allocated pursuant to subdivision (a)(2) of Section 8165 (the "preschool expansion funds") according to an income-ordered list of all California neighborhoods, starting with the lowest income neighborhood and progressing as far up the list of neighborhoods by income as the preschool expansion funds permit, as follows:

(1) The State Superintendent shall create a neighborhood list based on median household income and on neighborhoods as defined by zip codes or an equivalent geographic unit. Throughout this section, the term "neighborhood" means a zip code or equivalent geographic unit included in the neighborhood list. Using available data on ECE availability, the State Superintendent shall identify annually the neighborhoods and school districts within which children live who are age-eligible for preschool expansion funds and who do not currently have access to an ECE program or a Transitional Kindergarten program.

(2) For each zip code or equivalent geographic unit, the Superintendent shall determine the number of eligible, unserved children and inform the school district, the licensed Family Child Care Home Education Networks ("licensed networks"), the licensed center-based ECE providers, and the providers of Head Start or other federal ECE programs ("federal providers") operating within the zip code or equivalent geographic unit that they are eligible to expand their programs to serve these children, and solicit applications from them for preschool expansion funding. To be eligible for funding, applicants must be able and willing to serve the eligible children for whom they are applying in the first school year following notification of eligibility.

(3) Licensed networks, licensed center-based ECE programs and federal providers operating within the zip code or other geographic unit will have priority if there are duplicate applications for the same eligibility. By awarding priority to joint applications, the State Superintendent shall encourage school districts, licensed networks, licensed center-based ECE providers and federal providers in eligible areas to cooperate in a joint application that maximizes the strengths of all programs and minimizes disputes. If the eligible school district, the eligible networks, the eligible center-based programs and the federal providers are all unable or decline to serve children they are eligible to serve, or any of them, the State Superintendent shall request proposals from alternative qualified local education agencies, licensed networks, licensed center-based ECE providers and federal providers to serve the eligible children. In seeking alternative qualified providers, the State Superintendent will communicate, specifically but without limitation, with alternative payment providers working in the county where the eligible children reside.

(4) Attendance at preschool, including preschool programs established or expanded pursuant to this Chapter, is voluntary. Unfilled spaces that have been offered in any zip code or equivalent geographic unit for three consecutive years, with effective outreach throughout the eligible community, but have still not been filled, may be deemed declined, and may be offered to the next highest income neighborhood on the neighborhood list.

(5) At least once every five years, the State Superintendent shall review which spaces have been deemed declined and shall restore lost eligibility to any neighborhood to the extent changed conditions indicate that the spaces would now be filled.

(b) Children will be eligible to attend programs funded with preschool expansion funds upon proving either that they reside in an eligible zip code or equivalent geographic unit or that their families meet the income eligibility requirements of any existing means-tested ECE program; provided, however that highest priority for enrollment will go first to highly at-risk children as defined in Section 8160(g)(1), then to highly at-risk children as defined in Section 8160 (g)(2), and then to highly at-risk children as defined in Section 8160(g)(3).

ARTICLE 4. CALIFORNIA EARLY LEARNING QUALITY RATING AND IMPROVEMENT SYSTEM

SEC. 8167. As used in this article, the term "Early Learning Advisory Council (ELAC)" means the Early Learning Advisory Council established pursuant to Executive Order S-23-09 or any successor agency.

SEC. 8168. (a) Taking into consideration the report and recommendations prepared by the California Early Learning Quality Improvement System Advisory Committee in 2010, the State Superintendent, in consultation with the ELAC, shall develop and implement an Early Learning Quality Rating and Improvement System ("QRIS system") by no later than January 1, 2014, that includes the following:

(1) A voluntary quality rating scale available to all ECE programs, including preschool, that serve children from birth to five years of age, inclusive, including preschool age children, infants, and toddlers. The quality rating scale shall give highest priority to those features of ECE programs that have been demonstrated to contribute most effectively to young children's healthy social and emotional development and readiness for success in school;

(2) A voluntary assessment and skills-development program to help ECE providers increase the quality ratings of their programs under the QRIS system;

(3) A method for increasing reimbursement rates above 2011-12 rates through a supplement provided for ECE programs and providers that improve their ratings or verify that they already meet higher ratings standards under the QRIS system;

(4) A means by which parents and caregivers receive accurate information about the quality and type of program in which their children are enrolled or may be enrolled, including prompt publication of the quality ratings of programs and providers conducted pursuant to the QRIS system.

(b) The State Superintendent, in consultation with the ELAC, shall also establish baseline quality reimbursement rates that are sufficient to cover the cost of providing ECE programs at the quality standards applicable to those programs under the laws and regulations that governed those programs as of November 1, 2012 (the "baseline quality reimbursement rate"). If any current reimbursement rate is below the baseline quality reimbursement rate, the State Superintendent may use any funds available under section 8161(a)(1)(iii), or for programs for children younger than 18 months, the funds available under section 8163(a)(1), to increase that reimbursement rate.

SEC. 8169. (a) The ELAC and the State Superintendent shall collaborate with Local Planning Councils, the First 5 California Commission, and each county First 5 commission to develop and oversee the QRIS, California Early Head Start and preschool expansion programs established pursuant to Articles 2, 3, and 4 of this Act. They shall work together to utilize local, state, federal, and private resources, including resources available pursuant to the California Children and Families Act of 1998 (Division 108 (commencing with Section 130100) of the Health and Safety Code), as part of a comprehensive effort to advance the efficiency, educational and developmental effectiveness, and community responsiveness of the state's ECE system.

(b) The ELAC shall hold at least one joint public meeting each year in each region of the state with the region's Local Planning Councils and the region's county First 5 Commissions (alternatively known as California Children and Families Commissions) to receive public input and report on the progress of the programs established pursuant to this Act.

(c) Funds provided under Section 8161(a)(4) of this Chapter may be used to fund the collaboration and convening activities required by this Section.

SEC. 8170. (a) The State Superintendent shall account for moneys received pursuant to this Chapter separately from all other moneys received or spent and shall, within 90 days after the close of each fiscal year, prepare an annual report that lists the ECE programs that received funding with their quality ratings as available; the amounts each program received; the number of children they served; the types of services the children received; and the child outcomes achieved as available. The Superintendent shall post the report as soon as it is prepared on the Superintendent's website and provide a link to it on his/ her home page. The report shall be included in the Superintendent's report issued pursuant to section 8236.1. The Fiscal Oversight Board shall verify the contents of the report and include it in the annual audit report required by section 14814(a) of this Code.

(b) The State Superintendent shall also:

(1) Monitor the award of contracts to ensure that ECE providers meet quality standards;

(2) Ensure uniform financial reporting and independent annual audits for all ECE providers receiving funds under this Chapter; and

(3) Receive, investigate, and act upon complaints regarding any aspect of the programs established pursuant to this Chapter.

SEC. 8171. By no later than July 1, 2014, the State Superintendent shall ensure that every child ages birth-5 years who participates in an ECE program is assigned a unique identifier that is recorded and maintained as part of a statewide database (the "Early Education Services Database").

(a) The Early Education Services Database shall be an integral part of the California Pupil Achievement Data System (CALPADS) – or any successor student-level data system that can trace a child's educational path from birth to age 18 – so that any child's full educational history, including ECE participation, will be automatically accessible through the child's unique identifier.

(b) At a minimum, the Early Education Services Database shall include the following for each child:

(1) The child's zip code of residence each year;

(2) What ECE services the child received each year, such as whether the child attended a full or part-day program;

(3) The setting in which the services were delivered;

- (4) The agency that delivered the services;
 - (5) The QRIS rating and any other quality rating available for that ECE provider;
 - (6) The child's kindergarten-readiness assessment, if available, including but not limited to the child's primary home language, level of fluency, and whether screened for early intervention.
- (c) CALPADS will be reimbursed for its actual cost of implementing this section, up to the annual amount allocated in section 8161(a)(3) of this Chapter.

SEC. 8172. The State Superintendent of Public Instruction shall issue regulations, including emergency regulations, in order to implement this Chapter.

SECTION 7. Section 425 of the Penal Code is amended to read:

SEC. 425. (a) Every officer charged with the receipt, safe keeping, or disbursement of public moneys, who neglects or fails to keep and pay over the same in the manner prescribed by law, is guilty of a felony.

(b) Every officer charged with the allocation or distribution of funds pursuant to Sections 14803, 14804, 14805, 14806, and 14807 of the Education Code who knowingly fails to allocate or distribute the funds to each local educational agency or each local school on a per-pupil basis as specified in those sections is guilty of a felony, subject to prosecution by the Attorney General, or if he or she fails to act promptly, the district attorney of any county. The Attorney General, or if the Attorney General fails to act the district attorney of any county, shall expeditiously investigate and may seek criminal penalties and immediate injunctive relief for any allocation or distribution of funds in contravention of Sections 14803, 14804, 14805, 14806, and 14807 of this Code. Any person guilty of violating this subdivision shall be punished pursuant to Section 18 of this Code and shall be disqualified from holding any office in this state.

SECTION 8. Section 17041.1 is added to the Revenue and Taxation Code to read:

SEC. 17041.1. (a) For each taxable year beginning on or after January 1, 2013, in addition to any other taxes imposed by this part, an additional tax is hereby imposed on the taxable income of any taxpayer whose tax is computed under Section 17041(a) to support the California Education Trust Fund. The additional tax for taxable years beginning on or after January 1, 2013 and before January 1, 2014 shall be computed based on the following rate table, with the tax brackets adjusted as provided by subdivision (h) of Section 17041 for the changes in the California Consumer Price Index between 2011 and 2013:

If the taxable income is:	The additional tax on taxable income is:
Not over \$7,316	0

Over \$7,316 but not over \$17,346	0.4% of the excess over \$7,316
Over \$17,346 but not over \$27,377	\$40 plus 0.7% of the excess over \$17,346
Over \$27,377 but not over \$38,004	\$110 plus 1.1% of the excess over \$27,377
Over \$38,004 but not over \$48,029	\$227 plus 1.4% of the excess over \$38,004
Over \$48,029 but not over \$100,000	\$368 plus 1.6% of the excess over \$48,029
Over \$100,000 but not over \$250,000	\$1,199 plus 1.8% of the excess over \$100,000
Over \$250,000 but not over \$500,000	\$3,899 plus 1.9% of the excess over \$250,000
Over \$500,000 but not over \$1,000,000	\$8,649 plus 2.0% of the excess over \$500,000
Over \$1,000,000 but not over \$2,500,000	\$18,649 plus 2.1% of the excess over \$1,000,000
Over \$2,500,000	\$50,149 plus 2.2% of the excess over \$2,500,000

(b) For each taxable year beginning on or after January 1, 2013, in addition to any other taxes imposed by this part, an additional tax is hereby imposed on the taxable income of any taxpayer whose tax is computed under Section 17041(c) to support the California Education Trust Fund. The additional tax for taxable years beginning on or after January 1, 2013 and before January 1, 2014 shall be computed based on the following rate table, with the tax brackets adjusted as provided by subdivision (h) of Section 17041 for the changes in the California Consumer Price Index between 2011 and 2013:

If the taxable income is:	The additional tax on taxable income is:
Not over \$14,642	0%
Over \$14,642 but not over \$34,692	0.4% of the excess over \$14,642
Over \$34,692 but not over \$44,721	\$80 plus 0.7% of the excess over \$34,692
Over \$44,721 but not over \$55,348	\$150 plus 1.1% of the excess over \$44,721
Over \$55,348 but not over \$65,376	\$267 plus 1.4% of the excess over \$55,348
Over \$65,376 but not over \$136,118	\$408 plus 1.6% of the excess over \$65,376
Over \$136,118 but not over \$340,294	\$1,540 plus 1.8% of the excess over \$136,118
Over \$340,294 but not over \$680,589	\$5,215 plus 1.9% of the excess over \$340,294
Over \$680,589 but not over \$1,361,178	\$11,680 plus 2.0% of the excess over \$680,589
Over \$1,361,178 but not over \$3,402,944	\$25,292 plus 2.1% of the excess over \$1,361,178
Over \$3,402,944	\$68,169 plus 2.2% of the excess over \$3,402,944

(c) For taxable years beginning on or after January 1, 2014, the additional tax imposed under this section shall be computed based on the tax rate tables described in subdivisions (a) and (b), with the brackets in effect for taxable years beginning on or after January 1, 2013 and before January 1, 2014, adjusted annually as provided by subdivision (h) of Section 17041 for the change in the California Consumer Price Index.

(d) Except as provided in subdivisions (e) and (f), the additional tax imposed under this section shall be deemed to be a tax imposed under Section 17041 for purposes of all other provisions of this code, including Section 17045 or any successor provision relating to joint returns.

(e) The estimated amount of revenues, less refunds, derived from the additional tax imposed under this section shall be deposited on a monthly basis in the California Education Trust Fund, established by Section 14801 of the Education Code, in a manner that corresponds to the process set forth in Section 19602.5 and is established by regulation by the Franchise Tax Board, based on the additional tax imposed under this section, no later than December 1, 2012. The adoption, amendment, or repeal of a regulation authorized by this section is hereby exempted from the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

(f) Notwithstanding Section 13340 of the Government Code, the California Education Trust Fund is hereby continuously appropriated, without regard to fiscal year, solely for the funding of the Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act.

(g) The additional tax imposed under this section does not apply to any taxable year beginning on or after January 1, 2025, except as may otherwise be provided in a measure that extends the Our Children, Our Future: Local Schools and Early Education Investment and Bond Debt Reduction Act and is approved by the electorate at a statewide election held on or before the first Tuesday after the first Monday in November of 2024.

SECTION 9. Section 19602 of the Revenue and Taxation Code is amended to read:

SEC. 19602. Except for amounts collected or accrued under Sections 17935, 17941, 17948, 19532, and 19561, ~~and~~ revenues deposited pursuant to Section 19602.5, *and revenues collected pursuant to Section 17041.1*, all moneys and remittances received by the Franchise Tax Board as amounts imposed under Part 10 (commencing with Section 17001), and related penalties, additions to tax, and interest imposed under this part, shall be deposited, after clearance of remittances, in the State Treasury and credited to the Personal Income Tax Fund.

SECTION 10. Severability.

The provisions of this Act are meant to be severable. 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 of the Act or the application of this measure to other persons or circumstances.

SECTION 11. Conflicting Initiatives.

(a) In the event that this measure and another measure or measures amending the California personal income tax rate for any taxpayer or group of taxpayers, or amending the rate of tax imposed on retailers for the privilege of selling tangible personal property at retail, or amending the rate of excise tax imposed on the storage, use or other consumption in this state of tangible personal property purchased from any retailer for

storage, use or other consumption in this state, shall appear on the same statewide election ballot, the rate-amending provisions of the other measure or measures and all provisions of that measure that are funded by its rate – amending provisions, shall be deemed to be in conflict with this measure. In the event that this measure receives a greater number of affirmative votes than any such other measure, the rate-amending provisions of the other measure, and all provisions of that measure that are funded by its rate – amending provisions, shall be null and void, and the provisions of this measure shall prevail instead.

(b) Conflicts between other provisions not subject to subdivision (a) of this section shall be resolved pursuant to article II, section 10, subdivision (b) of the California Constitution.

SECTION 12. Amendments.

This Act may not be amended except by majority vote of the people in a statewide general election.

SECTION 13. Effective Dates and Expiration.

(a) This measure shall be effective the day after its enactment. Operative dates for the various provisions of this measure shall be those set forth in the Act.

(b) The tax imposed by subdivisions (a) and (b) of Section 17041.1 of the Revenue and Taxation Code, added pursuant to this Act shall cease to be operative and shall expire on December 31, 2024, unless the voters, by majority vote, approve the extension of the Act at a statewide election held on or before the first Tuesday after the first Monday in November, 2024.

PROPOSITION 39

11-0080

Office of Attorney General
ATTN: Dawn McFarland, Initiative Coordinator
1300 I Street
Sacramento, CA 95814

RECEIVED

NOV 18 2011

INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

November 18, 2011

Re: Request for Title and Summary of Proposed Initiative

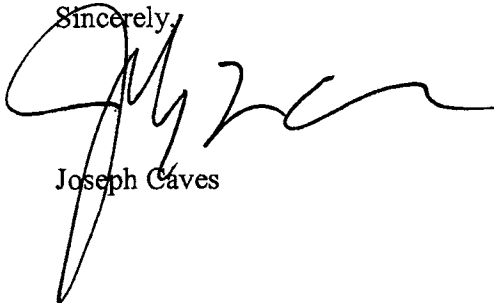
Dear Ms. McFarland,

I am submitting the "The California Clean Energy Jobs Act" for a proposed statewide ballot measure. I hereby request the Attorney General prepare a circulating title and summary of the chief purpose and point of the initiative measure, pursuant to Elections Code Section 9001 (a).

Enclosed please find a draft of the initiative, a \$200 check payable to the State of California, my signed statements and home address.

Thank you.

Sincerely,



Joseph Caves

THE CALIFORNIA CLEAN ENERGY JOBS ACT

Section 1. The People of the State of California do hereby find and declare all of the following:

(1) California is suffering from a devastating recession that has thrown more than a million Californians out of work.

(2) Current tax law both discourages multistate companies from locating jobs in California, and puts job-creating California companies at a competitive disadvantage.

(3) To address this problem, most other states have changed their laws to tax multistate companies on the percent of sales in that state, a tax approach referred to as the "single sales factor."

(4) If California were to adopt the single sales factor approach, the independent Legislative Analyst's Office estimates that state revenues would increase by as much as \$1.1 billion per year and create a net gain of 40,000 California jobs.

(5) In addition, by dedicating a portion of increased revenue to job creation in the energy efficiency and clean energy sectors, California can create tens of thousands of additional jobs right away, reducing unemployment, improving our economy, and saving taxpayers money on energy.

(6) Additional revenue would be available to public schools consistent with current California law.

Section 2: Division 16.3 is added to the Public Resources Code to Read:

Division 16.3 CLEAN ENERGY JOB CREATION

Chapter 1. General Provisions

26200. This Division shall be known and may be cited as the California Clean Energy Jobs Act.

26201. This Division has the following objectives:

(a) Create good paying energy efficiency and clean energy jobs in California.

(b) Put Californians to work repairing and updating schools and public buildings to improve their energy efficiency and make other clean energy improvements that create jobs and save energy and money.

(c) Promote the creation of new private sector jobs improving the energy efficiency of commercial and residential buildings.

(d) Achieve the maximum amount of job creation and energy benefits with available funds.

(e) Supplement, complement and leverage existing energy efficiency and clean energy programs to create increased economic and energy benefits for California in coordination with the California Energy Commission and the California Public Utilities Commission.

(f) Provide a full public accounting of all money spent and jobs and benefits achieved so the programs and projects funded pursuant to this division can be reviewed and evaluated.

Chapter 2. Clean Energy Job Creation Fund

26205. The Clean Energy Job Creation Fund is hereby created in the State Treasury. Except as provided in Section 26208, the sum of five hundred fifty million dollars (\$550,000,000) shall be transferred from the General Fund to the Job Creation Fund in fiscal years 2013-2014, 2014-2015, 2015-2016, 2016-2017, and 2017-2018. Moneys in the fund shall be available for appropriation for the purpose of funding projects that create jobs in California improving energy efficiency and expanding clean energy generation including all of the following:

(a) Schools and Public Facilities:

(1) Public Schools: Energy efficiency retrofits and clean energy installations, along with related improvements and repairs that contribute to reduced operating costs and improved health and safety conditions, on public schools.

(2) Universities and Colleges: Energy efficiency retrofits, clean energy installations and other energy system improvements to reduce costs and achieve energy and environmental benefits.

(3) Other public buildings and facilities: Financial and technical assistance including revolving loan funds, reduced interest loans or other financial assistance for cost effective energy efficiency retrofits and clean energy installations on public facilities.

(b) Job training and workforce development: Funding to the California Conservation Corps, Certified Community Conservation Corps, YouthBuild, and other existing workforce development programs to train and employ disadvantaged youth, veterans and others on energy efficiency and clean energy projects.

(c) Public-private partnerships: Assistance to local governments in establishing and implementing Property Assessed Clean Energy (PACE) programs or similar financial and technical assistance for cost effective retrofits that include repayment requirements. Funding shall be prioritized to maximize job creation, energy savings and geographical and economic

equity. Where feasible, repayment revenues shall be used to create revolving loan funds or similar on-going financial assistance programs to continue job creation benefits.

26206. The following criteria apply to all expenditures from the Clean Energy Job Creation Fund:

(a) Project selection and oversight shall be managed by existing state and local government agencies with expertise in managing energy projects and programs.

(b) All projects shall be selected based on in-state job creation and energy benefits for each project type.

(c) All projects shall be cost effective: total benefits shall be greater than project costs over time. Project selection may include consideration of non-energy benefits such as health and safety in addition to energy benefits.

(d) All projects shall require contracts that identify the project specifications, costs and projected energy savings.

(e) All projects shall be subject to audit.

(f) Program overhead costs shall not exceed 4% of total funding.

(g) Funds shall be appropriated only to agencies with established expertise in managing energy projects and programs.

(h) All programs shall be coordinated with the California Energy Commission and the California Public Utilities Commission to avoid duplication and maximize leverage of existing energy efficiency and clean energy efforts.

(i) Eligible expenditures include costs associated with technical assistance, and with reducing project costs and delays, such as development and implementation of processes that reduce the costs of design, permitting or financing or other barriers to project completion and job creation.

26208. If the Department of Finance and the Legislative Analyst jointly determine that the estimated annual increase in revenues as a result of the amendment, addition or repeal of Revenue and Taxation Sections 25128, 25128.5, 25136, and 25128.7, is less than one billion one hundred million dollars (\$1,100,000,000), the amount transferred to the Job Creation Fund shall be decreased to an amount equal to one half of the estimated annual increase in revenues.

Chapter 3. Accountability, Independent Audits, Public Disclosure

26210. (a) The Citizens Oversight Board is hereby created.

(b) The board shall be composed of nine members, three members shall be appointed by the State Treasurer, three members by the State Controller, and three members by the Attorney General. Each appointing office shall appoint one member who meets each of the following criteria:

(1) An engineer, architect or other professional with knowledge and expertise in building construction or design.

(2) An accountant, economist, or other professional with knowledge and expertise in evaluating financial transactions and program cost effectiveness.

(3) A technical expert in energy efficiency, clean energy, or energy systems and programs.

(c) The California Public Utilities Commission and the California Energy Commission shall each designate an ex officio member to serve on the Board.

(d) The Board shall do all of the following:

(1) Annually review all expenditures from the Job Creation Fund.

(2) Commission and review an annual independent audit of the Job Creation Fund and of a selection of projects completed to assess the effectiveness of the expenditures in meeting the objectives of this Division.

(3) Publish a complete accounting of all expenditures each year, posting the information on a publicly accessible website.

(4) Submit an evaluation of the program to the Legislature identifying any changes needed to meet the objectives of this Division.

Chapter 4. Definitions

26220. The following definitions apply to this division:

(a) "Clean Energy" means a device or technology that meets the definition of "renewable energy" in Section 26003, or that contributes to improved energy management or efficiency.

(b) "Board" means the Citizens' Oversight Board established in Section 26210.

(c) "Job Creation Fund" means the Clean Energy Job Creation Fund established in Section 26205.

(d) "Program overhead costs" include staffing for state agency development and management of funding programs pursuant to this division, but excluding technical assistance,

evaluation, measurement and validation, or costs related to increasing project efficiency or performance, and costs related to local implementation.

Section 3. Section 23101 of the Revenue and Taxation Code is amended to read:

23101. (a) "Doing business" means actively engaging in any transaction for the purpose of financial or pecuniary gain or profit.

(b) For taxable years beginning on or after January 1, 2011, a taxpayer is doing business in this state for a taxable year if any of the following conditions has been satisfied:

(1) The taxpayer is organized or commercially domiciled in this state.

(2) Sales, as defined in subdivision (e) or (f) of Section 25120 as applicable for the taxable year, of the taxpayer in this state exceed the lesser of five hundred thousand dollars (\$500,000) or 25 percent of the taxpayer's total sales. For purposes of this paragraph, sales of the taxpayer include sales by an agent or independent contractor of the taxpayer. For purposes of this paragraph, sales in this state shall be determined using the rules for assigning sales under ~~Section~~ Sections 25135 and ~~subdivision (b) of Section~~ 25136, and the regulations thereunder, as modified by regulations under Section 25137.

(3) The real property and tangible personal property of the taxpayer in this state exceed the lesser of fifty thousand dollars (\$50,000) or 25 percent of the taxpayer's total real property and tangible personal property. The value of real and tangible personal property and the determination of whether property is in this state shall be determined using the rules contained in Sections 25129 to 25131, inclusive, and the regulations thereunder, as modified by regulation under Section 25137.

(4) The amount paid in this state by the taxpayer for compensation, as defined in subdivision (c) of Section 25120, exceeds the lesser of fifty thousand dollars (\$50,000) or 25 percent of the total compensation paid by the taxpayer. Compensation in this state shall be determined using the rules for assigning payroll contained in Section 25133 and the regulations thereunder, as modified by regulations under Section

25137.

(c) (1) The Franchise Tax Board shall annually revise the amounts in paragraphs (2), (3), and (4) of subdivision (b) in accordance with subdivision (h) of Section 17041.

(2) For purposes of the adjustment required by paragraph (1), subdivision (h) of Section 17041 shall be applied by substituting "2012" in lieu of "1988."

(d) The sales, property, and payroll of the taxpayer include the taxpayer's pro rata or distributive share of pass-through entities. For purposes of this subdivision, "pass-through entities" means a partnership or an "S" corporation.

Section 4. Section 25128 of the Revenue and Taxation Code is amended to read:

25128. (a) Notwithstanding Section 38006, for taxable years beginning before January 1, 2013, all business income shall be apportioned to this state by multiplying the business income by a fraction, the numerator of which is the property factor plus the payroll factor plus twice the sales factor, and the denominator of which is four, except as provided in subdivision (b) or (c).

(b) If an apportioning trade or business derives more than 50 percent of its "gross business receipts" from conducting one or more qualified business activities, all business income of the apportioning trade or business shall be apportioned to this state by multiplying business income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three.

(c) For purposes of this section, a "qualified business activity" means the following:

- (1) An agricultural business activity.
- (2) An extractive business activity.
- (3) A savings and loan activity.
- (4) A banking or financial business activity.

(d) For purposes of this section:

(1) "Gross business receipts" means gross receipts described in subdivision (e) or (f) of Section 25120 (other than gross receipts from sales or other transactions within an apportioning trade or business between members of a group of corporations whose income and apportionment factors are required to be included in a combined report under Section 25101, limited, if applicable, by Section 25110), whether or not the

receipts are excluded from the sales factor by operation of Section 25137.

(2) "Agricultural business activity" means activities relating to any stock, dairy, poultry, fruit, furbearing animal, or truck farm, plantation, ranch, nursery, or range. "Agricultural business activity" also includes activities relating to cultivating the soil or raising or harvesting any agricultural or horticultural commodity, including, but not limited to, the raising, shearing, feeding, caring for, training, or management of animals on a farm as well as the handling, drying, packing, grading, or storing on a farm any agricultural or horticultural commodity in its unmanufactured state, but only if the owner, tenant, or operator of the farm regularly produces more than one-half of the commodity so treated.

(3) "Extractive business activity" means activities relating to the production, refining, or processing of oil, natural gas, or mineral ore.

(4) "Savings and loan activity" means any activities performed by savings and loan associations or savings banks which have been chartered by federal or state law.

(5) "Banking or financial business activity" means activities attributable to dealings in money or moneyed capital in substantial competition with the business of national banks.

(6) "Apportioning trade or business" means a distinct trade or business whose business income is required to be apportioned under Sections 25101 and 25120, limited, if applicable, by Section 25110, using the same denominator for each of the applicable payroll, property, and sales factors.

(7) Paragraph (4) of subdivision (c) shall apply only if the Franchise Tax Board adopts the Proposed Multistate Tax Commission Formula for the Uniform Apportionment of Net Income from Financial Institutions, or its substantial equivalent, and shall become operative upon the same operative date as the adopted formula.

(8) In any case where the income and apportionment factors of two or more savings associations or corporations are required to be included in a combined report under Section 25101, limited, if applicable, by Section 25110, both of the following shall apply:

(A) The application of the more than 50 percent test of subdivision (b) shall be made with respect to the "gross business receipts" of the entire apportioning trade or

business of the group.

(B) The entire business income of the group shall be apportioned in accordance with either subdivision (a) or (b), or ~~subdivision (b) of Section 25128.5, Section 25128.5~~ or 25128.7, as applicable.

Section 5. Section 25128.5 of the Revenue and Taxation Code is amended to read:

25128.5. (a) Notwithstanding Section 38006, for taxable years beginning on or after January 1, 2011, and before January 1, 2013, any apportioning trade or business, other than an apportioning trade or business described in subdivision (b) of Section 25128, may make an irrevocable annual election on an original timely filed return, in the manner and form prescribed by the Franchise Tax Board to apportion its income in accordance with this section, and not in accordance with Section 25128.

(b) Notwithstanding Section 38006, for taxable years beginning on or after January 1, 2011, and before January 1, 2013, all business income of an apportioning trade or business making an election described in subdivision (a) shall be apportioned to this state by multiplying the business income by the sales factor.

(c) The Franchise Tax Board is authorized to issue regulations necessary or appropriate regarding the making of an election under this section, including regulations that are consistent with rules prescribed for making an election under Section 25113.

d) This section shall not apply to taxable years beginning on or after January 1, 2013, and as of December 1, 2013, is repealed.

Section 6. Section 25128.7 is added to the Revenue and Taxation Code, to read:

25128.7. Notwithstanding Section 38006, for taxable years beginning on or after January 1, 2013, all business income of an apportioning trade or business, other than an apportioning trade or business described in subdivision (b) of Section 25128, shall be apportioned to this state by multiplying the business income by the sales factor.

Section 7. Section 25136 of the Revenue and Taxation Code is amended to read:

25136. (a) For taxable years beginning before January 1, 2011, and for taxable years beginning on or after January 1, 2011, and before January 1, 2013, for which Section 25128.5 is operative and an election under subdivision (a) of Section 25128.5 has not been made, sales, other than sales of tangible personal property, are in this state if:

(1) The income-producing activity is performed in this state; or

(2) The income-producing activity is performed both in and outside this state and a greater proportion of the income-producing activity is performed in this state than in any other state, based on costs of performance.

(3) This subdivision shall apply, and subdivision (b) shall not apply, for any taxable year beginning on or after January 1, 2011, and before January 1, 2013, for which Section 25128.5 is not operative for any taxpayer subject to the tax imposed under this part.

(b) For taxable years beginning on or after January 1, 2011, and before January 1, 2013:

(1) Sales from services are in this state to the extent the purchaser of the service received the benefit of the service in this state.

(2) Sales from intangible property are in this state to the extent the property is used in this state. In the case of marketable securities, sales are in this state if the customer is in this state.

(3) Sales from the sale, lease, rental, or licensing of real property are in this state if the real property is located in this state.

(4) Sales from the rental, lease, or licensing of tangible personal property are in this state if the property is located in this state.

(5) (A) If Section 25128.5 is operative, then this subdivision shall apply in lieu of subdivision (a) for any taxable year for which an election has been made under subdivision (a) of Section 25128.5.

(B) If Section 25128.5 is not operative, then this subdivision shall not apply and subdivision (a) shall apply for any taxpayer subject to the tax imposed under this part.

(C) Notwithstanding subparagraphs (A) or (B), this subdivision shall apply for purposes of paragraph (2) of subdivision (b) of Section 23101.

(c) The Franchise Tax Board may prescribe those regulations as necessary or appropriate to carry out the purposes of subdivision (b).

(d) This section shall not apply to taxable years beginning on or after January 1, 2013, and as of December 1, 2013, is repealed.

Section 8. Section 25136 is added to the Revenue and Taxation Code, to read:

25136. (a) Notwithstanding Section 38006, for taxable years beginning on or after January 1, 2013, sales, other than sales of tangible personal property, are in this state if:

(1) Sales from services are in this state to the extent the purchaser of the service received the benefit of the services in this state.

(2) Sales from intangible property are in this state to the extent the property is used in this state. In the case of marketable securities, sales are in this state if the customer is in this state.

(3) Sales from the sale, lease, rental, or licensing of real property are in this state if the real property is located in this state.

(4) Sales from the rental, lease, or licensing of tangible personal property are in this state if the property is located in this state.

(b) The Franchise Tax Board may prescribe regulations as necessary or appropriate to carry out the purposes of this section.

Section 9. Section 25136.1 is added to the Revenue and Taxation Code, to read:

25136.1. (a) For taxable years beginning on or after January 1, 2013, a qualified taxpayer that apportions its business income under Section 25128.7 shall apply the following provisions:

(1) Notwithstanding Section 25137, qualified sales assigned to this state shall be equal to 50 percent of the amount of qualified sales that would be assigned to this state pursuant to Section 25136 but for the application of this section. The remaining 50 percent shall not be assigned to this state.

(2) All other sales shall be assigned pursuant to Section 25136.

(b) For purposes of this section:

(1) "Qualified taxpayer" means a member, as defined in paragraph (10) of subdivision (b) of Section 25106.5 of Title 18 of the California Code of Regulations as in effect on the effective date of the act adding this section, of a combined reporting group that is also a qualified group.

(2) "Qualified group" means a combined reporting group, as defined in paragraph

(3) of subdivision (b) of Section 25106.5 of Title 18 of the California Code of Regulations, as in effect on the effective date of the act adding this section, that satisfies the following conditions:

(A) Has satisfied the minimum investment requirement for the taxable year.

(B) For the combined reporting group's taxable year beginning in calendar year 2006, the combined reporting group derived more than 50 percent of its United States network gross business receipts from the operation of one or more cable systems.

(C) For purposes of satisfying the requirements of subparagraph (B), the following rules shall apply:

(i) If a member of the combined reporting group for the taxable year was not a member of the same combined reporting group for the taxable year beginning in calendar year 2006, the gross business receipts of that nonincluded member shall be included in determining the combined reporting group's gross business receipts for its taxable year beginning in calendar year 2006 as if the nonincluded member were a member of the combined reporting group for the taxable year beginning in calendar year 2006.

(ii) The gross business receipts shall include the gross business receipts of a qualified partnership, but only to the extent of a member's interest in the partnership.

(3) "Cable system" and "network" shall have the same meaning as defined in Section 5830 of the Public Utilities Code, as in effect on the effective date of the act adding this section. "Network services" means video, cable, voice, or data services.

(4) "Gross business receipts" means gross receipts as defined in paragraph (2) of subdivision (f) of Section 25120 (other than gross receipts from sales or other transactions between or among members of a combined reporting group, limited, if applicable, by Section 25110).

(5) "Minimum investment requirement" means qualified expenditures of not less than two hundred fifty million dollars (\$250,000,000) by a combined reporting group during the calendar year that includes the beginning of the taxable year.

(6) "Qualified expenditures" means any combination of expenditures attributable to this state for tangible property, payroll, services, franchise fees, or any intangible property distribution or other rights, paid or incurred by or on behalf of a member of a combined reporting group.

(A) An expenditure for other than tangible property shall be attributable to this state if the member of the combined reporting group received the benefit of the purchase or expenditure in this state.

(B) A purchase of or expenditure for tangible property shall be attributable to this state if the property is placed in service in this state.

(C) Qualified expenditures shall include expenditures by a combined reporting group for property or services purchased, used, or rendered by independent contractors in this state.

(D) Qualified expenditures shall also include expenditures by a qualified partnership, but only to the extent of the member's interest in the partnership.

(7) "Qualified partnership" means a partnership if the partnership's income and apportionment factors are included in the income and apportionment factors of a member of the combined reporting group, but only to the extent of the member's interest in the partnership.

(8) "Qualified sales" means gross business receipts from the provision of any network services, other than gross business receipts from the sale or rental of customer premises equipment. "Qualified sales" shall include qualified sales by a qualified partnership, but only to the extent of a member's interest in the partnership.

(c) The rules in this section with respect to qualified sales by a qualified partnership are intended to be consistent with the rules for partnerships under paragraph (3) of subdivision (f) of Section 25137-1 of Title 18 of the California Code of Regulations.

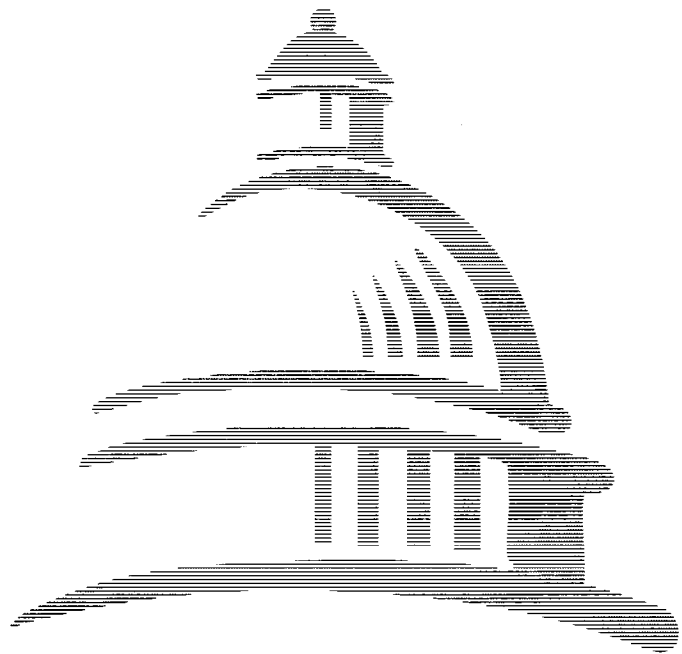
**Section 6:
WRITTEN
MATERIALS
RECEIVED BY THE
COMMITTEE**

August 8, 2012

Hearing Concerning Propositions 30, 31, 38, and 39

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Governance and Finance Committee
Hon. Lois Wolk, Chair





Proposition 31



Authorizes and Funds Local Government Plans

- ***Allows Local Governments to Develop New Plans.*** Counties and local governments (cities, school districts, community college districts, and special districts) could create plans for coordinating how they provide services to the public.
- ***Allows Local Governments to Alter Administration of State-Funded Programs.*** Governments participating in a plan could create “functionally equivalent” procedures for administering state programs financed with state funds.



Restricts Legislature’s Ability to Pass Certain Bills

- ***Restricts Legislature’s Ability to Increase State Costs or Decrease State Revenues.*** Requires the Legislature to show how some bills that increase state spending or decrease state 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 Certain Bills.*** 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.



Expands Governor’s Ability to Reduce State Spending

- ***Allows Governor to Reduce Spending in Certain Situations.*** If the Governor declares a fiscal emergency, and the Legislature does not pass legislation to address that fiscal emergency within 45 days, the Governor could reduce General Fund spending not required by the State Constitution or federal law.



Proposition 31

(Continued)



Changes Public Budgeting and Oversight Procedures

- **Changes State and Local Procedures.** Changes the state's budget process from a one-year (annual) process to a two-year (biennial) process. Requires the Legislature to reserve a part of its two-year session for oversight and review of public programs. Requires state and local governments to evaluate the effectiveness of their programs and describe how their budgets would meet various objectives.

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.



Proposition 39



Background

- ***Multistate Businesses Currently Choose How Their Taxable Income Is Determined.*** State law allows most multistate businesses to pick one of two methods to determine the amount of their income associated with California and taxable by the state:
 - ***“Three-Factor Method” of Determining Taxable Income.*** This method uses the location of the company’s sales, property, and employees.
 - ***“Single Sales Factor Method” of Determining Taxable Income.*** This method uses only the location of the company’s sales.
- ***Energy Efficiency Programs.*** There are currently numerous state programs established to reduce energy consumption and reduce the need to build new energy infrastructure.
- ***School Funding Formula.*** Proposition 98 requires a minimum level of state and local funding each year for public schools and community colleges. The Proposition 98 guarantee can grow with increases in state General Fund revenues.



Proposition 39

(Continued)



Major Provisions

- ***Eliminates Ability of Multistate Businesses to Choose How Taxable Income Is Determined.*** Under this measure, starting in 2013, multistate businesses would no longer be allowed to choose the method for determining their state taxable income and instead would have to use the single sales factor method.
- ***Provides Funding for Energy Efficiency and Alternative Energy Projects.*** This measure establishes a new state fund, the Clean Energy Job Creation Fund, to support projects intended to improve energy efficiency and expand the use of alternative energy. The Legislature would determine spending from the fund and be required to use the monies for cost-effective programs.



Proposition 39

(Continued)

Estimated Effects of Proposition 39 on State Revenues and Spending			
	2012-13	2013-14 Through 2017-18	2018-19 And Beyond
Annual Revenues	\$500 million	\$1 billion, growing over period	Over \$1 billion
Annual Spending			
Amount dedicated to energy projects	None	\$500 million to \$550 million	None
Increase in school funding guarantee	\$200 million to \$500 million	\$200 million to \$500 million, growing over period	\$500 million to over \$1 billion



Fiscal Impact

- **Increase in State Revenues.** This measure would increase state revenues by around \$500 million in 2012-13 and by around \$1 billion annually starting in 2013-14.
- **Some Revenues Used for Energy Projects.** For a five-year period (2013-14 through 2017-18), about half of the additional revenues—\$500 million to \$550 million annually—would be transferred to the Clean Energy Job Creation Fund to support energy efficiency and alternative energy projects.
- **School Funding Likely to Rise Due to Additional Revenues.** Generally, the revenue raised by the measure would be considered in calculating the state's annual Proposition 98 minimum guarantee. The higher revenues likely would increase the minimum guarantee by at least \$200 million for the 2012-13 through 2017-18 period. In some years during this period, however, the effect could be significantly greater.



Proposition 30



Temporary Tax Increases

- **Sales Tax.** Increases sales tax by one-quarter cent from January 1, 2013 through the end of 2016.
- **Personal Income Tax (PIT).** Increases marginal PIT rates on higher incomes as shown in the figure. These tax rates would be in effect for seven years—from the 2012 tax year through the end of the 2018 tax year.

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.



Proposition 30

(Continued)



New State Revenues From Tax Increases

- **Additional State Tax Revenues Through 2018-19.** Over the five fiscal years in which both tax increases would be in effect (2012-13 through 2016-17), the average annual state revenue gain from this measure is estimated at around \$6 billion. As shown in the figure, smaller revenue gains are likely in 2011-12, 2017-18, and 2018-19.
- **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 is from the PIT rate increase on higher incomes, which is volatile and difficult to predict.

Proposition 30 Revenue Estimates			
<i>(In Millions)</i>			
	Personal Income Tax	Sales and Use Tax	Total
2011-12 ^a	\$2,816	—	\$2,816
2012-13	4,265	\$607	4,872
2013-14	4,358	1,313	5,671
2014-15	4,697	1,401	6,098
2015-16	4,917	1,485	6,402
2016-17	5,173	804	5,977
2017-18	5,434	—	5,434
2018-19	2,216	—	2,216

^a Reflects Governor's proposal to accrue a portion of personal income tax revenues collected during 2012-13 back to the 2011-12 fiscal year.



Proposition 30

(Continued)



State Spending

- ***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 to balance the state budget.
- ***Backup Budget Plan Reduces Spending if Voters Reject This Measure.*** The 2012-13 budget plan requires that its spending be reduced by \$6 billion if this measure fails. These trigger cuts, as currently scheduled in state law, are shown in the figure.

2012-13 Spending Reductions if Voters Reject Proposition 30	
<i>(In Millions)</i>	
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.



Proposition 30

(Continued)



Realignment Provisions

- ***Guarantees Ongoing Revenues to Local Governments.*** The measure requires the state to continue providing the tax revenues redirected in 2011 (or equivalent funds) to local governments to pay for the programs transferred in the 2011 realignment.
- ***Eliminates Potential Mandate Funding Liability.*** The measure specifies that the state would not be required to provide mandate reimbursements for any of the program responsibilities transferred to local governments in the 2011 realignment.



Proposition 38



Personal Income Tax Increases

- **Increases Tax Rates for 12 Years.** Increases marginal PIT rates as shown in the figure. These tax rates would be in effect for 12 years—from the 2013 tax year through the 2024 tax year.

Current and Proposed Personal Income Tax Rates Under Proposition 38				
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	0.4%
17,346-27,377	34,692-54,754	34,692-44,721	4.0	0.7
27,377-38,004	54,754-76,008	44,721-55,348	6.0	1.1
38,004-48,029	76,008-96,058	55,348-65,376	8.0	1.4
48,029-100,000	96,058-200,000	65,376-136,118	9.3	1.6
100,000-250,000	200,000-500,000	136,118-340,294	9.3	1.8
250,000-500,000	500,000-1,000,000	340,294-680,589	9.3	1.9
500,000-1,000,000	1,000,000-2,000,000	680,589-1,361,178	9.3	2.0
1,000,000-2,500,000	2,000,000-5,000,000	1,361,178-3,402,944	9.3	2.1
Over 2,500,000	Over 5,000,000	Over 3,402,944	9.3	2.2

^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. For example, a single tax filer with taxable income of \$15,000 could have had a 2011 tax liability under current tax rates of \$227: the sum of \$73 (which equals 1 percent of the filer's first \$7,316 of income) and \$154 (2 percent of the filer's income over \$7,316). This tax liability would be reduced—and potentially eliminated—by personal, dependent, senior, and other tax credits, among other factors. The proposed additional tax rates would take effect beginning in 2013 and end in 2024. Current tax rates listed exclude the mental health tax rate of 1 percent for taxable income in excess of \$1 million.



Proposition 38

(Continued)



New State Revenues From Tax Increases

- **Raises \$10 Billion in Annual Revenue.** Beginning in 2013-14, the annual amount raised would be around \$10 billion. (In 2012-13, the measure would raise roughly half this amount.) Revenues likely would vary from year to year largely due to the swings in the income of upper-income taxpayers.

LAO Forecast of Proposition 38 Revenues	
<i>(In Millions)</i>	
2012-13	\$5,596
2013-14	9,903
2014-15	10,663
2015-16	11,256
2016-17	11,817
2017-18	12,414



Proposition 38

(Continued)



Schools

- ***Provides Additional Funding for Schools.*** Through 2016-17, schools would receive roughly 60 percent of revenues raised by this measure (roughly \$6 billion annually in the initial years). Beginning in 2017-18, schools would receive roughly 85 percent of revenues.
- ***Distributes School Funds Through Three Grant Programs.*** Requires school funds be allocated as follows:
 - ***Educational Program Grants (70 Percent).*** Allocated based on number of students enrolled in each school. Can be spent on broad range of activities, including instruction, school support staff, and parent engagement.
 - ***Low-Income Student Grants (18 Percent).*** Allocated based on number of low-income students enrolled in each school. Same spending restrictions as with educational program grants.
 - ***Training, Technology, and Teaching Materials Grants (12 Percent).*** Allocated based on number of students enrolled in each school. Can be used for training school staff and purchasing up-to-date technology and teaching materials.
- ***Requires Funds to Be Spent at Corresponding School Sites.*** Funds must be spent at the specific school whose students generated the funds.



Proposition 38

(Continued)



Early Care and Education (ECE)

- ***Provides Additional Funding for Preschool and Child Care Programs.*** Through 2016-17, ECE programs would receive roughly 10 percent of revenues raised by this measure (roughly \$1 billion annually in initial years). Beginning in 2017-18, ECE programs would receive roughly 15 percent of revenues.
- ***Provides Preschool to More Children From Low-Income Families (52 Percent).*** Expands number of preschool slots available in targeted neighborhoods (generally those with more low-income families).
- ***Establishes New Program for Infants and Toddlers From Low-Income Families (17 Percent).*** Establishes California Early Head Start Program to provide child care and family support services to low-income families with children ages birth to three.
- ***Establishes Quality Rating System and Provides Higher Payments to Higher Quality Providers (12 Percent).*** Requires the state to implement an Early Learning Quality Rating and Improvement System to assess effectiveness of individual ECE programs. All ECE programs could choose to be rated on this scale. Child care and preschool programs with higher quality scores would receive supplemental payments.
- ***Partially Restores Prior Program Reductions (19 Percent).*** Partially restores recent state budget reductions to child care slots, provider payment rates, and certain statewide activities that support the ECE system.



Proposition 38

(Continued)



State Debt Payments

- ***At Least 30 Percent of Revenues for Debt-Service Relief Through 2016-17.*** State savings of roughly \$3 billion annually.
- ***Limits Growth of School and ECE Allocations Beginning 2015-16, Uses Excess Funds for Debt-Service Payments.*** Beginning 2015-16, allocations to schools and ECE programs could not increase at a rate greater than average growth in California per capita personal income over the previous five years. State savings would vary from year to year but could be several hundred million dollars annually.



Comparing Propositions 30 and 38

	Proposition 30	Proposition 38
Tax increases	Personal income tax and sales tax	Personal income tax
Revenue raised in 2012-13	\$7.7 billion ^a	\$5.6 billion ^b
Revenue raised in 2013-14	\$5.7 billion	\$9.9 billion
Revenue used for:	Public education and state budget	Public schools, early childhood education, and state budget (debt service on bonds)
2012-13 trigger cuts if measure takes effect?	No	Yes
Guarantees funding for 2011 Realignment?	Yes	Not addressed
Operative time period	7 years (2012-2018)	12 years (2013-2024)
^a Includes revenue collected in 2012-13 that accrues to 2011-12. LAO estimate differs from estimate included in 2012-13 budget (\$8.5 billion). ^b Expenditure of these revenues likely would not occur until 2013-14.		

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