



R-14

Date: May 12, 2009

To: Honorable Mayor and Members of the City Council

From: Councilmember Patrick O'Donnell, Fourth District 
Councilmember Suja Lowenthal, Second District 
Councilmember Tonia Reyes Uranga, Seventh District 

Subject: Special Election May 19th: Propositions 1A-1F

On Tuesday, May 19th the state of California will hold a special election for Propositions 1A-1F. The propositions have been put forth by the state legislature in an effort to protect the state from future financial crises.

Proposition 1A is a constitutional act, designated as the Rainy Day Budget Stabilization Fund. It would require set asides of above-average revenues for use during economic downturns. 1A would increase the limit allowed to be budgeted for the stabilization fund from 5% to 12.5% a year. A separate provision of Proposition 1A extends certain tax measures passed as part of the February 2009 budget package. These are as follows: state sales and use tax, vehicle license fee increase, personal income tax surcharge and reduced income tax credit for children and other dependents.

Propositions 1B-1F would respectively fund public education, modernize the lottery, shift existing funds from First 5 Children's Commission to the general fund, transfer Proposition 63 mental health funds to the general fund and prevent pay increases during budget deficit years for elected officials salaries.

Supporters of the propositions include Governor Arnold Schwarzenegger, the League of California Cities, the California Teachers Association, California Taxpayers Association, California Business Roundtables, California Manufacturers and Technology Association, police and fire chiefs, sheriffs as well as many others.

Attached is a summary of the measures and proposed tax increases as presented by the City Legislative Affairs staff.

Recommendation: Request City Manager to forward communication expressing Council's support of Propositions 1A-1F.

STATE BALLOT MEASURES

The approved budget package includes seven provisions that will require voter approval to be enacted. These provisions will appear on the May 19, 2009 special election ballot. These ballot measures are:

Proposition 1A: Rainy Day Budget Stabilization Fund—This constitutional provision will cap spending by limiting the amount of revenue that can be appropriated for General Fund purposes and requiring above-average revenues to be deposited into the rainy day fund for use during economic downturns. This proposition would also extend the tax increases.

Proposition 1B: Education Funding. Payment Plan—This constitutional provision will require the State to increase annual school funding by \$9.3 billion in future years in lieu of any maintenance factors that could be required by Proposition 98. Funding would be allocated to school districts in the same manner as the revenue limit per unit of average daily attendance. This proposition will not go into effect unless voters also approve Proposition 1A.

Proposition 1C: Lottery Modernization Act—This measure will modernize the State Lottery to improve its performance with increased payouts, thereby facilitating the State's ability to borrow \$5 billion against future proceeds. Funding levels for schools currently provided by lottery revenues will be protected.

Proposition 1D: Children's Services Funding—This measure would shift up to \$608 million this year and \$268 million a year through 2013 from the First 5 Children's Commission programs (Proposition 10) to general health and human services programs for children up to five years of age.

Proposition 1E: Mental Health Funding Budget—This measure would allow Proposition 63 (Mental Health Services Act) funds in the amount of \$226.7 million in FY 2009-10 and up to \$234 million in FY 2010-11 to be used to support the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program.

Proposition 1F: Elected Officials' Salaries. Prevents Pay Increases During Budget Deficit Years.—This constitutional provision would prevent legislative or constitutional officer salaries from being increased in years where the State faced a projected fiscal deficit.

Summary of Tax Increases—\$12.5 Billion

State Sales and Use Tax (\$5.8 billion): A 1-cent increase to the State Sales and Use Tax, effective April 1, 2009. This temporary increase will sunset on June 30, 2012 if voters approve the proposed Budget Stabilization constitutional amendment. If voters reject the amendment, the rate increase will expire one year sooner on June 30, 2011.

Vehicle License Fee (VLF) Increase (\$1.7 billion): Increases the VLF from the current rate of 0.65 percent to 1.15 percent, except for heavy vehicles. Revenue from the portion of the increase to 1 percent will be retained by the General Fund, and revenue from the additional increase of 0.15 percent will be transferred to a new special account dedicated to funding local public safety programs. The VLF rate increase will become effective for registrations beginning May 19, 2009 and will expire June 30, 2013 if voters approve the proposed Budget Stabilization constitutional amendment. If voters reject the amendment, the rate increase will expire on June 30, 2011.

Personal Income Tax Surcharge (\$3.7 billion): A 0.25 percent rate surcharge on Personal Income Tax brackets becomes effective starting in tax year 2009. This surcharge would apply through tax year 2012 if the voters approve the proposed Budget Stabilization constitutional amendment. If voters reject the amendment, the surcharge will expire after tax year 2010.

Reduced Income Tax Credit for Children and Other Dependents (\$1.4 billion): A reduction in the dependent credit amount (\$309 per dependent in 2008) allowed against the Personal Income Tax to the amount of the personal credit (\$99 for the taxpayer and spouse) beginning in tax year 2009. The dependent credit reduction would apply through tax year 2012 if voters approve the proposed Budget Stabilization constitutional amendment. If voters reject the amendment, the reduction will expire two years sooner, applying only to tax years 2009 and 2010.