AGENDA

JOINT INFORMATIONAL HEARING

SENATE BUDGET AND FISCAL REVIEW COMMITTEE
AND
ASSEMBLY BUDGET COMMITTEE

Senator Denise Ducheny and Assemblymember Bob Blumenfield, Chairs

September 23, 2010
1:30 p.m. – State Capitol Room 4202

Proposition 25: ***CHANGES LEGISLATIVE VOTE REQUIREMENT TO PASS BUDGET AND BUDGET-RELATED LEGISLATION FROM TWO-THIRDS TO A SIMPLE MAJORITY. RETAINS TWO-THIRDS VOTE REQUIREMENT FOR TAXES. INITIATIVE CONSTITUTIONAL AMENDMENT.***

Overview of Proposition 25

- Mac Taylor, Legislative Analyst

- Comments from Proponents
  - Lillian Taiz, California Faculty Association
  - Lance Olson, Olson, Hagel & Fishburn, LLP
  - Trudy Schafer, League of Woman Voters of California

- Comments from Opponents
  - David Wolfe, Howard Jarvis Taxpayers Association
  - Greg Hines, California Manufacturing and Technology Association

- Public Comment

- Questions from Members

Overview of California's Cash Position

- John Hiber, Chief of Operations, State Controller's Office
- Jim Lombard, Chief Administrative Officer, State Controller's Office

Attachments

Voter Informational Guide on Proposition 25
Text of Proposed Law

PROPOSITION 25 CHANGES LEGISLATIVE VOTE REQUIREMENT TO PASS BUDGET AND BUDGET-RELATED LEGISLATION FROM TWO-THIRDS TO A SIMPLE MAJORITY. RETAINS TWO-THIRDS VOTE REQUIREMENT FOR TAXES. INITIATIVE CONSTITUTIONAL AMENDMENT.

OFFICIAL TITLE AND SUMMARY — PREPARED BY THE ATTORNEY GENERAL

CHANGES LEGISLATIVE VOTE REQUIREMENT TO PASS BUDGET AND BUDGET-RELATED LEGISLATION FROM TWO-THIRDS TO A SIMPLE MAJORITY. RETAINS TWO-THIRDS VOTE REQUIREMENT FOR TAXES. INITIATIVE CONSTITUTIONAL AMENDMENT.

- Changes the legislative vote requirement necessary to pass the state budget and spending bills related to the budget from two-thirds to a simple majority.
- Provides that if the Legislature fails to pass a budget bill by June 15, all members of the Legislature will permanently forfeit any reimbursement for salary and expenses for every day until the day the Legislature passes a budget bill.

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

- In some years, the contents of the state budget and related legislation could be changed due to the lower legislative vote requirements in this measure. The extent of these changes would depend on a number of factors, including the state's financial circumstances, the composition of the Legislature, and its future actions.
- In any year the Legislature has not sent a budget to the Governor on time, there would be a reduction in state legislator compensation costs of about $50,000 for each late day.

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

Process for Passing a Budget. The State Constitution gives the Legislature the power to appropriate (that is, allow the spending of) state funds. The annual state budget is the Legislature's primary method of authorizing state expenses for a fiscal year (which runs from July 1 to June 30). The Constitution requires that the Governor propose a budget by January 10 for the next fiscal year. Each of the two houses of the Legislature (the State Assembly and the State Senate) then is required to pass the annual budget bill by June 15 and send it to the Governor. The Governor may either sign the budget approved by the Legislature or veto (reject) all or a part of it. By a two-thirds (67 percent) vote in each house of the Legislature, a veto by the Governor may be overridden. While the Constitution has a date by which the Legislature must *pass* a budget, it does not have a specific date by which a final budget must be *put into law.*

Two-Thirds Vote Requirement for Passage of State Budget. The Constitution requires a two-thirds vote of each house of the Legislature for the passage of "urgency" measures that take effect immediately, bills that increase state tax revenues, and General Fund appropriations (except appropriations for public schools). Because the state budget includes General Fund appropriations and needs to take effect immediately, it requires a two-thirds vote for passage. Certain budget actions, such as a decision to change the services that a state department is mandated to provide, require changing state law. These changes often are included in "trailer bills" that accompany passage of the budget each year. In general, bills passed by the Legislature take effect on January 1 of the next year. In order for trailer bills to take effect immediately, however, they must be passed by a two-thirds vote of each house of the Legislature.

Late Budgets. Since 1980, the Legislature has met its June 15 constitutional deadline for sending a budget to the Governor five times. During that same period, a final budget—passed by the Legislature and approved by the Governor—was in place prior to the July 1 start of the fiscal year on ten occasions, including three times since 2000. When a fiscal year begins without a state budget in place, some state expenses are not paid as scheduled. For example, state elected officials (such as the Governor and Members of the Legislature) have not received salaries after July 1 until a final budget is in place. Salary payments withheld from these officials have been paid in full when the final budget goes into effect.

PROPOSAL

Lowers Legislative Vote Requirements for the Budget Bill and Related Legislation. This measure amends the Constitution to lower the vote requirement necessary for each house of the Legislature to pass a budget bill and send it to the Governor. Specifically, the vote requirement would be lowered from two-thirds to a majority (50 percent plus one) of each house of the Legislature. The lower vote requirement also would apply to trailer bills that appropriate funds and are identified by the Legislature "as related to the budget in the budget bill." Both the budget bill and these trailer bills would take effect immediately after being signed by the Governor (or on a later date specified in the bill). A two-thirds vote of the Legislature would still be required to override any veto by the Governor. This measure's constitutional provisions do not specifically address the legislative vote requirement for increasing state tax revenues, but the measure states that its intent is not to change the existing two-thirds vote requirement regarding state taxes.

Loss of Pay and Reimbursements by Legislators. In any year when the Legislature has not sent a budget bill to the Governor by June 15, this measure would prohibit Members of the Legislature from collecting any salary or reimbursements for travel or living expenses. This prohibition would be in effect from June 15 until the day that a budget is presented to the Governor. These salaries and expenses could not be paid to legislators at a later date.

FISCAL EFFECTS

State Budget May Be Easier to Approve. This measure could make it easier for the Legislature to send a state budget bill to the Governor. That is because it would lower the voting requirement for the budget from two-thirds to a majority of each house of the Legislature. Given the current composition of each house, this would allow members of the Legislature's majority political party to approve a budget bill without the support of any members of the minority party. Currently, some members of the minority party must support a budget to reach the two-thirds vote requirement.

In some years, the lower vote requirement could affect the content of the budget and bills identified by the Legislature as related to the budget. Spending priorities in a given budget could be different. The extent of these changes would depend on a number of factors—including the state's financial circumstances, the composition of the Legislature, and its future actions. Accordingly, the exact changes that would occur in future state budgets cannot be estimated.

Some Legislative Pay May Be Lost. In years when the Legislature does not send a budget bill to the Governor by the June 15 deadline, Members of the Legislature would lose portions of their annual salaries and reimbursements for living and travel expenses. In such cases, the measure would reduce state costs by around $50,000 per day until a budget bill was sent to the Governor.

For text of Proposition 25, see page 113.

PROP 25 CHANGES LEGISLATIVE VOTE REQUIREMENT TO PASS BUDGET AND BUDGET-RELATED LEGISLATION FROM TWO-THIRDS TO A SIMPLE MAJORITY. RETAINS TWO-THIRDS VOTE REQUIREMENT FOR TAXES. INITIATIVE CONSTITUTIONAL AMENDMENT.

★ ARGUMENT IN FAVOR OF PROPOSITION 25 ★

Prop. 25 reforms California's badly broken state budget process, so taxpayers, schools and services are protected, while legislators are held accountable if they fail to pass the budget on time. No budget, no pay—and no payback later.

Prop. 25 is a common sense solution to California's budget disaster, with legislators paying the price for late budgets, not taxpayers.

Prop. 25 is a simple budget reform that breaks legislative gridlock by allowing a simple majority of legislators to approve the budget—just like in 47 other states. Meanwhile, Prop. 25 preserves the 2/3 vote required to raise taxes.

Late budgets cost taxpayers millions of dollars, hurt schools and services, damage California's credit rating and give special treatment to interest groups at the expense of ordinary citizens. Under the current system, no one is held accountable. This will change under Prop. 25—a common sense reform that:

— Holds legislators accountable when they don't do their jobs. For every day the budget is late, legislators are docked a day's pay plus expenses. Importantly, they can't pay themselves back when the budget is finally passed.
— Changes the vote requirement needed for budget approval, so a majority of legislators can pass the budget, instead of allowing a small minority of legislators to hold it captive.
— Preserves the constitutional requirement that 2/3 of the Legislature must approve new or higher taxes.

When last year's budget was late, California issued 450,000 IOUs to small businesses, state workers and others who do business with the state, costing taxpayers over $8 million in interest payments alone.

Under the current system, a small group of legislators can hold the budget hostage, with the "ransom" being more perks for themselves, spending for their pet projects or billions in tax breaks for narrow corporate interests. Meanwhile, taxpayers are punished and funding for schools, public safety and home health care services for seniors and the disabled becomes a bargaining chip. Real people suffer when legislators play games with the budget.

More than 16,000 teachers were laid off last year and 26,000 pink slips were issued this year because of the budget mess. Prop. 25 ends the chaos, allowing schools to plan their budgets responsibly by letting them know what they can expect from the state. This isn't possible when the state budget is late.

Late budgets waste tax money and inflate the cost of building schools and roads. Last year when the budget was late, road projects were shut down then restarted days later, costing taxpayers millions of dollars and further damaging California's credit rating.

Please read Prop. 25 carefully. It does exactly what it says—holds legislators accountable for late budgets, ends budget gridlock and preserves the 2/3 vote required to raise taxes.

For responsible budgeting and fiscal accountability, vote "yes" on Prop. 25.

MARTIN HITTELMAN, President
California Federation of Teachers
KATHY J. SACKMAN, RN, President
United Nurses Associations of California/Union of Health Care Professionals
NAN BRASMER, President
California Alliance for Retired Americans

★ REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 25 ★

THE REAL SUPPORTERS OF PROPOSITION 25 ARE INCUMBENT POLITICIANS AND THEIR SPECIAL INTEREST FRIENDS.

Under Prop. 25, California taxpayers will get more budget gimmicks, borrowing and deficit spending. It makes it easier for the politicians to raise taxes and pass a budget that isn't really balanced.

PROPOSITION 25 IS ANOTHER BACKROOM DEAL BY SACRAMENTO POLITICIANS AND SPECIAL INTERESTS TO RAISE TAXES AND ELIMINATE VOTER RIGHTS when they include these provisions in a budget bill. Buried in the fine print of this measure is language that will:

- Lower the vote requirement for the LEGISLATURE TO RAISE SALES, INCOME AND GAS TAXES.
- ELIMINATE VOTER CONSTITUTIONAL RIGHTS to repeal bad legislation and higher fees through the referendum process.
- Lower the vote requirement for the LEGISLATURE TO INCREASE ITS OWN EXTRAVAGANT TAX-FREE EXPENSE ACCOUNTS. Politicians want us to believe Prop. 25 will penalize them for a late budget, but they'll just make it up in higher expense account payments.

PROPOSITION 25 DOES NOT PROTECT TAXPAYERS.

It changes our Constitution to make it easier for the Sacramento politicians to raise taxes and reward the special interests that put them in office.

"Prop. 25 means higher taxes, bigger deficits and more wasteful spending."—Jon Coupal, Howard Jarvis Taxpayers Association

PROPOSITION 25 DOES NOT HOLD POLITICIANS ACCOUNTABLE.

Instead, it will make it easier for Legislators to pad their own wallets and raise taxes by $40 billion, as proposed by one of the supporters of this measure.

Vote NO on Prop. 25.
www.No25Yes26.com

TERESA CASAZZA, President
California Taxpayers' Association
GABRIELLA HOLT, President
Citizens for California Reform
JOEL FOX, President
Small Business Action Committee

Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

PROP 25 CHANGES LEGISLATIVE VOTE REQUIREMENT TO PASS BUDGET AND BUDGET-RELATED LEGISLATION FROM TWO-THIRDS TO A SIMPLE MAJORITY. RETAINS TWO-THIRDS VOTE REQUIREMENT FOR TAXES. INITIATIVE CONSTITUTIONAL AMENDMENT.

★ ARGUMENT AGAINST PROPOSITION 25 ★

NO ON PROPOSITION 25—DON'T MAKE IT EASIER FOR POLITICIANS TO RAISE TAXES AND ELIMINATE VOTER RIGHTS

Politicians and special interests responsible for our massive budget deficit know that Californians don't support increased taxes and spending, so they're promoting Proposition 25—another misleading ballot measure to raise taxes and take away our constitutional right to reject bad legislation at the ballot box.

HIDDEN IN THE FINE PRINT OF PROPOSITION 25 ARE THE REAL REASONS POLITICIANS ARE PUSHING THIS MEASURE:

- Eliminates the right of voters to use the referendum to force a vote and stop taxes disguised as fees.
- Allows politicians to circumvent our Constitution's two-thirds vote requirement for passing new or increased taxes by allowing taxes to be enacted as part of the budget with a bare majority vote.
- Makes it easier for politicians to increase their lavish expense accounts. Currently, they can increase these perks only with a two-thirds vote of the Legislature. But under Proposition 25, they would be able to increase them with a bare majority vote.

NO ON PROPOSITION 25—DON'T BE FOOLED BY THE POLITICIANS

The politicians behind Proposition 25 are the same people who can't control spending and can't balance our budget. Instead of cutting waste and controlling spending, their solution is to raise taxes.

NO ON PROPOSITION 25—STOP THE POLITICIANS FROM GETTING EVEN LARGER EXPENSE ACCOUNTS

Sacramento politicians support this misleading proposal to try and convince voters that they will cut their own pay if they can't pass an on-time budget.

Politicians would NEVER support an initiative that would cost them. Proposition 25 makes it easier for the politicians to *double or even triple their own TAX-FREE expense* accounts to make up the difference for any lost pay.

NO ON PROPOSITION 25—IT'S NOT WHAT IT SEEMS

More Spending:

The hidden agenda in Proposition 25 makes it easier for politicians to raise taxes, spend money we don't have and incur *more* debt. With a budget deficit of $20 billion, we don't need more borrowing or budget gimmicks.

Eliminates Voter Rights:

Proposition 25 allows politicians to put new hidden taxes disguised as fees into budget-related bills, which eliminates voters' constitutional right to use the referendum process to reject these hidden taxes or other bad laws at the ballot.

"Our ability to reject hidden taxes is California taxpayers' last line of defense against a misguided Legislature. We cannot let the politicians take away that right."—California Taxpayers' Association

PROPOSITION 25's HIDDEN AGENDA:

- Lowers the vote requirement for passing a budget from two-thirds to a bare majority vote, making it easier to use gimmicks and claim the budget is balanced when it's not.
- Allows the state Legislature to pass tax increases as part of the budget with a bare majority vote.
- Eliminates voter rights to use the referendum process to reject hidden taxes and repeal bad laws at the ballot.
- Allows the Legislature to increase their lavish expense accounts with a bare majority vote.

Learn more: *www.No25Yes26.com*

VOTE NO ON PROPOSITION 25

JON COUPAL, President
Howard Jarvis Taxpayers Association
JOHN KABATECK, Executive Director
National Federation of Independent Business/California
RUBEN GUERRA, Chairman
Latin Business Association

★ REBUTTAL TO ARGUMENT AGAINST PROPOSITION 25 ★

Prop. 25 will NOT make it easier to raise taxes. This is a false, desperate argument by people who want to keep things the same in Sacramento. Nor does it take away your right to vote.

Prop. 25 isn't about taxes. It's about holding legislators accountable and ending California's yearly budget crisis.

California's Attorney General and the state's non-partisan Legislative Analyst have officially stated that Prop. 25 does NOT lessen the vote required to raise taxes. In fact, Prop. 25 specifically says, "This measure WILL NOT CHANGE the two-thirds vote requirement for the Legislature to raise taxes."

Prop. 25 will make the Legislature work better, where chronically late budgets now punish schools and hurt vital services, damage our economy and cost taxpayers over $50 million every day the budget is late.

Prop. 25 helps fix the problem in two ways.

First, it prevents legislators from collecting pay and benefits every day they fail to pass an on-time budget—money they can't recover when they do pass the budget. Prop. 25 holds legislators accountable when they fail to do their jobs.

Second, Prop. 25 allows a majority of legislators to approve the budget—just like 47 other states. No longer can a handful of legislators hold the budget hostage, forcing last-minute deals that hurt taxpayers AND democracy.

If you agree it's time for legislators to do their jobs by passing the budget on time, vote "YES" on Prop. 25. With California in crisis, we need a Legislature that works.

JANIS R. HIROHAMA, President
League of Women Voters of California
BILL LOCKYER, California State Treasurer
RICHARD HOLOBER, Executive Director
Consumer Federation of California

SECTION 1. Title.

This measure shall be known and may be cited as the "On-Time Budget Act of 2010."

SECTION 2. Findings and Declarations.

The People of the State of California find and declare that:

1. For more than 20 years, the California Legislature has been unable to meet its constitutional duty to pass a Budget Act by June 15. In many of those years, the Legislature did not pass a Budget Act until the month of August, and in 2008, the Budget Act was not passed until September 16, more than three months late.

2. Late budget passage can have a sudden and devastating effect on individual Californians and California businesses. Individuals and families can be deprived of essential governmental services and businesses are subject to protracted delays in payments for services rendered to the State.

3. A major cause of the inability of the Legislature to pass a budget in a timely manner is the supermajority two-thirds vote required to pass a budget. Political party leaders refuse to compromise to solve the State's budget problem and have used the two-thirds vote requirement to hold up the budget or to leverage special interest concessions that benefit only a handful of politicians.

4. California, Rhode Island and Arkansas are the only states in the country that require a vote of two-thirds or more of the legislature to pass a budget.

5. A second major cause of the inability of the Legislature to pass a budget on time is that individual Legislators have no incentive for doing so. Whether they adopt a budget on time or not has no effect upon those elected to represent the voters. In order to give the Legislature an incentive to pass the annual state budget on time, Legislators should not be paid or reimbursed for living expenses if they fail to enact the budget on time. This measure requires incumbents to permanently forfeit their salaries and expenses for each day the budget is late.

SECTION 3. Purpose and Intent.

1. The People enact this measure to end budget delays by changing the legislative vote necessary to pass the budget from two-thirds to a majority vote and by requiring Legislators to forfeit their pay if the Legislature fails to pass the budget on time.

2. This measure will not change Proposition 13's property tax limitations in any way. This measure will not change the two-thirds vote requirement for the Legislature to raise taxes.

SECTION 4. Section 12 of Article IV of the California Constitution is amended to read:

SEC. 12 (a) Within the first 10 days of each calendar year, the Governor shall submit to the Legislature, with an explanatory message, a budget for the ensuing fiscal year containing itemized statements for recommended state expenditures and estimated state revenues. If recommended expenditures exceed estimated revenues, the Governor shall recommend the sources from which the additional revenues should be provided.

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

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

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

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

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

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

(e)(1) Notwithstanding any other provision of law or of this Constitution, the 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 (d) 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 shall consist only of bills identified as related to the budget in the budget bill passed by the Legislature.

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

(~~f~~*g*) For the 2004-05 fiscal year, or any subsequent fiscal year, the Legislature may not send to the Governor for consideration, nor may the Governor sign into law, a budget bill that would appropriate from the General Fund, for that fiscal year, a total amount that, when combined with all appropriations from the General Fund for that fiscal year made as of the date of the budget bill's passage, and the amount of any General

Fund moneys transferred to the Budget Stabilization Account for that fiscal year pursuant to Section 20 of Article XVI, exceeds General Fund revenues for that fiscal year estimated as of the date of the budget bill's passage. That estimate of General Fund revenues shall be set forth in the budget bill passed by the Legislature.

(h) Notwithstanding any other provision of law or of this Constitution, including Sections 4 and 8 of Article III and Sections 4 and 12(c) of this Article, 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 5. 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, such 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.