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Senator John Campbell

Steering Committee
Jon Coupal,
Howard Jarvis
Taxpayers Association

Larry McCarthy,
California Taxpayers
Association

Supervisor Ted Gaines,
Placer County

Mayor Jeff Miller,
Corona

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Mark Christopher
Chevrolet/Cadillac

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SA2005RF0014

January 3, 2005

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INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Ms. Tricia Knight
Initiative Coordinator
Office of the Attorney General
State of California
PO BOX 994255
Sacramento, CA 94244-25550

Re: Request for Title and Summary for Proposed Initiative

Dear Ms. Knight:

Pursuant to Article II, Section 10(d) of the California Constitution, we are submitting the attached proposed statewide ballot measure to your office and request that you prepare a title and summary of the measure as provided by law. Included with this submission is the required proponent affidavit signed by the proponent(s) of this measure pursuant to section 9608 of the California Elections Code. We have also included a check to cover the $200 filing fee.

Thank you for your time and attention to this matter. If you require additional information or have any questions, please feel free to contact Dave Gilliard, 921 11th Street, Suite 400, Sacramento, CA 95814, (916)-444-1502.

Very truly yours,

John Campbell Jon Coupal Larry McCarthy

921 11th Street, Suite 400, Sacramento, CA 95814 • phone: 916.443.6703 • fax: 916.443.6695

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SA2005RF0014

THE CALIFORNIA DEFICIT PREVENTION ACT

SECTION 1 Title

This measure shall be known and may be cited as the "California Deficit Prevention Act."

SECTION 2 Findings and Declarations of Purpose

(a) The State of California and its political subdivisions continue to suffer chronic budget deficits. The existing state and local appropriation limits have failed to prevent this from occurring.

(b) These deficits are the result of politicians failing to responsibly manage state finances, failing to enact budgets limited to available revenues and failing to put aside a portion of the surpluses during good years to ensure stable government resources in the lean years.

(c) Between the 1998-99 and 2003-04 fiscal years, state spending was allowed to grow from just over $75 billion to nearly $108 billion (a 44% increase in merely five years) even though revenues were not available to support the increased spending.

(d) To prop up the unrestrained spending growth, politicians pursued massive borrowing, the costs of which will be borne by future generations, raided revenues from local governments, which have had their own fiscal mismanagement issues, and enacted new and expanded taxes disguised as fees to circumvent Propositions 13 and 218.

(e) Proposition 13 requires that increases in state taxes be adopted by not less than two-thirds vote of the members elected to each house of the Legislature. Both Proposition 13 and Proposition 218 require that increases in local taxes be approved by the voters.

(f) The California Deficit Prevention Act will force rational fiscal management on Sacramento politicians by limiting the growth in State spending to the combined growth of population and inflation. Similarly, local governments will be prohibited from spending beyond their available revenues.

(g) The increasing interdependence of state and local finance necessitates limitations on the expenditures of both. Without state and local limitations, restraints on spending as to one level of government could be circumvented and nullified by increasing expenditures by another. By putting an end to the loophole in Propositions 13 and 218, the Deficit Prevention Act will ensure that the politicians cannot get around the spending limit by passing taxes disguised as fees by less than a two-thirds vote or without a vote of the people and therefore ensure better fiscal management for the taxpayers of California.

SECTION 3 Article XIII A, section 3 of the California Constitution is amended to read:

Sec. 3. *(a)* From and after *January 1, 2005*~~the effective date of this article~~, any changes in state *statute* ~~taxes enacted for the purpose of increasing revenues collected pursuant thereto~~ *which results in any taxpayer paying a higher tax,* whether by increased rates or changes in methods of computation, must be imposed by an Act passed by not less than two-thirds of all members elected to each of the two houses of the Legislature, except that no new ad valorem taxes on real property, or sales or transaction taxes on the sales of real property may be imposed.

(b) As used in this section, "tax" means any charge or exaction of any kind imposed by the state, except:

(1) a charge imposed for a specific service provided directly to the payor by the state or provided by a private contractor on behalf of the state, and not provided to those not charged, but only if (A) the amount of the charge does not exceed the reasonable costs of the service provided, and (B) except in the case of the judicial branch, the service was not financed in the preceding year by tax revenue.

(2) a charge imposed for the reasonable regulatory costs to the state of issuing licenses, permitting, inspection, audit, and administrative adjudication.

(3) a charge imposed for entrance to or use of state property, except charges governed by Article XI, section 15.

(4) a fine, penalty, or other monetary charge imposed by the judicial branch of government, or state or local administrative agency, as a result of any violation of a statute or regulation.

(c) Any tax, charge or exaction of any kind adopted after January 1, 2005, but prior to the effective date of this Act, that was not adopted in compliance with the requirements of this section is void 12 months after the effective date of this Act unless the tax, charge or exaction is reenacted by the Legislature and signed into law by the Governor in compliance with the requirements of this section.

SECTION 4 Article XIIIB of the California Constitution is hereby repealed.

SECTION 5 Article XIIIB of the California Constitution is added, to read:

ARTICLE XIII B

EXPENDITURE LIMIT

SECTION 1 As used in this article, the following terms have the following meanings:

(a) "Emergency" means the existence, as declared by the Governor, of conditions of disaster or of extreme peril to the safety of persons and property within the State, or parts thereof, caused by an attack or probable or imminent attack by an enemy of the United States, epidemic, fire, flood, drought, storm, civil disorder, earthquake, tsunami or volcanic eruption. "Emergency" does not include revenue shortfalls, excessive spending, or similar conditions limiting the ability to fund government operations.

(b) Except as specifically excluded in this Article, "General Fund revenues and special fund revenues" means all taxes as defined in Article XIIIA, subsection 3(b), any other charges or exactions imposed by the State, all other sources of revenue which were considered "General Fund" or "special fund" sources of revenue for the 2004-05 fiscal year, and any funds transferred from the Sales Tax Rebate Account as specified in section 3(d) of this Article. "General Fund revenues and special fund revenues" does not include revenues to Nongovernmental Cost Funds,including federal funds, trust and agency funds, enterprise funds or selected bond funds. It is the intent of this subdivision to ensure that all state revenues received for any fiscal year and not specifically excluded by this article, whether or not characterized by any state law as General Fund revenues or special fund revenues, are subject to the expenditure limit prescribed by this article.

(c)"Percentage change in the cost of living" means the sum of (1) the percentage change from April 1 of the prior year to April 1 of the current year in the California Consumer Price Index for all items, as determined by the Department of Industrial Relations or its successor, but not to exceed the percentage change in California per capita personal income for the prior calendar year, multiplied by the percentage of total 2004-05 General Fund and Special Fund expenditures that do not represent payments for health care services, and (2) the percentage change in the Medical Care component of the United States Consumer Price Index –All Urban Consumers for the prior calendar year, multiplied by the percentage of total 2004-05 General Fund and Special Fund expenditures that represent payments for health care services. The Department of Finance or its successor agency shall determine the change in per capita personal income based upon the California personal income statistics produced by the Bureau of Economic Analysis in the US Department of Commerce. For the purposes of this calculation, "current year" means the calendar year in which the fiscal year commences.

(d) "Allowable expenditures" means the maximum amount of total expenditures permitted for a fiscal year as provided for in this Article.

(e) "State Population" shall be determined by the Department of Finance, or successor agency, provided that such determination shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce, or successor agency of the United States Government.

SEC. 2 (a)(1) The total expenditures made for the 2006-07 fiscal year, or any subsequent fiscal year, from General Fund revenues and special funds revenues, in the aggregate, shall not increase from the amount of those total expenditures for the prior fiscal year as adjusted pursuant to paragraph (2) for changes in state population and cost of living.

(2) The maximum amount of total expenditures allowable for the current fiscal year shall be computed by multiplying the prior year total expenditures by the sum of 1 plus the percentage change in state population, and then multiplying that product by the sum of 1 plus the percentage change in the cost of living.

(3) For purposes of establishing the expenditure limit for the 2006-07 fiscal year, the total amount of prior year expenditures shall be deemed to be equal to the total amount of expenditures for the 2004-05 fiscal year from General Fund revenues and special fund revenues, as determined by the Director of the Department of Finance, or the Director of its successor agency, as adjusted pursuant to paragraph (2) for two years of changes in state population and cost-of-living.

(4) For purposes of establishing the expenditure limit for the 2007-08 fiscal year and each subsequent fiscal year, the Director of the Department of Finance, or the Director of its successor agency, shall certify the total amount of the prior-year expenditures, which in no event shall be an amount greater than the total amount of allowable expenditures for that year under this Article.

(b) The expenditure limit imposed by this Article may be exceeded for a fiscal year in an emergency as defined in Section 1(a) of this Article. Any expenditure for an emergency declared by the Governor shall first be paid from any funds accumulated in the Special Reserve Account created pursuant to Section 3(a) of this Article. Any expenditure exceeding the limit imposed by this Article for a declared emergency as provided for in this section shall be for that purpose only and shall be directly related to, and proportionate to the costs arising from, the emergency. No funds expended pursuant to this subsection shall supplant or replace monies already appropriated to any state agency. Expenditures in excess of the limit pursuant to this section

shall not become part of the expenditure base for purposes of determining the amount of allowable expenditures for the next fiscal year. Any bill addressing the emergency declared pursuant to this section shall contain a statement to that effect.

(c) The total amount of expenditures made in any fiscal year does not include any funds that are transferred from the General Fund to the Budget Stabilization Account as provided in Article XVI, Section 20. The total amount of expenditures made in any fiscal year includes any expenditure or transfer of funds from the Budget Stabilization Account subsequent to their deposit into that account, unless such expenditure or transfer is for purposes of the retirement of bonds as described by Section 20 of Article XVI.

(d) The Director of the Department of Finance, or the Director of its successor agency, shall, on a quarterly basis, report to the Governor and the Members of the Budget Committees in each house, on the state's compliance with the expenditure limit imposed by this Article for the current fiscal year. The report shall include updated estimates of revenues and expenditures and the expenditure limit for the current fiscal year. If the Department estimates current fiscal year total expenditures may exceed the limit imposed by this Article, the report shall include recommendations for corrective action.

(e) If the Governor has not declared a fiscal emergency during a fiscal year pursuant to Article IV, Section 10 (f)(1), and after the conclusion of that fiscal year it is determined by the Director of the Department of Finance, or the Director of its successor agency, that actual expenditures for that fiscal year have exceeded the maximum amount allowable for that year, then the maximum amount of allowable expenditures for the fiscal year following the fiscal year in which such determination is made shall be reduced by the amount of the excess. In determining the maximum allowable amount of total expenditures for the fiscal year next succeeding the fiscal year in which such a reduction is made, the amount of the reduction shall be added to the amount of prior-year expenditures certified pursuant to paragraphs 3 and 4 of this Section.

(f) In order to ensure the integrity of the expenditure limit imposed by this Article, the state is hereby prohibited from making any alterations in its existing accounting practices that are not in compliance with Generally Accepted Accounting Principles as promulgated now or in the future by the Governmental Accounting Standards Board, or its successor agency.

SEC. 3 If total General Fund revenue and special fund revenues exceed the amount which may be expended for the current fiscal year due to the expenditure limit imposed by this article, the amount of such excess shall be proportionately attributed to the General Fund and each Special Fund. The amount of such excess attributed to each Special Fund shall be held as a reserve in that Special Fund for expenditure in a subsequent fiscal year. The amount of such excess attributed to the General Fund shall be allocated from the General Fund as follows:

(a)(1) Twenty-Five percent to the Special Reserve Account, which is hereby created in the General Fund of the State, to the extent that this account contains an amount less than five percent of the total amount of allowable expenditures for the current fiscal year. Any funds that may not be allocated to the Special Reserve Account due to the five percent limitation shall be allocated pursuant to subdivision (b).

(2) Monies in the Special Reserve Account may be expended in any fiscal year in an amount equal to the amount by which revenues reported by the Department of Finance, or its successor agency, for the fiscal year, as supplemented by any moneys in the Budget Stabilization Account that are transferred to the General Fund pursuant to Section 20 of Article XVI, fall below the expenditure limit established by this Article for the fiscal year.

(3) Notwithstanding the limitation set forth in paragraph (2), funds in the Special Reserve Account may be expended for the purposes of an emergency declared by the Governor as provided for in Section 1(a) of this Article, upon appropriation by the Legislature by a two-thirds vote of the membership of each house.

(4) Any funds expended from the Special Reserve Account pursuant to paragraph (2), but no funds expended from that account for the purposes of paragraph (3) in excess of the limitation set forth in paragraph (2), are part of the expenditure base for the purposes of determining the amount of allowable expenditures pursuant to Section 2 for subsequent fiscal years.

(5) Subject to the five-percent maximum amount specified in paragraph (1), any unexpended balance in the Special Reserve Account, including interest earnings, shall carry over from one year to the next.

(b) Fifty percent to be allocated among the following according to the budget act: (1) to any outstanding maintenance factor pursuant to Article XVI, Section 8 of this Constitution in existence as of June 30, 2005, until allocated in full, but the amount so allocated in any fiscal year shall not exceed one-fifteenth of the amount in existence as of June 30, 2005; (2) to the Deficit Recovery Bond Retirement Fund Sinking Subaccount, so long as any bonds issued pursuant to the Economic Recovery Bond Act remain outstanding, and (3) to the Transportation Investment Fund, until such amount as was loaned to the General Fund during Fiscal Years 2003-04 and 2004-05 has been repaid in full, but the amount so allocated in any fiscal year shall not exceed one-fifteenth of the amount in existence as of June 30, 2005. The deposit of funds pursuant to this subdivision shall supplement, but not supplant, the transfers to the Deficit Recovery Bond Retirement Fund Sinking Subaccount required by paragraph (1) of subdivision (f) of Section 20 of Article XVI.

(c) Twenty-five percent to the School, Roads and Highways Construction Fund, which is hereby created in the Treasury as a trust fund, which shall be available for allocation by the State Allocation Board to local agencies and school districts for road and highway construction projects and for school construction and modernization projects, upon appropriation by the Legislature. Any funds allocated to school districts pursuant to this provision are not subject to Article XVI, Section 8.

(d) Revenue that exceeds the amount that may be deposited to the accounts specified in subsections (a), (b), or (c) shall not be considered "General Fund revenues" for purposes of Article XVI, Section 8. Any revenue that exceeds the amount that may be deposited into the accounts specified in subsections (a), (b), or (c) shall be allocated to the Sales Tax Rebate Account, which is hereby created in the Treasury as a trust fund, which shall be used for temporary state sales tax rate reduction. Any monies allocated to the Sales Tax Rebate Account shall remain in the Fund, along with any interest earnings. At the conclusion of every fiscal year, the Department of Finance, or its successor agency, shall transmit to the Controller its estimate of the amount of revenue that would be produced by a sales and use tax rate of 0.25 percent over the next succeeding twelve month period. Whenever the amount of money accumulated in the Sales Tax Rebate Account reaches the amount specified by the Department of Finance, or its successor agency, the taxpayers shall be entitled to a rebate provided as a reduction in the sales and use tax rate by 0.25 percent for a period of 12 months. If the amount available in the Sales Tax Rebate Account is sufficient to warrant multiple rebates, the taxpayers shall be entitled to such additional rebates in such increments of .25 percent as are warranted by the balance in the Sales Tax Rebate Account. The State Controller shall notify the State Board of Equalization when accumulated monies in the Sales Tax Rebate Account exceed the amount specified by the Department of Finance, or its successor agency, as required pursuant to this section. Within 120 days from being notified by the State Controller of monies in the Sales Tax Rebate Account in

excess of the amount specified by the Department of Finance pursuant to this section, the State Board of Equalization, or its successor agency responsible for administering the Sales and Use Tax Law, shall implement the sales and use tax rate reduction to which taxpayers are entitled pursuant to this section. The State Controller shall transfer monies from the Sales Tax Rebate Account to the General Fund and affected special funds to offset the actual revenue reductions to state funds affected by the rate reduction required by this section. Any funds so transferred are "General Fund and special fund revenues" for purposes of this Article, and are "General Fund revenues" for purposes of Article XVI, Section 8.

SEC. 4 The Legislature may, by roll-call vote entered in the journal, two-thirds of the membership in each house concurring, submit to the people, at the first statewide election occurring at least 90 days after the adoption of the proposal, a measure requesting voter approval of a temporary increase in the expenditure limit. Any such measure proposing a temporary increase in the limit imposed pursuant to this Article shall propose a specific dollar amount for the temporary increase, and specify a period not to exceed four fiscal years during which the increase shall be in effect. If the measure is approved by a majority of the voters, the temporary increase shall be in effect for the period specified in the measure. At the end of the period specified, the expenditure limit shall be reestablished for the next fiscal year to equal the amount it would have been had no temporary increase been approved.

SEC. 5 (a) As used in Section 7.5 of Article IV, "the percentage increase in the appropriations limit for the State established pursuant to Article XIII B" means the percentage increase in the cost of living and the percentage increase in the State's population as calculated pursuant to this Article.

(b) As used in Section 8 of Article XVI, "change in the cost of living pursuant to paragraph (1) of subdivision (e) of Section 8 of Article XIII B" means the percentage change in California per capita personal income from the prior fiscal year identified for purposes of Section 1.

SEC. 6 (a) Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the State shall provide a subvention of funds to reimburse that local government for the costs of the program or increased level of service, except that the Legislature may, but need not, provide a subvention of funds for the following mandates:

(1) Legislative mandates requested by the local agency affected.

(2) Legislation defining a new crime or changing an existing definition of a crime.

(3) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing legislation enacted prior to January 1, 1975.

(b) (1) Except as provided in paragraph (2), for the 2005-06 fiscal year and every subsequent fiscal year, for a mandate for which the costs of a local government claimant have been determined in a preceding fiscal year to be payable by the State pursuant to law, the Legislature shall either appropriate, in the annual Budget Act, the full payable amount that has not been previously paid, or suspend the operation of the mandate for the fiscal year for which the annual Budget Act is applicable in a manner prescribed by law.

(2) Payable claims for costs incurred prior to the 2004-05 fiscal year that have not been paid prior to the 2005-06 fiscal year may be paid over a term of years, as prescribed by law.

(3) Ad valorem property tax revenues shall not be used to reimburse a local government for the costs of a new program or higher level of service.

(4) This subdivision applies to a mandate only as it affects a city, county, city and county, or special district.

(c) A mandated new program or higher level of service includes a transfer by the Legislature from the State to cities, counties, cities and counties, or special districts of complete or partial financial responsibility for a required program for which the State previously had complete or partial financial responsibility.

SEC. 7 (a) Whenever, based on the most recent Department of Finance estimates, or its successor agency, and based on laws then in effect, the estimated total amount of debt service for the current fiscal year or any of the succeeding four fiscal years on non-self-liquidating general obligation bonds and General Fund-supported lease revenue bonds exceeds 6 percent of the estimated General Fund revenues for that fiscal year, exclusive of transfers from other funds, during that fiscal year the Treasurer may not sell any additional non-self-liquidating general obligation bonds or General Fund-supported lease revenue bonds.

(b) If that percentage is 6 percent or less, the Treasurer may sell those bonds to the extent that, based on the most recent Department of Finance estimates, or its successor agency, and based on laws then in effect, the additional debt service will not cause the percentage to exceed 6 percent for the current fiscal year or any of the succeeding four fiscal years.

(c) For the purposes of this section and Section 12 of Article IV, the Department of Finance, or its successor agency, at the time of public ation of the Governor's Budget in January, at the time of publication of the May Revision, and after the enactment of the Budget Act, shall publish estimates, for the current fiscal year and each of the succeeding four fiscal years, of debt service and General Fund revenues, excluding transfers, based on the law in effect at the time each estimate is made.

(d) For purposes of this section, "debt service" does not include any payments associated with redeeming the bonds described by subdivision (a) of Section 1.3 of Article XVI.

SEC. 8 Notwithstanding any other provision of law, including this Constitution, any taxpayer shall have standing to bring a legal action against the State for violating any provision of this article. The action may seek declaratory relief, injunctive relief, a writ of mandate, or any other relief that a court may deem appropriate. In any such action, the state shall have the burden of demonstrating compliance with this Article. Actions brought pursuant to this section shall have calendar preference over all other actions.

SECTION 6 Article IV, Section 10 of the California Constitution is amended to read:

SEC. 10. (a) Each bill passed by the Legislature shall be presented to the Governor. It becomes a statute if it is signed by the Governor. The Governor may veto it by returning it with any objections to the house of origin, which shall enter the objections in the journal and proceed to reconsider it. If each house then passes the bill by roll call 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 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) 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 except statutes calling elections, statutes providing for tax levies or appropriations for the usual current expenses of the State, and urgency statutes, and bills passed after being vetoed by the Governor.

(d) 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.

(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, *or if, following the enactment of the budget bill for the 2006-07 fiscal year or any subsequent fiscal year, the Governor determines that, for that fiscal year, total expenditures are expected to exceed the limit imposed by Article XIIIB of this Constitution for that fiscal year,* the Governor may issue a proclamation declaring a fiscal emergency and shall thereupon cause the Legislature to assemble in special session *solely* for ~~this~~ *that* 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. *Any legislation proposed or enacted in response to a fiscal emergency declared pursuant to this section shall comply with the requirements of Article XIIIB.*

(2) If the Legislature fails to pass and send to the Governor a bill or bills to address the fiscal emergency *declared pursuant to this section* by the 45th day following the issuance of the proclamation, the Legislature may not act on any other bill *except one relating to a fiscal*

emergency declared pursuant to subdivision (f)(1) of this section, nor may the Legislature adjourn for a joint recess, until that bill or those bills have been passed and ~~sent to~~ *signed by* the Governor. *Neither the Governor nor any member of the Legislature shall be entitled to any salary, per diem, or other expense allowance for any day after the 45th day following the issuance of the proclamation until legislation addressing the fiscal emergency has been passed and signed into law by the Governor. No forfeited salary, per diem, or expense allowance shall be paid retroactively.*

(3) If the Legislature has not passed a bill or bill to address the fiscal emergency by the 45th day following the issuance of the proclamation, the Governor may reduce all items of appropriation proportionately as necessary to address the fiscal emergency, except no reductions may be made in appropriations for debt service, appropriations necessary to comply with federal laws and regulations, or in appropriations where the result of a reduction would result in violation of contracts to which the state is a party.

(~~3~~4) A bill addressing the fiscal emergency declared pursuant to this section shall contain a statement to that effect.

SECTION 7 That Section 12 of Article IV 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, are void unless passed in each house by rollcall vote entered in the journal, two-thirds of the membership concurring.

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

(f) For the 2004-05 fiscal year, or any subsequent fiscal year, the Legislature may not send to the Governor for consideration, nor may the Governor sign into law, a budget bill that would appropriate from the General Fund, for that fiscal year, a total amount that, when combined with

all appropriations from the General Fund for that fiscal year made as of the date of the budget bill's passage, and the amount of any General Fund moneys transferred to the Budget Stabilization Account 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.

(g) If the Legislature fails to pass the budget bill by midnight on June 15th, and until such time as the Legislature passes a budget bill that complies with the requirements of this Article, the budget then in effect shall be continued in effect for the next succeeding fiscal year. If that budget as continued does not comply with all of the requirements of this Article, the Governor may reduce all items of appropriation proportionately as necessary to address the fiscal emergency, except no reductions may be made in appropriations for debt service, appropriations necessary to comply with federal laws and regulations, or in appropriations where the result of a reduction would result in violation of contracts to which the state is a party.

SECTION 8 That Section 8 of Article XVI of the California Constitution is amended to read:

SEC. 8. (a) From all state revenues there shall first be set apart the moneys to be applied by the State for support of the public school system and public institutions of higher education.

(b) Commencing with the 1990-91 fiscal year, the moneys to be applied by the State for the support of school districts and community college districts shall be not less than the greater of the following amounts:

(1) The amount which, as a percentage of General Fund revenues which may be appropriated pursuant to Article XIIIB, equals the percentage of General Fund revenues appropriated for school districts and community college districts, respectively, in fiscal year 1986-87.

(2) The amount required to ensure that the total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIIIB and allocated local proceeds of taxes shall not be less than the total amount from these sources in the prior fiscal year, ~~excluding any revenues allocated pursuant to subdivision (a) of Section 8.5~~, adjusted for changes in enrollment and adjusted for the change in the

cost of living pursuant to ~~paragraph (1) of~~ subdivision (c) of Section 1 of Article XIIIB. ~~This paragraph shall be operative only in a fiscal year in which the percentage growth in California per capita personal income is less than or equal to the percentage growth in per capita General Fund revenues plus one-half of one percent.~~

~~(3) (A) The amount required to ensure that the total allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIIIB and allocated local proceeds of taxes shall equal the total amount from these sources in the prior fiscal year, excluding any revenues allocated pursuant to subdivision (a) of Section 8.5, adjusted for changes in enrollment and adjusted for the change in per capita General Fund revenues.~~

~~(B) In addition, an amount equal to one-half of one percent times the prior year total allocations to school districts and community colleges from General Fund proceeds of taxes appropriated pursuant to Article XIIIB and allocated local proceeds of taxes, excluding any revenues allocated pursuant to subdivision (a) of Section 8.5, adjusted for changes in enrollment.~~

~~(C) This paragraph (3) shall be operative only in a fiscal year in which the percentage growth in California per capita personal income in a fiscal year is greater than the percentage growth in per capita General Fund revenues plus one half of one percent.~~

~~(c) In any fiscal year, if the amount computed pursuant to paragraph (1) of subdivision (b) exceeds the amount computed pursuant to paragraph (2) of subdivision (b) by a difference that exceeds one and one-half percent of General Fund revenues, the amount in excess of one and one-half percent of General Fund revenues shall not be considered allocations to school districts and community colleges for purposes of computing the amount of state aid pursuant to paragraph(2) or 3 of subdivision (b) in the subsequent fiscal year.~~

~~(d) In any fiscal year in which school districts and community college districts are allocated funding pursuant to paragraph (3) of subdivision (b) or pursuant to subdivision (h), they shall be entitled to a maintenance factor, equal to the difference between (1)the amount of General Fund moneys which would have been appropriated pursuant to paragraph (2) of subdivision (b) if that paragraph had been operative or the amount of General Fund moneys which would have been appropriated pursuant to subdivision (b) had subdivision (b) not been suspended, and (2) the amount of General Fund moneys actually appropriated to school districts and community college districts in that fiscal year.~~

(3) The maintenance factor for school districts and community college districts determined pursuant to the former subdivision (d)of Section (b)(3)in effect prior to the adoption of this article and in existence as of June 30, 2005 shall be allocated pursuant to Section 3(b) of Article XIIIB. ~~adjusted annually for changes in enrollment, and adjusted for the change in the cost of living pursuant to paragraph (1) of subdivision (e) of Section 8 of Article XIIIB, until it has been allocated in full. The maintenance factor shall be allocated in a manner determined by the Legislature in each fiscal year in which the percentage growth in per capita General Fund revenues exceeds the percentage growth in California per capita personal income. The maintenance factor shall be reduced each year by the amount allocated by the Legislature in that fiscal year. The minimum maintenance factor amount to be allocated in a fiscal year shall be equal to the product of General Fund revenues from proceeds of taxes and one-half of the difference between the percentage growth in per capita General Fund revenues from proceeds of taxes and in California per capita personal income, not to exceed the total dollar amount of the maintenance factor.~~

(f) For purposes of this section, "changes in enrollment" shall be measured by the percentage change in average daily attendance. However, in any fiscal year, there shall be no adjustment for decreases in enrollment between the prior fiscal year and the current fiscal year unless there have been decreases in enrollment between the second prior fiscal year and the prior fiscal year and between the third prior fiscal year and the second prior fiscal year.

(h) ~~Subparagraph (B) of paragraph (3) of subdivision (b) may be suspended for one year only when made part of or included within any bill enacted pursuant to Section 12 of Article IV.~~ All of the provisions of subdivision (b) may be suspended for one year by the enactment of an urgency statute pursuant to Section 8 of Article IV, provided that the urgency statute may not be made part of or included within any bill enacted pursuant to Section 12 of Article IV.

SECTION 9 That Section 8.5 of Article XVI of the California Constitution is amended to read:

SECTION. 8.5. ~~(a) In addition to the amount required to be applied for the support of school districts and community college districts pursuant to Section 8, the Controller shall during each fiscal year transfer and allocate all revenues available pursuant to paragraph 1 of subdivision (a) of Section 1 of Article XIII B to that portion of the State School Fund restricted for elementary and high school purposes, and to that portion of the State School Fund restricted for community college purposes, respectively, in proportion to the enrollment in school districts and community college districts respectively.~~

~~(1) With respect to funds allocated to that portion of the State School Fund restricted for elementary and high school purposes, no transfer or allocation of funds pursuant to this section shall be required at any time that the Director of Finance and the Superintendent of Public Instruction mutually determine that current annual expenditures per student equal or exceed the average annual expenditure per student of the 10 states with the highest annual expenditures per student for elementary and high schools, and that average class size equals or is less than the average class size of the 10 states with the lowest class size for elementary and high schools.~~

~~(2) With respect to funds allocated to that portion of the State School Fund restricted for community college purposes, no transfer or allocation of funds pursuant to this section shall be required at any time that the Director of Finance and the Chancellor of the California Community Colleges mutually determine that current annual expenditures per student for community colleges in this State equal or exceed the average annual expenditure per student of the 10 states with the highest annual expenditures per student for community colleges. (b) Notwithstanding the provisions of Article XIII B, funds allocated pursuant to this section shall not constitute appropriations subject to limitation.~~

~~(c) From any funds transferred to the State School Fund pursuant to subdivision (a), the Controller shall each year allocate to each school district and community college district an equal amount per enrollment in school districts from the amount in that portion of the State School Fund restricted for elementary and high school purposes and an equal amount per enrollment in community college districts from that portion of the State School Fund restricted for community college purposes.~~

~~(d) All revenues allocated pursuant to subdivision (a) shall be expended solely for the purposes of instructional improvement and accountability as required by law.~~

~~(e)~~ Any school district maintaining an elementary or secondary school shall ~~develop and cause to be prepared an annual audit accounting for such funds and shall~~ adopt a School Accountability Report Card for each school.

SECTION 10 Article XIII C, section 2 of the California Constitution is amended to read:

Sec. 2. Local Government Tax Limitation. Notwithstanding any other provision of this Constitution:

(a) All taxes imposed by any local government shall be deemed to be either general taxes or special taxes. Special purpose districts or agencies, including school districts, shall have no power to levy general taxes.

(b) No local government may impose, extend, or increase any general tax unless and until that tax is submitted to the electorate and approved by a majority vote. A general tax shall not be deemed to have been increased if it is imposed at a rate not higher than the maximum rate so approved. The election required by this subdivision shall be consolidated with a regularly scheduled general election for members of the governing body of the local government, except in cases of emergency declared by a unanimous vote of the governing body.

(c) Any general tax imposed, extended, or increased, without voter approval, by any local government on or after January 1, 1995, and prior to the effective date of this article, shall continue to be imposed only if approved by a majority vote of the voters voting in an election on the issue of the imposition, which election shall be held within two years of the effective date of this article and in compliance with subdivision (b).

(d) No local government may impose, extend, or increase any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote. A special tax shall not be deemed to have been increased if it is imposed at a rate not higher than the maximum rate so approved.

(e) From and after January 1, 2005, as used in this section, "tax" means any charge or exaction of any kind imposed by the local government, except:

(1) a charge imposed for a specific service provided directly to the payor by the local government or a private contractor on behalf of the local government, and not provided to those not charged, but only if the amount of the charge does not exceed the reasonable costs of the service provided, and only to the extent that the service was not financed in the preceding year by tax revenue.

(2) a charge imposed for the reasonable regulatory costs to the local government of issuing licenses, permitting, inspection, audit, and administrative adjudication.

(3) a charge imposed as a condition of property development .

(4) a charge imposed for entrance to or use of local government property.

(5) a fine, penalty, or other monetary charge imposed by the judicial branch of government, or state or local administrative agency, as a result of any violation of a statute or regulation.

(6) assessments and property related fees imposed in accordance with the provisions of Article XIIID.

(f) Any tax, charge or exaction of any kind adopted after January 1, 2005, but prior to the effective date of this Act, that was not adopted in compliance with the requirements of subsection (e) is void 12 months after the effective date of this Act unless the tax, charge or exaction is reenacted in compliance with the requirements of this section.

SECTION 11 Article XIIIF of the California Constitution is added to read:

ARTICLE XIII F

LOCAL GOVERNMENT EXPENDITURE LIMITS

SEC 1. (a) The total amount of expenditures made for any fiscal year by a city, county, city and county, or a special district may not exceed the total amount of revenues received by that

entity for that fiscal year from its authorized taxes, fees and other charges, state and federal funds, and other sources of local revenue, including reserve funds carried over from a prior year.

(b) For purposes of this section, authorized taxes include all tax revenues received by a local agency pursuant to law.

(c) For purposes of this section, "tax" shall have the meaning as prescribed in Article XIII C, Section 2 of the California Constitution.

SECTION 12 The California Deficit Prevention Act shall be liberally construed to effectuate its purpose of ensuring that the state enacts responsible, balanced budgets that are sustainable over time within available resources.

SECTION 13 If any provision of this Act, or part thereof, or the application of this Act to any person or circumstance is held invalid or unconstitutional, that invalidity shall not affect other provisions or applications of this measure that can be given effect without the invalid provision or application, and to this end the provisions of this measure are severable.

SECTION 14 In the event that this measure and another measure or measures relating to the legislative or local votes required to enact taxes or fees or limit state or local expenditures shall appear on the same statewide election ballot, the provisions of the other measures shall be deemed to be in conflict with this measure. In the event that this measure shall receive a greater number of affirmative votes, the provisions of this measure shall prevail in their entirety, and the provisions of the other measure relating to the legislative votes required to increase taxes or enact fees or limit state or local expenditures shall be null and void.