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August 14, 1998

Hon. Daniel E. Lungren
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Connie Lemus
Initiative Coordinator

Dear Attorney General Lungren:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative cited as "The Salary and Per Diem for Elected State Officers Reform Act" (File No. SA 98 RF 0017). The measure would amend the California Constitution to modify the provisions related to the establishment of salaries, benefits, and per diem for state elected officials.

Background

Under the California Constitution, the California Citizens Compensation Commission—a seven-member body appointed by the Governor—establishes the annual salary and benefits of the Governor, Lieutenant Governor, Attorney General, Controller, Insurance Commissioner, Secretary of State, Superintendent of Public Instruction, Treasurer, and Members of the State Board of Equalization and Legislature. Whenever the compensation commission votes to adjust salaries and benefits, the adjustment automatically goes into effect the first Monday of the next December.

In addition, the California Constitution gives the Legislature the authority to pay travel and living expenses of Members of the Legislature while in session. In addition, current statutory law allows the state to pay the travel and living expenses for all state employees (including elected officers) when employees travel on state business. These payments are generally referred to as "per diem." Current statutory law also provides that the State Board of Control set the per diem rates in accordance with specified guidelines. Per diem payments are not subject to state income taxation.

Proposal

This initiative provides that the compensation commission may recommend an adjustment in annual salary, benefits, and per diem for elected state officers, but the adjustment would have to be approved by California voters in the next statewide general election occurring in November.

The measure also reduces the salaries and per diem rates of elected state officers to the levels that existed on December 31, 1997. The compensation commission recently voted to increase the salaries, effective December 1998, and the Board of Control increased the per diem rate effective January 1998.

In addition, the measure would make per diem payments taxable.

Fiscal Effect

Savings From Salary and Per Diem Rate Changes. The provisions of the measure that reduce salaries and per diem rates of elected officers to the levels that were in effect on December 31, 1997, would result in annual savings to the state in the range of about \$3 million. However, to the extent that salary and per diem increases are recommended by the commission and approved by the voters in the future (as prescribed in the measure) the annual savings would be less. Thus, the actual state savings are unknown.

Revenues From Taxation of Per Diem. The provision of the measure that makes per diem payments taxable could result in minor annual revenues to the General Fund from increased tax proceeds.

Elections Related Costs. Because the measure requires that any adjustment to salaries and per diem rates for elected officers be approved by the voters, the measure could result in unknown, but probably minor, elections-related costs to the state and counties.

Summary. The measure could result in savings, costs, and revenues to the state. The net fiscal effect is unknown, but is probably not major. The measure could also result in unknown, probably minor, costs to counties.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Craig L. Brown
Director of Finance