

April 15, 2003

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative measure entitled "Budget Accountability Act" (File No. SA2003RF0004).

Major Provisions

This measure amends both the State's Constitution and statutes.

Change in Vote Requirement. The Constitution currently requires a two-thirds vote of the Legislature for the passage of the state budget bill, bills that increase taxes, and urgency bills. These types of bills take effect immediately. Other types of bills are subject to majority vote. This measure amends the Constitution to reduce from two-thirds to 55 percent the number of votes required to pass the budget bill and other bills related to the budget bill. These budget-related bills would take effect immediately upon passage.

Salaries and Expenses for Governor and Legislature. The State Constitution requires passage of the budget bill by June 15 of each year. This measure prohibits the Legislature and the Governor from collecting their salaries and expenses, as specified, when the budget is late. In addition, the measure requires the Legislature to stay in session until the budget is passed. Lost salaries and expenses could not be paid retroactively.

General Fund Reserve Requirement. In any fiscal year for which General Fund revenues exceed the amount needed to fund "current service levels" (as defined), the measure requires the Legislature to deposit at least 25 percent of the surplus revenues into a reserve fund. These deposits would be required until total funds in the reserve reached 5 percent of prior-year expenditures (or roughly \$4 billion). Reserve funds

could be appropriated due to a state of emergency or in years in which current service levels exceed revenues.

Provision Related to Punishment of Legislators. Under the measure, a legislator who is punished by another legislator because of a vote related to the budget would be able to file a complaint with the Ethics Committee of the Senate or Assembly.

Ballot Pamphlet Budget Summary. In addition to the above constitutional amendments, the measure amends the Elections Code to require the State Controller, in consultation with the Department of Finance (DOF) and the Legislative Analyst's Office (LAO), to prepare a budget summary to be included in the ballot pamphlet provided to voters at every statewide election. This summary would include directions to a Web site that includes voting records of legislators on budget-related bills.

Fiscal Effect

The measure would have the following fiscal impacts on state government.

State Revenues and Spending. This measure, by reducing the voting requirement from two-thirds to 55 percent, may help to ease the passage of a budget or budget-related bills, including measures which increase taxes. To the extent that this reduced voting requirement resulted in the passage of tax increases which would not have been passed under the two-thirds vote requirement, this measure would result in higher tax revenues and corresponding increases in state spending than otherwise would have been the case. The state currently has a General Fund revenue base of roughly \$70 billion. If, for example, the measure were to result in higher tax revenues of 5 percent, the state would have an additional \$3.5 billion in resources.

Governor and Legislative Salaries. The salary forfeiture provision would reduce costs in any year in which there is a late budget. In each year the Legislature and Governor missed the deadline, the measure would save the state about \$50,000 per day until the passage of the budget.

Reserve. Based on state revenue performance and interpretation of what constitutes current service levels, the Legislature would be required to deposit revenues into a reserve account in certain years. These funds would be available for expenditure in later years as described above. This provision could result in somewhat lower spending in some years (for instance, high-revenue growth years) and somewhat higher spending in others (for instance, low-revenue growth years).

Ballot Pamphlet Budget Summary. The requirement that the State Controller produce a two-page summary to be included in the ballot pamphlet would result in minor costs to the state.

Other Factors. By changing the budget process, this measure could change many other aspects of state budgeting. For example, to the extent the measure makes it easier in some cases to address budget problems, it could have some positive effect on the state's credit rating. If so, this would result in some bond debt service savings.

Summary

This measure would have the following major fiscal effect:

- Potential major increase in state tax revenues and spending, depending on future legislative action.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Steve Peace
Director of Finance