

June 10, 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. SA2003RF0018).

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 each house 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—including bills reducing taxes or spending—can be passed with a 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—including tax increase measures—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, could affect the passage and content of the budget and budget-related bills. The extent of any impacts would depend on a number of factors—such as the state's financial circumstances, the composition of the Legislature, and its future actions.

The reduced voting requirement could affect the state's fiscal situation in varying ways. For example, it would make it easier to pass a state budget, which in turn could affect the components of spending in a given budget. Similarly, the lower vote requirement would make it easier in some years to approve tax increases related to the budget. In such cases, the measure would result in higher tax revenues (and state spending) than otherwise would have occurred. This potential revenue impact could be significant. For instance, given the state's roughly \$70 billion budget, even a small percentage increase in taxes could result in a significant amount of additional revenues.

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. (The funds deposited into the reserve account would have otherwise been available for additional spending or revenue reductions.) As a result, this provision could result in a higher state reserve level in some years than

otherwise would have occurred. In addition, a higher reserve level could lead to less fluctuation in state spending. For example, a higher reserve could result in lower spending in high revenue growth years and help sustain current services in low revenue 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 have other fiscal impacts. 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 from lower interest costs.

Summary

This measure would have the following major fiscal effect:

- Varying state fiscal impacts from lowering the legislative vote requirement for spending and tax increases related to the budget—including potentially significant increases in state tax revenues and spending in some years. Fiscal impacts would depend on the composition and actions of future Legislatures.

Sincerely,

Elizabeth G. Hill
Legislative Analyst