

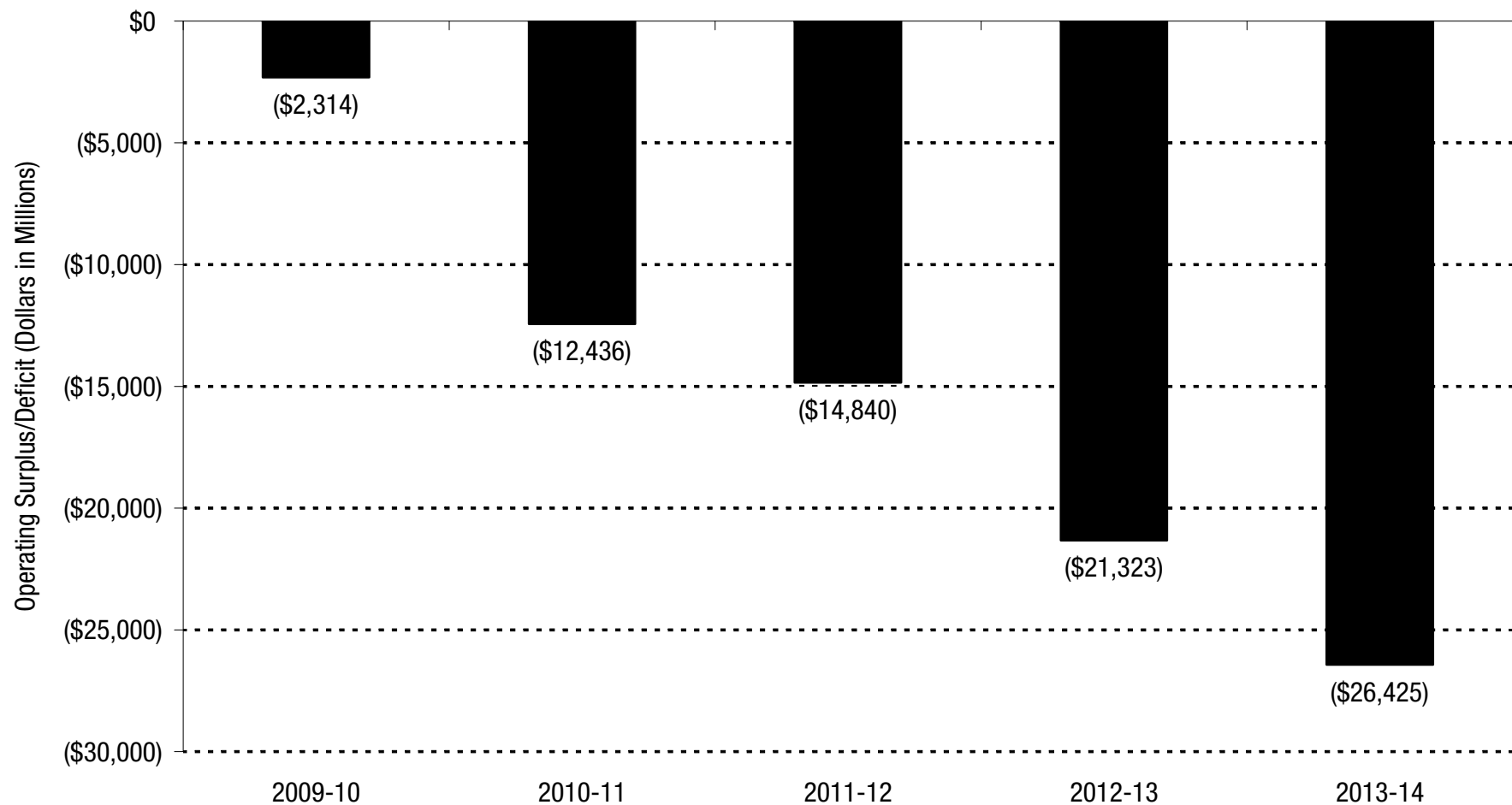
CALIFORNIA BUDGET PROJECT

# The May 19 Special Election: What Does It Mean for Health Care?

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Significant Budget Shortfalls Are Expected  
To Continue Regardless of the Outcome of the May Election



Note: Assumes passage of Propositions 1A through 1F.  
Source: Legislative Analyst's Office

# Seven Measures Are Headed to the Ballot

- Six measures will appear on the May 19, 2009 special election ballot:
  - Proposition 1A would modify the state’s budget reserve and limit future spending.
  - Proposition 1B would require the state to make \$9.3 billion in supplemental payments to school districts and community colleges in lieu of what may be owed for “maintenance factor” in 2007-08 and 2008-09.
  - Proposition 1C would authorize the sale of bonds backed by lottery proceeds.
  - Proposition 1D would divert funds raised by Proposition 10 of 1998.
  - Proposition 1E would divert funds raised by Proposition 63 of 2004.
  - Proposition 1F would eliminate salary increases for state elected officials in years with a projected budget deficit.
- The seventh measure would create an “open primary” system which will be placed on the June 8, 2010 statewide primary ballot.

# What Impact Will the Ballot Measures Have on the Budget?

- **Proposition 1A:** Has no impact in 2008-09 or 2009-10. Passage would extend temporary tax increases beginning January 1, 2011 and would require annual transfers out of the General Fund beginning in 2011-12.
- **Proposition 1B:** Requires payments to education beginning in 2011-12. The impact relative to current law is unclear.
- **Proposition 1C:** The February budget agreement assumes sale of \$5 billion of bonds backed by lottery proceeds. Requires the state to assume additional costs for education beginning in 2009-10.
- **Proposition 1D:** Shifts \$608 million to the General Fund in 2009-10, and \$268 million per year for four additional years.
- **Proposition 1E:** Diverts about \$230 million from mental health programs to the General Fund in 2009-10 and 2010-11.

# Proposition 1A — What's on the Ballot

Proposition 1A would:

- **Budget reserve.** Limit the circumstances under which transfers into the reserve can be suspended, limits how much of a shortfall can be closed by funds from the reserve, increases the size of the reserve, and diverts half of the annual contribution to the reserve to education (if Proposition 1B also passes) and/or debt service and capital outlay.
- **Spending limit.** Restrict the use of revenues that exceed the lesser of the amount projected by a 10-year trend line or prior year's spending adjusted for population and the CPI to education, the budget reserve, debt service, capital outlay or other specified purposes.

# Proposition 1A — Linkages to Other Measures

If Proposition 1A is approved by the voters:

- **Mid-year cut authority.** The Director of Finance would be allowed to reduce appropriations for state operations by up to seven percent if available resources decline or expenditures increase “substantially.” Cost-of-living adjustments or rate increases could be suspended for up to 120 days.
- **Tax increases.** The temporary tax increases included in the February budget agreement would be extended. The sales tax rate increase would be extended for one year, from July 1, 2011 to June 30, 2012; the Vehicle License Fee rate increase would be extended for two years, from July 1, 2011 to June 30, 2013; and the increase in state personal income tax rates and the reduction in the size of the dependent tax credit would be extended for two years, to 2011 and 2012.

# Proposition 1B

Proposition 1B would:

- Address a disagreement over interpretation of the Proposition 98 school funding guarantee.
- Allocate 1.5 percent of General Fund revenues to K-14 education beginning in 2011-12 until payments equaling \$9.3 billion are made. These payments would be in lieu of any “maintenance factor” obligations that might otherwise be owed for 2007-08 and 2008-09.
- Only take effect if Proposition 1A is also approved by the voters.

# Proposition 1C

Proposition 1C would:

- Allow the state to issue an unlimited amount of debt that would be repaid from future lottery proceeds.
- Replace schools' share of lottery revenues with General Fund dollars beginning in 2009-10. The payment would be equal to what schools received from the lottery in 2008-09 and would be adjusted for enrollment and per capita personal income growth and would become part of the Proposition 98 guarantee.
- Allow more than half of lottery revenues to be paid out as prizes and would allow the Legislature to make changes in lottery operations.



# Proposition 1D

Proposition 1D would:

- Divert \$268.0 million per year of state and county First 5 funds to the General Fund between 2009-10 and 2013-14 and shift between \$275.0 million and \$340.0 million from the state First 5 Commission to the state's General Fund.
- Limit the use of First 5 funds to “direct” health care and “direct” early education services and human services.
- Eliminate dedicated funding for statewide public information campaigns and redirect a portion of the funds to small counties.

# Proposition 1E

Proposition 1E would:

- Shift \$226.7 million in 2009-10 and up to \$234.0 million in 2010-11 from the Mental Health Services Fund (MHSF) to the General Fund, resulting in equivalent General Fund savings.

# Proposition 1F

Proposition 1F would:

- Prohibit the Commission that sets elected officials' salaries from granting pay increases in years when the state is expected to end the year with a deficit.

# For More Information

- Secretary of State: <http://www.voterguide.sos.ca.gov/>
- California Budget Project: <http://cbp.org/>
- California Voter Foundation:  
<http://calvoter.org/voter/elections/2009/special/index.html>