

The FISCAL REPORT 32 informational update

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Impact of the May 19 Ballot Propositions

Six propositions have qualified for the May 19, 2009, statewide special election ballot. All propositions will have an impact on the State Budget in some way, but the first three propositions are of particular importance to K-14 education because they directly affect funding for those segments. We have summarized what is at issue, focusing on the education impacts of the sometimes very complicated measures.

Proposition #	Description	Fiscal Impact	Consequence of Failure
1A	Caps state spending based on the ten-year trend in state revenues; increases "rainy day" fund and limits how that money is spent; extends temporary tax increases for one to two years. This is linked to Proposition 1B; if Proposition 1B passes, a portion of the fund would be transferred to fund payments to K-14 education.	Higher state tax revenues of about \$16 billion from 2010-11 through 2012-13; increased amounts of money in the state's "rainy day" reserve over time; potentially fewer ups and downs in state spending.	Loss of about \$16 billion from 2010-11 through 2012-13 if tax increases are not extended; state would not divert 1.5% of annual General Fund (GF) revenues beginning in 2011-12 to make supplemental payments for education.
1B	Resolves controversy over payment of Proposition 98 "maintenance factor" for fiscal years 2009-10 and 2010-11 by providing \$9.3 billion in supplemental education payments over five to six years, beginning in 2011-12, in lieu of maintenance factor payments. This is contingent upon passage of Proposition 1A.	Could save the state money by delaying maintenance factor payments.	If voters reject Proposition 1A or 1B, there will be no obligation to make the \$9.3 billion in supplemental payments; but refusal to pay would likely be litigated.
1C	Modernizes State Lottery	Allows \$5 billion of	If voters reject 1C, there

Proposition #	Description	Fiscal Impact	Consequence of Failure
	to increase ticket sales; allows state to borrow \$5 billion in fiscal year 2009-10 from future Lottery proceeds (securitize Lottery), to be paid back from Lottery profits now going to education; increases GF payments to education to replace lost Lottery payments.	borrowing from future Lottery profits; receipt of this funding is assumed in 2009-10 Budget. There would be annual debt-service payments of \$350 million-\$450 million for 20-30 years from the initial \$5 billion in borrowing; any remaining Lottery profits would benefit GF, but would probably be insufficient to cover higher GF payments for education. The initiative also allows for additional future borrowing against future Lottery profits.	will be a \$5 billion hole in the Budget, and the Legislature and the Governor will probably have to agree to billions of dollars of additional spending cuts, tax increases, and/or other solutions.
1D	Temporarily redirects portion of Proposition 10 (First 5 program) funds to offset GF support of health and human services programs for children up to age five; permanently changes state and local First 5 commission operations.	Up to \$608 million in 2009-10 from one time redirection of reserves and annual payment; \$268 million annually from 2010-11 through 2013-14.	Loss of \$608 million in 2009-10 and \$268 million annually from 2010-11 through 2013-14 that would be used to supplant GF expenditures.
1E	Temporarily redirects some Proposition 63 mental health funds to an existing state program in place of state GF support.	\$226.7 million in 2009-10; \$226.7 million-\$234 million in 2010-11.	Loss of state GF savings of about \$230 million annually for two fiscal years.
1F	Prevents approval of salary increases for elected state officials when the state GF is expected to end the year with a deficit.	Minor savings in years when GF is expected to end the year with a deficit.	Loss of minor cost savings in deficit years.

-Deborah Harmon

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