California
PRIMARY ELECTION
Tuesday, March 2, 2004

CERTIFICATE OF CORRECTNESS

I, Kevin Shelley, Secretary of State of the State of California, do hereby certify that the measures included herein will be submitted to the electors of the State of California at the Primary Election to be held throughout the State on March 2, 2004, and that this guide has been correctly prepared in accordance with the law.

Witness my hand and the Great Seal of the State in Sacramento, California, this 6th day of January, 2004.

Kevin Shelley
Secretary of State

Official Voter Information Guide
SUPPLEMENTAL

SECRETARY OF STATE

Dear Fellow Voter,

You may have already received the "regular" Voter Information Guide for the March 2, 2004, election. The regular Guide has a green cover.

We are sending you this <u>Supplemental Voter Information Guide</u> (blue cover) for the March 2, 2004, election in order to provide you with information on measures that qualified for the ballot too late to be included in the regular Guide.

This Supplemental Voter Information Guide includes information on Propositions 57 (The Economic Recovery Bond Act) and 58 (The California Balanced Budget Act).

As always, I urge you to carefully review these materials. I hope you will also visit the Secretary of State's website at www.MyVoteCounts.org for more information concerning the March election.

Most importantly, do not forget to vote on March 2nd!

my Vote counts

www.MyVoteCounts.org

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VOTER BILL OF RIGHTS

1. You have the right to cast a ballot if you are a valid registered voter.
   A valid registered voter means a United States citizen who is a resident in this state, who is at least 18 years of age and not in prison or on parole for conviction of a felony, and who is registered to vote at his or her current residence address.
2. You have the right to cast a provisional ballot if your name is not listed on the voting rolls.
3. You have the right to cast a ballot if you are present and in line at the polling place prior to the close of the polls.
4. You have the right to cast a secret ballot free from intimidation.
5. You have the right to receive a new ballot if, prior to casting your ballot, you believe you made a mistake.
   If at any time before you finally cast your ballot, you feel you have made a mistake, you have the right to exchange the spoiled ballot for a new ballot. Absentee voters may also request and receive a new ballot if they return their spoiled ballot to an elections official prior to the closing of the polls on Election Day.
6. You have the right to receive assistance in casting your ballot, if you are unable to vote without assistance.
7. You have the right to return a completed absentee ballot to any precinct in the county.
8. You have the right to election materials in another language, if there are sufficient residents in your precinct to warrant production.
9. You have the right to ask questions about election procedures and observe the elections process.
   You have the right to ask questions of the precinct board and election officials regarding election procedures and to receive an answer or be directed to the appropriate official for an answer. However, if persistent questioning disrupts the execution of their duties, the board or election officials may discontinue responding to questions.
10. You have the right to report any illegal or fraudulent activity to a local elections official or to the Secretary of State's Office.

If you believe you have been denied any of these rights, or if you are aware of any election fraud or misconduct, please call the Secretary of State's confidential toll-free

VOTER PROTECTION HOTLINE

1-800-345-VOTE (8683)

Secretary of State | State of California

PROP 57 The Economic Recovery Bond Act.

Bond Act
Put on the Ballot by the Legislature

Summary

One time bond of up to fifteen billion dollars ($15,000,000,000) to retire deficit. Fiscal Impact: One-time increase, compared to previously authorized bond, of up to $4 billion to reduce the state's budget shortfall and annual debt-service savings over the next few years. These effects would be offset by higher annual debt-service costs in subsequent years due to this bond's longer term and larger size.

What Your Vote Means

Yes

A **YES** vote on this measure means: The state would sell $15 billion in bonds to pay existing budgetary obligations.

No

A **NO** vote on this measure means: The state would not sell $15 billion in bonds, but could instead sell bonds previously authorized by the Legislature to pay a smaller level of existing budgetary obligations.

Arguments

Pro

For three years, state government spending has exceeded revenues, creating a deficit. This measure will consolidate the deficit and allow California to get its finances in order—without raising taxes. Proposition 57 will keep the state from running out of money and prevent drastic cuts in education and health care.

Con

Proposition 57 doesn't end our deficit. It postpones and then increases it. It plunges us $15 billion deeper in debt—plus billions more in interest—costing more than $2,000 per family. The recall told Sacramento: NO NEW TAXES. NO on 57 will tell them: STOP BORROWING AND OVERSPENDING.

For Additional Information

For

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Against

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PROP 58 The California Balanced Budget Act.

Legislative Constitutional Amendment
Put on the Ballot by the Legislature

Summary

Requires the enactment of a balanced budget, addresses fiscal emergencies, and establishes a budget reserve. Fiscal Impact: Net state fiscal effects unknown and will vary by year, depending in part on actions of future legislatures. Reserve provisions may smooth state spending, with reductions during economic expansions and increases during downturns. Provisions requiring balanced budgets and limiting deficit borrowing could result in more immediate actions to correct budgetary shortfalls.

What Your Vote Means

Yes

A **YES** vote on this measure means: The State Constitution would be amended to provide for: (1) the enactment of a balanced state budget, (2) state budget reserve requirements, and (3) limits on future borrowing to finance state budget deficits.

No

A **NO** vote on this measure means: The State Constitution would not be amended to add new requirements on state budgetary practices.

Arguments

Pro

Proposition 58 will require the Governor and the Legislature to enact a balanced budget. It will require that spending not exceed income each fiscal year and will require building at least an $8 billion reserve. It will prohibit borrowing in the future to pay off deficits.

Con

With the $15 billion bonds, we were SUPPOSED to get a strong spending limitation measure. But Prop 58 DOES NOT LIMIT SPENDING! It allows short-term borrowing to balance the budget, the budget reserve is largely unprotected, and the door is wide open for massive spending increases and higher taxes.

For Additional Information

For

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PROPOSITION 57 **The Economic Recovery Bond Act.**

OFFICIAL TITLE AND SUMMARY

Prepared by the Attorney General

The Economic Recovery Bond Act.

- A one time Economic Recovery Bond of up to fifteen billion dollars ($15,000,000,000) to pay off the state's accumulated General Fund deficit as of June 30, 2004.
- The Economic Recovery Bond will only be issued if the California Balanced Budget Act is also approved by the voters.
- The bonds will be secured by existing tax revenues and by other revenues that could be deposited in a special fund.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- One-time increase, compared to a previously authorized bond, of up to $4 billion to reduce the state's budget shortfall.
- Annual debt-service savings over the next few years.
- Above effects offset in subsequent years by higher annual debt-service costs due to this bond's larger size and the longer time period for its repayment.

Final Votes Cast by the Legislature on ABX5 9 (Proposition 57)

Assembly:	Ayes 65	Noes 13
Senate:	Ayes 27	Noes 12

ANALYSIS BY THE LEGISLATIVE ANALYST

Background

California's Recent Budget Problems. California's General Fund budget supports a variety of programs, including public schools, higher education, health, social services, and prisons. The General Fund has experienced chronic shortfalls between revenues and expenditures since 2001–02, when the economic and stock market downturns caused state revenues to decline sharply. To deal with these shortfalls, policymakers have reduced program expenditures, raised revenues, and taken a variety of other measures. They have also engaged in various forms of borrowing from special funds, local governments, and private credit markets.

Deficit-Financing Bond. One of the key actions taken to deal with the projected current-year (2003–04) budget shortfall was the authorization of a $10.7 billion deficit-financing bond. The purpose of this bond was to "wipe the slate clean" and eliminate the cumulative budget deficit that would have existed at the end of 2002–03. This would allow the state to avoid the more severe budget actions that would have been necessary to eliminate the deficit all at once. The repayment of the currently authorized bond would be based on a multiple-step financing process (see shaded box for details). It would result in annual General Fund costs equivalent to one-half cent of the California sales tax—or about $2.4 billion in 2004–05 and increasing moderately each year thereafter—until the bond is paid off (in about five years).

Repayment of Deficit Bonds

Existing $10.7 Billion Bond. The previously authorized deficit-financing bond was designed to be repaid through a multiple-step process that "freed up" a revenue stream dedicated solely to repayment of the bond. This involved:

- The diversion of a one-half cent portion of the sales tax from local governments to a special fund dedicated to the bond's repayment.
- A diversion of property taxes from school districts to local governments to offset their sales tax loss.
- Added state General Fund payments to school districts to replace their diverted property taxes.

As a result of these diversions, there is no net impact on local governments or school districts. The full cost of the bond's repayment is borne by the state's General Fund.

$15 Billion Proposition 57 Bond. Under this proposition, the bond repayment method described above would be the same, except that the amount of revenues diverted would be equivalent to one-quarter cent of the state sales tax instead of the one-half cent. The full cost of the bond would continue to be borne by the state's General Fund.

This deficit bond is currently being challenged in court and has not yet been issued. (In the meantime, the carryover 2002–03 deficit is being financed through short-term borrowing, which is due to be repaid in June 2004.)

For text of Proposition 57 see page 18.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

Projected Shortfall in 2004–05. The state is facing another large budget shortfall in 2004–05, which we estimate will be in the general range of $15 billion. This estimate assumes that the currently authorized $10.7 billion deficit-financing bond is sold and that the carryover 2002–03 deficit is thereby taken off the books. Absent the bond proceeds from this sale, the budget shortfall would be much larger.

Proposal

This proposition puts before the voters authorization for the state to issue a bond of up to $15 billion to deal with its budget deficit. The bond authorized by this measure would be used *in place of* the deficit-financing bond authorized last year by the Legislature.

Repayment of Proposed Bond. The repayment of the bond would result in annual General Fund costs equivalent to *one-quarter* cent of California's sales tax revenues, compared to costs equivalent to one-half cent of sales tax revenues for the currently authorized bond. In addition, certain funds transferred to the state's Budget Stabilization Account (created in Proposition 58 on this ballot, if approved) would be used to accelerate the repayment of the bond. The measure includes a backup guarantee that if the sales tax revenues dedicated to the bond are insufficient to pay bond principal and interest in any year, the General Fund will make up the difference.

This measure would become effective only if Proposition 58 on this ballot is also approved by the voters.

Fiscal Effects

The fiscal effects of the proposed bond are summarized in Figure 1, and compared to the currently authorized deficit-financing bond. The proposed bond would result in near-term budgetary savings compared to the bond authorized in current law, but added annual costs over the longer term. Specifically:

Near-Term Savings. The proceeds from the proposed bond would be up to $4 billion more than from the currently authorized bond. This would provide the state with up to $4 billion in additional one-time funds to address its budget shortfall. The state would also realize near-term savings related to debt service on the bond. This is because the payments would be based on one-quarter cent of annual sales taxes instead of one-half cent. As a result, annual General Fund costs would be one-half of the currently authorized bond for the next few years.

Longer-Term Costs. The near-term savings would be offset by higher costs in the longer term. This is because the proposed bond would be larger ($15 billion versus $10.7 billion) and it would take longer to repay. As indicated in Figure 1, the proposed bond would likely take between 9 and 14 years to pay back, compared to a 5-year period for the currently authorized bond.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

FIGURE 1

Comparison of Bond Authorized in Proposition 57 With Previously Authorized Bond

	Proposition 57 Bond	Previously Authorized Deficit-Financing Bond
Bond Amount	$15 billion[a]	$10.7 billion
Annual General Fund Costs:		
• Annual costs related to sales tax diversion.	$1.2 billion[b]	$2.4 billion[b]
• Potential annual payments from Proposition 58 reserve.[c]	$425 million in 2006–07	–
	$900 million in 2007–08	–
	$1.45 billion in 2008–09[d]	–
Years to Pay Off Bond:		
• Using only sales tax revenues.	14	5
• Assuming maximum $5 billion contribution from Proposition 58 reserve.	9	–

[a] Net proceeds to the General Fund would likely be less, depending on reserve requirements and other factors.
[b] Costs are for 2004–05. Amounts would increase moderately annually thereafter.
[c] Based on LAO out-year revenue projections and assumes no suspensions of transfer to reserve.
[d] These amounts would increase moderately annually thereafter until cumulative total from reserve equals $5 billion.

For text of Proposition 57 see page 18.

ARGUMENT in Favor of Proposition 57

State government spending in California is out of control. Over the past three years, state spending has significantly exceeded state revenues.

The California Economic Recovery Bond Act will consolidate the deficit and ALLOW CALIFORNIA TO GET ITS FINANCIAL HOUSE IN ORDER—WITHOUT RAISING TAXES.

The California Economic Recovery Bond Act will keep the state from running out of money and prevent drastic cuts in spending on vital programs like education and health care.

The California Economic Recovery Bond Act will not take effect unless voters approve the California Balanced Budget Act, which PROHIBITS BORROWING TO PAY DEFICITS ever again and requires enactment of a BALANCED BUDGET.

The California Balanced Budget Act also provides for a fund of up to $5 billion that can be used to PAY THESE BONDS OFF EARLY. It also provides for a RESERVE of at least $8 billion, which can be used to PREVENT FUTURE DEFICITS.

Last year, the state approved $12.9 billion in bonds to retire the accumulated budget deficit. The courts have declared one bond issuance unconstitutional and the other is subject to legal challenge because they were not approved by voters. Since then, the state has accumulated a larger budget deficit. PROPOSITION 57 WILL LEGALLY RESTRUCTURE AND REFINANCE THAT DEBT WITH THE APPROVAL OF THE VOTERS.

Without this bond, the State of California may be out of cash by June. To deal with a calamity of that magnitude in such a short time frame, the only choice will be to drastically increase taxes. The California Economic Recovery Bond will let us refinance our inherited debt and give the state time to deal with its ongoing structural deficit.

The California Recovery Bond and the California Balanced Budget Act, Proposition 58, together will give California's leaders the tools necessary to restore confidence in the financial management of the State.

Please join Superintendent of Public Instruction Jack O'Connell, the California Taxpayers' Association, State Controller Steve Westly, the California Chamber of Commerce and Governor Arnold Schwarzenegger in supporting Proposition 57. It is the only way to ensure California's financial future.

ARNOLD SCHWARZENEGGER, *Governor*
State of California

LARRY McCARTHY, *President*
California Taxpayers' Association

ALLAN ZAREMBERG, *President*
California Chamber of Commerce

REBUTTAL to Argument in Favor of Proposition 57

Proponents contradict themselves. They say that spending is out of control, but at the same time say they don't want to cut it.

So their answer is to borrow an unprecedented $15 billion—plus interest—and keep right on spending. That's more than $2,000 for every family in California.

If state spending were reduced 13.4 percent from its current rate, the entire deficit would be cured in 18 months. And that's still 15 percent more than we spent when Gray Davis became governor.

Proponents say this won't raise taxes. Where do they think the money is going to come from to pay back $15 billion in loans plus billions more in interest? Ultimately, it must come from either cuts that proponents have already said they don't want to make—or from increased taxes.

Propositions 57 and 58 do nothing to reduce the state's out-of-control spending that ballooned the state budget from $57.8 billion five years ago to a projected $90.2 billion next year. They allow politics to continue as usual in Sacramento: spend, borrow and tax.

SENATOR TOM McCLINTOCK

SENATOR BILL MORROW

ARGUMENT Against Proposition 57

California is billions of dollars in debt. Out-of-control borrowing has already cost California the lowest credit rating in the nation—on a par with many Third World countries.

Prop. 57 plunges us $15 billion DEEPER IN DEBT—plus billions more in interest. Total debt service from Prop. 57 will cost an average family more than $2,000.

What does it buy? NOTHING. This doesn't buy a single school, road or park. It doesn't put a single cop on the street or relieve any traffic congestion. It simply papers over the gigantic deficit that Sacramento's politicians created in the first place.

Instead of cutting the waste from government bureaucracy and targeting fraud for elimination, they have decided to use the biggest bond in California history to cover their spending addiction.

Since 1849, California's Constitution has forbidden bonds like this from being used to paper over deficit spending. Long-term bonds are supposed to be used for schools, parks, highways and water projects that will serve coming generations. In order to put this unprecedented borrowing on the ballot, the same politicians also propose repealing this historic constitutional amendment—and have the audacity to call it "a balanced budget amendment."

Five years ago California spent $57.8 billion from its General Fund. Next year, it will spend $90.2 billion.

Instead of adding more than a billion dollars of additional debt service to the state budget *every year* for the life of this bond, we need to suspend the state's spending mandates and restore the power that the Governor had from 1939 to 1983 to make mid-year spending reductions.

The October 7th election sent Sacramento an important message: NO NEW TAXES.

A NO vote on Prop. 57 sends them another: STOP BORROWING, STOP OVERSPENDING, and PUT OUR FINANCES BACK IN ORDER!!!

SENATOR TOM McCLINTOCK

SENATOR BILL MORROW

REBUTTAL to Argument Against Proposition 57

The California Legislature has already approved $12.9 billion in bonds to retire the accumulated budget deficit. The California Economic Recovery Bond Act gives the voters the power to APPROVE A SOUND RESTRUCTURING PLAN for California.

Governor Arnold Schwarzenegger has proposed the California Economic Recovery Plan to ALLOW CALIFORNIA TO GET ITS FINANCIAL HOUSE IN ORDER—WITHOUT RAISING TAXES. Without the California Economic Recovery Bond Act, the state could run out of money, leaving no choice but drastic cuts in spending on vital programs like education and health care or a huge tax increase. Proposition 57 will let us refinance our inherited debt and give the state time to deal with its ongoing structural deficit.

Remember, the California Economic Recovery Bond Act will not take effect unless voters approve the California Balanced Budget Act. Don't be misled by the opposition, the California Balanced Budget Act will PROHIBIT BORROWING TO PAY DEFICITS ever again and will require enactment of a BALANCED BUDGET.

Governor Schwarzenegger needs both Propositions 57 and 58 to pass. It will give him the tools necessary to STOP BORROWING, STOP OVERSPENDING, and PUT OUR FINANCES BACK IN ORDER.

Please join Superintendent of Public Instruction Jack O'Connell, the California Taxpayers' Association, State Controller Steve Westly and the California Chamber of Commerce and VOTE "YES" on Proposition 57. It is the only way to ensure California's financial future.

ARNOLD SCHWARZENEGGER, *Governor*
State of California

LARRY McCARTHY, *President*
California Taxpayers' Association

CARL GUARDINO, *President*
Silicon Valley Manufacturing Group

PROPOSITION 58 The California Balanced Budget Act.

OFFICIAL TITLE AND SUMMARY

Prepared by the Attorney General

The California Balanced Budget Act.

- Requires enactment of a balanced budget where General Fund expenditures do not exceed estimated General Fund revenues.
- Allows the Governor to proclaim a fiscal emergency in specified circumstances, and submit proposed legislation to address the fiscal emergency.
- Requires the Legislature to stop other action and act on legislation proposed to address the emergency.
- Establishes a budget reserve.
- Provides that the California Economic Recovery Bond Act is for a single object or work.
- Prohibits any future deficit bonds.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Unknown net state fiscal effects, which will vary year by year and depend in part on actions of future Legislatures.
- Reserve provisions may smooth state spending, with reductions during economic expansions and increases during downturns.
- Balanced budget and debt limitation provisions could result in more immediate actions to correct budgetary shortfalls.

Final Votes Cast by the Legislature on ACAX5 5 (Proposition 58)

Assembly:	Ayes 80	Noes 0
Senate:	Ayes 35	Noes 5

ANALYSIS BY THE LEGISLATIVE ANALYST

Background

California's Budget Situation

California has experienced major budget difficulties in recent years. After a period of high growth in revenues and expenditures in the late 1990s, state tax revenues plunged in 2001 and the budget fell badly out of balance. Although policymakers reduced program spending and increased revenues to deal with part of the shortfalls, the state has also carried over large deficits and engaged in a significant amount of borrowing. The state budget faces another major shortfall in 2004–05 and it has a variety of other obligations—such as deferrals and loans from special funds—that are outstanding at this time.

Constitutional Provisions Relating to Budgeting and Debt

There are several budget- and debt-related provisions in California's Constitution that are affected by this proposition.

- ***Balanced Budget Requirement.*** The Constitution requires the Governor to submit by January 10 of each year a state budget proposal for the upcoming fiscal year (beginning on July 1) which is balanced—meaning that estimated revenues must meet or exceed proposed expenditures. While this balanced budget requirement applies to the Governor's January budget submission, it does *not* apply to the budget ultimately passed by the Legislature or signed by the Governor.
- ***Mid-Year Budget Adjustments.*** The Legislature has met in special session during the past three years to consider mid-year proposals to address budget shortfalls. However, there is no formal process in the Constitution to require that mid-year corrective actions be taken when the budget falls out of balance.
- ***Reserve Requirement.*** Reserve funds are typically used to cushion against unexpected budget shortfalls. The Constitution requires that the Legislature establish a prudent state reserve fund. It does not, however, specify the size of the reserve, or the conditions under which funds are placed into the reserve.
- ***Debt-Related Provisions.*** The Constitution generally requires voter approval for debt backed by the state's general taxing authority. Over the years, courts have ruled that certain types of borrowing (including short-term borrowing to cover cash shortfalls and some bonds repaid from *specific* revenue sources) can occur without voter approval. The Constitution also requires that bonds submitted to the voters for approval be for a "single object or work" as specified in the respective bond act. For example, in past years, voters have been asked to authorize bonds for such single objects as education facilities, water projects, or prison construction.

Proposal

This proposition amends the Constitution, making changes related to (1) the enactment and maintenance of a balanced state budget, (2) the establishment of specific reserve requirements, and (3) a restriction on future deficit-related borrowing. The provisions are discussed in more detail below.

Balanced Budget Provisions

This proposition requires that the state adopt a balanced budget and provides for mid-year adjustments in the event that the budget falls out of balance.

Balanced Budget. In addition to the existing requirement that the Governor *propose* a balanced budget, this measure requires that the state *enact* a budget that is balanced. Specifically, estimated revenues would have to meet or exceed estimated expenditures in each year.

Mid-Year Adjustments. Under this measure, if the Governor determines that the state is facing substantial revenue shortfalls or spending deficiencies, the Governor may declare a fiscal emergency. He or she would then be required to propose legislation to address the problem, and call the Legislature into special session for that purpose. If the Legislature fails to pass and send to the

For text of Proposition 58 see page 20.

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

Governor legislation to address the budget problem within 45 days, it would be prohibited from (1) acting on any other bills or (2) adjourning in joint recess until such legislation is passed.

Reserve Requirement

The proposal requires that a special reserve—called the Budget Stabilization Account (BSA)—be established in the state's General Fund.

Annual Transfers. A portion of estimated annual General Fund revenues would be transferred by the State Controller into the account no later than September 30 of each fiscal year. The specific transfers are 1 percent (about $850 million) in 2006–07, 2 percent (about $1.8 billion) in 2007–08, and 3 percent (about $2.9 billion) in 2008–09 and thereafter. These transfers would continue until the balance in the account reaches $8 billion or 5 percent of General Fund revenues, whichever is greater. The annual transfer requirement would be in effect whenever the balance falls below the $8 billion or 5 percent target. (Given the current level of General Fund revenues—approximately $75 billion—the required reserve level would likely be $8 billion for at least the next decade.)

Suspension of Transfers. The annual transfers could be suspended or reduced for a fiscal year by an executive order issued by the Governor no later than June 1 of the preceding fiscal year.

Allocation of Funds. Each year, 50 percent of the annual transfers into the BSA would be allocated to a subaccount that is dedicated to repayment of the deficit-recovery bond authorized by Proposition 57. These transfers would be made until they reach a cumulative total of $5 billion. Funds from this subaccount would be automatically spent for debt service on that bond. The remaining funds in the BSA would be available for transfer to the General Fund.

Spending From the Account. Funds in the BSA could be transferred from this account to the General Fund through a majority vote of the Legislature and approval of the Governor. Spending of these monies from the General Fund could be made for various purposes—including to cover budget shortfalls—generally with a two-thirds vote of the Legislature (same as current law).

Related Provisions in Proposition 56. Proposition 56 on this ballot also contains new, but different, requirements related to a state reserve fund.

Prohibition Against Future Deficit Borrowing

Subsequent to the issuance of the bonds authorized in Proposition 57, this proposal would prohibit most *future* borrowing to cover budget deficits. This restriction applies to general obligation bonds, revenue bonds, and certain other forms of long-term borrowing. The restriction does *not* apply

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

to certain other types of borrowing, such as (1) short-term borrowing to cover cash shortfalls in the General Fund (including revenue anticipation notes or revenue anticipation warrants currently used by the state), or (2) borrowing between state funds.

Other Provisions

This measure also states that:

- With regard to the bond authorized by Proposition 57, the "single object or work" for which the Legislature may create debt includes—for that measure only—the one-time funding of the accumulated state budget deficit and other obligations, as determined by the Director of Finance.
- Its provisions take effect only if Proposition 57 on this ballot is also approved by the voters.

Fiscal Effects

This measure could have a variety of fiscal effects, depending on future budget circumstances and future actions taken by Governors and Legislatures. Possible fiscal effects include:

- ***Balanced Budget and Debt Provisions.*** In recent years, as well as during difficult budget periods in the past, the Governor and Legislature have at times allowed accumulated budget deficits to carry over from one year to the next. This meant that spending reductions and/or revenue increases were less than what they otherwise would have been in those years. The provisions of this measure requiring a balanced budget and restricting borrowing would limit the state's future use of this option. As a result, the state would in some cases have to take more immediate actions to correct budgetary shortfalls.
- ***Reserve Requirement.*** The $8 billion reserve target established by this proposition is much larger than the amounts included in past budget plans. This larger reserve could be used to smooth state spending over the course of an economic cycle. That is, spending could be less during economic expansions (as a portion of the annual revenues are transferred into the reserve), and more during downturns (as the funds available in the reserve are used to "cushion" spending reductions that would otherwise be necessary).
- ***Other Possible Impacts.*** The proposition could have a variety of other impacts on state finances. For example, to the extent that the measure resulted in more balanced budgets and less borrowing over time, the state would benefit financially from higher credit ratings and lower debt-service costs.

For text of Proposition 58 see page 20.

ARGUMENT in Favor of Proposition 58

State government spending in California is out of control. Over the past three years, state spending has significantly exceeded state revenues.

Proposition 58 will require the Governor and the California State Legislature to ENACT a BALANCED BUDGET. Right now, the Governor is only required to propose, not enact, a balanced budget. This loophole has led to the huge budget deficits that plague California.

The California Balanced Budget Act:

WILL require a BALANCED BUDGET;

WILL require that SPENDING NOT EXCEED INCOME each fiscal year;

WILL require general funds to be put in a "Rainy Day" fund to build a RESERVE to protect California from future economic downturns. The Budget Stabilization Account will also be used to pay off the California Economic Recovery Bond early;

WILL allow the Governor to call a fiscal emergency if revenues drop below expenditures or if expenditures exceed revenues; and

WILL prohibit the Legislature from acting on other legislation or adjourning if they fail to pass legislation to address the crisis.

California faces unprecedented budget deficits. Overspending has led to serious shortfalls which threatens the state's ability to pay its bills and access financial markets. This proposition is a safeguard against this EVER HAPPENING AGAIN. Proposition 58 will prevent the Legislature from ENACTING BUDGETS THAT SPEND MORE MONEY THAN WE HAVE.

The California Balanced Budget Act will require, for the first time, the Governor and the Legislature to pass a BALANCED BUDGET. This proposition, along with the California Economic Recovery Bond Act, will give us the tools we need to resolve California's budget crisis.

As California faced unprecedented budget deficits for the last 3 years, the problem was ignored, spending exceeded revenues, and there was no process in place to address the fiscal crisis. Proposition 58 will allow the Governor to call a Special Session of the Legislature to deal with future fiscal crises. If the Legislature fails to act within 45 days, then they will not be able to recess and they will not be able to pass any other legislation. This will force the Governor and the Legislature to work together to find a solution to the problem BEFORE IT IS TOO LATE.

The California Recovery Bond, Proposition 57, and the California Balanced Budget Act, Proposition 58, together will give California's leaders the tools necessary to restore confidence in the financial management of the State.

Please join Governor Arnold Schwarzenegger, State Controller Steve Westly, Superintendent of Public Instruction Jack O'Connell, the California Chamber of Commerce, the California Taxpayers' Association, and all 80 members of the California State Assembly—both Republicans and Democrats—and support Proposition 58.

ARNOLD SCHWARZENEGGER, *Governor*
State of California

HERB J. WESSON, JR., *Speaker*
California State Assembly

JENNY OROPEZA, *Chairwoman*
Assembly Budget Committee

REBUTTAL to Argument in Favor of Proposition 58

Reject this ruse! Remember the original deal we were promised by Arnold? Vote for a huge $15 billion bond to pay for past mistakes, and we'll pass a solid spending limit so this mess doesn't happen again.

Prop. 57 gives us the bonds, but Prop. 58 does NOT give us ANY spending limit. The Legislature is free to continue spending like crazy, sticking us with higher taxes and more debt. All pain for no gain. If we approve this toothless "plan," then perhaps we'll owe Gray Davis an apology!

Yes, the budget will be "balanced," but by law the California budget ALREADY has to be balanced. The problem is HOW it is balanced. Prop. 58 does NOT protect us from the sleazy methods currently employed to balance the budget—*accounting tricks and short-term borrowing*.

Proponents claim that Prop. 58 requires that "spending not exceed income each fiscal year." This statement is factually incorrect, and they know it. As in the past, short-term borrowing allows spending in excess of revenues received.

Yes, the entire State Assembly voted for this measure. But we remember another bill that received such unanimous bipartisan approval—the terribly flawed electricity deregulation bill that cost us billions and billions of dollars.

Prop. 58 does nothing except justify selling bonds. The vaunted budget reserve is largely unprotected. Prop. 58 includes NO SPENDING LIMITS, leaving the door wide open to more borrowing and higher taxes.

Force Sacramento to sober up. Vote NO on Prop. 58.

RICHARD RIDER, *Chair*
San Diego Tax Fighters

BRUCE HENDERSON, *President*
Association of Concerned Taxpayers

JOE ARMENDARIZ, *Executive Director*
Santa Barbara County Taxpayers Association

ARGUMENT Against Proposition 58

The same legislature that created the biggest budget deficit in California's history now wants to paper over that deficit by borrowing $15 billion, at a total cost of over $2,000 per California family.

Our California Constitution prohibits them from doing so. Since 1849, the "single object or work" provision of the Constitution has limited long-term borrowing to projects like schools, parks, or water projects that will serve coming generations. Prop. 58 sweeps that provision aside, and allows them to do what no generation in California's history has ever done—*steal from the future*.

At a time when our state has the lowest credit rating in the nation—challenging Singapore and Malaysia—they want to borrow $15 billion more to pay for their own mistakes—*AND STICK YOU WITH THE BILL*. Our Constitution won't let them. But Prop. 58 shreds that provision, making it possible for them to plunge us $15 billion deeper into debt. That is the *real* purpose of Prop. 58.

They have the *audacity* to call it a "Balanced Budget Act." How can they do that? Simple. They suspended the law that guarantees you an unbiased ballot title and summary—instead literally writing it themselves. Daniel Weintraub, perhaps the most respected newspaper columnist in California, writes that *"the balanced-budget requirement doesn't actually require that lawmakers approve a balanced budget."*

Don't be fooled. California's Constitution already prohibits long-term borrowing from being used to balance the budget. That's the part they're suspending! We've gotten into this mess because of short-term borrowing—and *short-term borrowing is exempt from Prop. 58.* As Weintraub says, Prop. 58 *"does not outlaw borrowing to paper over a deficit."*

California already has a prudent reserve requirement in current law—legislatures and governors have ignored it. Prop. 58 allows them to continue to ignore it. Weintraub: *"The governor could suspend transfers into the reserve at any time. And the Legislature could transfer money out of the reserve . . . at any time."* It is no protection at all!

The Governor ALREADY has the power to call the Legislature into session to address a developing budget shortfall. This initiative requires the Legislature to take action before it can move on to other business. But it is LOOPHOLE-RIDDEN. Weintraub writes: *"As long as they passed any bill to address the shortfall, they could continue as usual, even if the governor vetoed their approach. In practice, such a provision is unlikely to yield anything very different from the stalemates we see today."*

If they were serious about a balanced budget, they'd restore the Governor's power to make mid-year spending reductions to keep the budget in balance. If they were serious about spending restraint, they'd restore the Gann Spending Limit that produced a decade of balanced budgets and prudent reserves from 1979 until 1990.

But they're only serious about one thing—*they want to borrow more money, and this amendment gives them the power to do so.*

RICHARD RIDER, *Chair*
San Diego Tax Fighters

BRUCE HENDERSON, *President*
Association of Concerned Taxpayers

JOE ARMENDARIZ, *Executive Director*
Santa Barbara County Taxpayers Association

REBUTTAL to Argument Against Proposition 58

Don't be fooled by the opponents. The California Taxpayers Association supports the California Balanced Budget Act.

Proposition 58 WILL REQUIRE A BALANCED BUDGET for the first time. State government spending in California is out of control. Over the past three years, state spending has significantly exceeded state revenues.

Under Proposition 58, the Governor and the California State Legislature must ENACT a BALANCED BUDGET. It will CLOSE A LOOPHOLE that was used to create the huge deficit.

Governor Schwarzenegger's California Economic Recovery Plan includes both Propositions 57 and 58. Combined, the two measures will allow California to refinance its debt and prevent such a situation from EVER HAPPENING AGAIN. We should not be allowed to SPEND MORE MONEY THAN WE HAVE.

Proposition 58 requires the Legislature to enact a balanced budget and if circumstances change after they pass the budget, the Governor is required to call them into special session to make mid-year changes to the budget, so that we end the year with A BALANCED BUDGET. And Proposition 58 prohibits the Legislature from acting on any new legislation until the budget is balanced again.

Proposition 58 does not change the Gann Spending Limit. It is still the law, the BALANCED BUDGET ACT provides a new tool in the fight against overspending.

Proposition 58 prohibits borrowing for future deficits. Proposition 58 requires building a reserve of at least $8 billion. Please support the California Recovery Plan and vote YES ON PROPOSITIONS 57 and 58.

ARNOLD SCHWARZENEGGER, *Governor*
State of California

BILL HAUCK, *Chairman*
California Constitution Revision Commission

ALLAN ZAREMBERG, *Chairman*
California Chamber of Commerce

This overview of state bond debt replaces a similar analysis in the principal ballot pamphlet. This overview discusses the impact of the two bond measures on the ballot—Proposition 55 (education facilities) and Proposition 57 (budget deficit). The latter measure qualified for the ballot after the printing deadline for the principal ballot pamphlet.

This section provides an overview of the state's current bond debt. It also discusses the impact the bond measures on this ballot would, if approved, have on this debt level and the costs of paying it off.

Background

What Is Bond Financing? Bond financing is a type of long-term borrowing that the state uses to raise money for various purposes. The state obtains this money by selling bonds to investors. In exchange, it agrees to repay this money, with interest, according to a specified schedule.

Why Are Bonds Used? The state has traditionally used bonds to finance major capital outlay projects such as roads, educational facilities, prisons, parks, water projects, and office buildings. This is done mainly because these facilities provide services for many years and their large dollar costs can be difficult to pay all at once. Recently, however, the state has also used bond financing to help close major shortfalls in its General Fund budget.

What Types of Bonds Does the State Sell? The state sells three major types of bonds. These include:

- ***General Fund-Supported Bonds.*** These are paid off from the state's General Fund, which is largely supported by tax revenues. Such bonds take two forms. The majority are *general obligation* bonds. These must be approved by the voters and their repayment is guaranteed in the State Constitution. The second type is *lease-revenue* bonds. These do not require voter approval, are not guaranteed, and are paid off from lease payments (primarily from the General Fund) by state agencies using the facilities they finance. As a result, they have somewhat higher interest costs than general obligation bonds.
- ***Traditional Revenue Bonds.*** These also finance capital projects but are not supported by the General Fund. Rather, they are paid off from a designated revenue stream—usually generated by the projects they finance, such as bridge tolls. These bonds also do not require voter approval.
- ***Budget-Related Bonds.*** During the past two years, the Governor and Legislature authorized other bonds to help address the state's budget problem. These included a $10.7 billion deficit-financing bond enacted in 2003 to pay off the state's deficit. This bond, which is currently being challenged in the courts, has not yet been sold. The cost of repaying principal and interest on this bond would be borne by the state's General Fund.

What Are the Direct Costs of Bond Financing? The state's cost for using bonds depends primarily on their interest rates and the time period over which they are repaid. For example, most general obligation bonds are paid off over a 30-year period. Assuming current tax-exempt interest rates for such bonds (about 5.25 percent), the cost of paying them off over 30 years is about $2 for each dollar borrowed—$1 for the dollar borrowed and $1 for interest. This cost, however, is spread over the entire 30-year period, so the cost after adjusting for inflation is considerably less—about $1.25 for each $1 borrowed.

The State's Current Debt Situation

Amount of General Fund Debt. As of November 2003, the state had about $36 billion of General Fund bond debt outstanding—about $29 billion of general obligation bonds and $7 billion of lease-revenue bonds. In addition, the state has not yet sold about $21 billion of authorized bonds, either because the projects involved have not yet been started or those in progress have not yet reached their major construction phase. (This total does not include the authorized $10.7 billion deficit-financing bond.)

General Fund Debt Payments. We estimate that General Fund debt payments will be about $2.5 billion in 2003–04. This amount is lower than it otherwise would be because of the deferral of certain bond principal repayments to help deal with the General Fund's budget shortfall. Absent these one-time impacts, debt payments will increase to about $3.5 billion in 2004–05. As previously authorized but currently unsold bonds are marketed, outstanding bond debt costs would rise to approximately $4.1 billion in 2007–08, and slowly decline thereafter if no new bonds are authorized.

Debt-Service Ratio. The level of General Fund debt payments stated as a percentage of state revenues is referred to as the state's debt-service ratio. This ratio increased in the early 1990s and peaked at slightly over 5 percent in the middle of the decade. The ratio currently stands at about 3.3 percent, and is expected to increase to 4.6 percent in 2004–05, and further to a peak of 4.9 percent in 2005–06 as currently authorized bonds are sold.

Effects of Bond Propositions on This Ballot

There are two bond measures on this ballot:

- Proposition 55, which would authorize the state to issue $12.3 billion of general obligation bonds for construction and renovation of public K–12 schools and higher education facilities.
- Proposition 57, which would authorize the state to issue a $15 billion bond to address the state's budget shortfall. This bond would be used instead of the currently authorized $10.7 billion deficit-financing bond.

The impacts of these measures on the state's debt situation are discussed below.

Impacts on Debt Payments. If the $12.3 billion in bonds for education facilities authorized by Proposition 55 on this ballot are approved and eventually sold, there would be additional debt-service payments averaging over $800 million a year over the life of the bond. The currently authorized deficit-financing bond would, if sold, result in $2.4 billion in added General Fund costs in 2004–05, increasing moderately each year until the bonds are paid off (in roughly five years). If the $15 billion in bonds authorized by Proposition 57 is used instead of the currently authorized deficit-financing bond, the annual debt-service costs would be $1.2 billion in 2004–05, increasing moderately in subsequent years. (If the supplemental payments from the budget reserve established by Proposition 58 were included, annual payments could be higher in individual years.) Because of the lower annual debt repayment amounts and larger volume, however, these debt-service costs on the proposed bond would be in place for a longer time period—anywhere from nine to 14 years.

Impacts on Debt-Service Ratio. If the $12.3 billion in education bonds on this ballot are approved and eventually sold, the ratio would increase to about 5.3 percent in 2006–07 and decline thereafter. If the debt service on the currently authorized deficit-financing bond is included in this calculation, the total debt-service ratio would jump to between 8 percent and 8.5 percent per year until the bond is paid off (probably in 2009–10). If, however, the bond proposed in Proposition 57 is approved and sold instead of the currently authorized bond, the ratio would increase by less in the near term—to between 6.4 percent and 6.9 percent annually between 2004–05 and 2008–09. However, this higher ratio would remain in place for a longer time period, since the proposed bond would take longer to pay off. (If supplemental payments from the budget reserve created by Proposition 58 are included, the ratio could be higher in individual years.)

Proposition 57

This law proposed by Assembly Bill 9 of the 2003–2004 Fifth Extraordinary Session (Chapter 2, 2003–2004 Fifth Extraordinary Session) is submitted to the people in accordance with the provisions of Article XVI of the California Constitution.

This proposed law adds sections to the Government Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SEC. 3. Title 18 (commencing with Section 99050) is added to the Government Code, to read:

TITLE 18. THE ECONOMIC RECOVERY BOND ACT

CHAPTER 1. GENERAL PROVISIONS

99050. (a) This title shall be known and may be cited as the Economic Recovery Bond Act.

(b) The Legislature finds and declares that it is essential to the public welfare that an efficient, equitable, and alternative source of funding be established in order to preserve public education and critical health and safety programs that otherwise could not be funded in light of the accumulated state budget deficit, and that securing the availability of the proceeds of the bonds proposed to be issued and sold pursuant to this title is the most efficient, equitable, and economical means available.

99051. As used in this title, the following terms have the following meanings:

(a) (1) "Accumulated state budget deficit" has the same meaning as in Section 1.3 of Article XVI of the California Constitution.

(2) The amount referred to in paragraph (1) shall be as certified by the Director of Finance.

(b) "Ancillary obligation" means an obligation of the state entered into in connection with any bonds issued under this title, including the following:

(1) A credit enhancement or liquidity agreement, including any credit enhancement or liquidity agreement in the form of bond insurance, letter of credit, standby bond purchase agreement, reimbursement agreement, liquidity facility, or other similar arrangement.

(2) A remarketing agreement.

(3) An auction agent agreement.

(4) A broker-dealer agreement or other agreement relating to the marketing of the bonds.

(5) An interest rate or other type of swap or hedging contract.

(6) An investment agreement, forward purchase agreement, or similar structured investment contract.

(c) "Committee" means the Economic Recovery Financing Committee created pursuant to Section 99055.

(d) "Fund" means the Economic Recovery Fund created pursuant to Section 99060.

(e) "Resolution" means any resolution, trust agreement, indenture, certificate, or other instrument authorizing the issuance of bonds pursuant to this title and providing for their security and repayment.

(f) "Trustee" means the Treasurer or a bank or trust company within or without the state acting as trustee for any issue of bonds under this title and, if there is more than one issue of bonds, the term means the trustee for each issue of bonds, respectively. If there are cotrustees for an issue of bonds, "trustee" means those cotrustees collectively.

CHAPTER 2. ECONOMIC RECOVERY FINANCING COMMITTEE

99055. (a) Solely for the purpose of authorizing the issuance and sale pursuant to the State General Obligation Bond Law of the bonds authorized by this title and the making of those determinations and the taking of other actions as are authorized by this title, the Economic Recovery Financing Committee is hereby created. For purposes of this title, the Economic Recovery Financing Committee is "the committee" as that term is used in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2).

(b) The committee consists of all of the following members:

(1) The Governor or his or her designee.

(2) The Director of Finance.

(3) The Treasurer.

(4) The Controller.

(5) The Secretary of Business, Transportation and Housing.

(6) The Director of General Services.

(7) The Director of Transportation.

(c) Notwithstanding any other provision of law, any member may designate a deputy to act as that member in his or her place and stead for all purposes, as though the member were personally present.

(d) The Legislature finds and declares that each member of the committee has previously acted as a member of a similar finance committee.

(e) A majority of the members of the committee shall constitute a quorum of the committee and may act for the committee.

(f) The Director of Finance shall serve as chairperson of the committee.

CHAPTER 3. ECONOMIC RECOVERY FUND

99060. (a) The proceeds of bonds issued and sold pursuant to this title shall be deposited in the Economic Recovery Fund, which is hereby established in the State Treasury.

(b) Moneys in the fund shall be invested in the Surplus Money Investment Fund, and any income from that investment shall be credited to the fund.

(c) Except for amounts necessary to pay costs of issuance, administrative costs, and any other costs payable in connection with the bonds, and to retire or refund bonds issued and sold pursuant to this title or bonds issued and sold under Title 17 (commencing with Section 99000), the remaining balance of the fund, as determined by the committee, shall be transferred to the General Fund to fund the purposes set forth in this title.

99062. Out of the first money realized from the sale of bonds as provided in this chapter, there shall be redeposited in the General Obligation Bond Expense Revolving Fund, established by Section 16724.5, the amount of all expenditures made for purposes specified in that section, and this money may be used for the same purpose and repaid in the same manner whenever additional bond sales are made.

99064. The proceeds of the bonds issued and sold pursuant to this chapter shall be available for the purpose of providing an efficient, equitable, and economical means of doing both of the following:

(a) Funding the accumulated state budget deficit, which may be accomplished in part by refunding or repaying bonds issued pursuant to Title 17 (commencing with Section 99000).

(b) Paying costs relating to the issuance of bonds under this title, including, but not limited to, providing reserves, capitalized interest, and the costs of obtaining or entering into any ancillary obligation, costs associated with the repayment or refunding of the fiscal recovery bonds issued pursuant to Title 17 (commencing with Section 99000), and administrative and other costs associated with implementing the purposes of this title.

CHAPTER 4. BOND PROVISIONS

99065. (a) Subject to subdivision (b), bonds in the total amount of fifteen billion dollars ($15,000,000,000), not including the amount of any refunding bonds issued in accordance with Section 99075, or so much thereof as is necessary, may be issued and sold to provide a fund to be used for carrying out the purposes expressed in this title and to reimburse the General Obligation Bond Expense Revolving Fund, pursuant to Section 16724.5. The bonds, when sold, shall be and constitute a valid and binding obligation of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal of, and interest on, the bonds as the principal and interest become due and payable. Additionally, the bonds, when sold, shall be secured by a pledge of revenues and any other amounts in the Fiscal Recovery Fund created pursuant to Section 99008. The bonds may be secured by different lien priorities on amounts in the Fiscal Recovery Fund.

(b) The amount of bonds that may be issued and sold pursuant to subdivision (a) shall be reduced by the amount of bonds issued pursuant to Title 17 (commencing with Section 99000), and by the amount of bonds issued

Proposition 57 *(cont.)*

pursuant to the California Pension Obligation Financing Act (Chapter 7 (commencing with Section 16910) of Part 3 of Division 4 of Title 2), except to the extent those bonds will be retired, defeased, or redeemed with the proceeds of bonds authorized by this title.

(c) Pursuant to this section, the Treasurer shall sell the bonds authorized by the committee. The bonds shall be sold upon the terms and conditions specified in a resolution to be adopted by the committee pursuant to Section 16731 and Section 99070. Whenever the committee deems it necessary for an effective sale of the bonds, the committee may authorize the Treasurer to sell any issue of bonds at less than their par value. Notwithstanding Section 16754.3, the discount with respect to any issue of the bonds shall not exceed 3 percent of the par value thereof, net of any premium.

99066. The bonds authorized by this title shall be prepared, executed, issued, sold, paid, and redeemed as provided in the State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2), and all of the provisions of that law, except subdivisions (a) and (b) of Section 16727 or any other provision in that law that is inconsistent with the terms of this title, apply to the bonds and to this title and are hereby incorporated in this title as though set forth in full in this title.

99067. For purposes of this title, the Department of Finance is designated the "board" as that term is used in the State General Obligation Bond Law.

99069. Notwithstanding any other provision of this title, or of the State General Obligation Bond Law, if the Treasurer sells bonds pursuant to this title that include a bond counsel opinion to the effect that the interest on the bonds is excluded from gross income for federal tax purposes subject to designated conditions, the Treasurer may maintain separate accounts for the bond proceeds invested and for the investment earnings on those proceeds, and may use or direct the use of those proceeds or earnings to pay any rebate, penalty, or other payment required under federal law or take any other action with respect to the investment and use of those bond proceeds that is required or desirable under federal law in order to maintain the tax-exempt status of those bonds and to obtain any other advantage under federal law on behalf of the funds of this state.

99070. (a) (1) The committee shall determine whether or not it is necessary or desirable to issue bonds authorized pursuant to this title in order to carry out the purposes of this title and, if so, the amount of bonds to be issued and sold, the times at which the proceeds of the bonds authorized by this title shall be required to be available, and those other terms and conditions for the bonds authorized by this title as it shall determine necessary or desirable.

(2) In addition to all other powers specifically granted in this title and the State General Obligation Bond Law, the committee may do all things necessary or convenient to carry out the powers and purposes of this title, including the approval of any indenture and any ancillary obligation relating to those bonds, and the delegation of necessary duties to the chairperson, and to the Treasurer as agent for sale of the bonds.

(3) The committee shall determine the amount of the bonds to be issued so that the net proceeds of the bonds issued to fund the accumulated budget deficit, when added to the net proceeds of any bonds issued pursuant to Title 17 (commencing with Section 99000) for that purpose, exclusive of bonds issued pursuant to this title for the purpose of refunding bonds issued pursuant to this title or Title 17 (commencing with Section 99000), will not exceed fifteen billion dollars ($15,000,000,000) in the aggregate. Nothing in this section shall be construed to limit the ability of the committee to authorize the issuance of any amount of bonds that it shall determine necessary or appropriate to accomplish the purposes of this title, including the refunding or redemption of the bonds issued pursuant to Title 17 (commencing with Section 99000), subject to the limit on the total amount of bonds set forth in Section 99065.

(b) Successive issues of bonds may be authorized and sold to carry out those actions progressively, and it is not necessary that all of the bonds authorized to be issued be sold at any one time. In addition to all other powers specifically granted in this title and the State General Obligation Bond Law, the committee may do all things necessary or convenient, including the delegation of necessary duties to the chairperson and to the Treasurer as agent for sale of the bonds, to carry out the powers and purposes of this title.

99071. The principal of and interest on the bonds and the payment of any ancillary obligations shall be payable from and secured by a pledge of all state sales and use tax revenues in the Fiscal Recovery Fund established pursuant to Section 99008 and any earnings thereon. To the extent that moneys in the Fiscal Recovery Fund are deemed insufficient to make these payments, pursuant to an estimate certified by the Director of Finance and approved by the committee, there shall be collected each year and in the same manner and at the same time as other state revenue is collected, in addition to the ordinary revenues of the state, a sum in an amount required to pay the principal of, and interest on, the bonds and the payment of any ancillary obligations for which payment is authorized by this title and for which the full faith and credit of the state has been pledged. It is the duty of all officers charged by law with any duty in regard to the collection of the revenue to do and perform each and every act that is necessary to collect that additional sum.

99072. (a) Notwithstanding Section 13340, there is hereby continuously appropriated from the Fiscal Recovery Fund established pursuant to Section 99008 an amount that will equal the total of the following:

(1) The sum annually necessary to pay the principal of, and interest on, bonds issued and sold as described in Section 99070, as the principal and interest become due and payable, together with any amount necessary to satisfy any reserve and coverage requirements in the resolution.

(2) The sum necessary to pay any ancillary obligations entered into in connection with the bonds.

(3) Any trustee and other administrative costs incurred in connection with servicing the bonds and ancillary obligations.

(4) Redemption, retirement, defeasance or purchase of any bonds as authorized by the committee prior to their stated maturity dates.

(b) Notwithstanding Section 13340, if the funds appropriated by subdivision (a) are estimated to be insufficient to meet the requirement specified in paragraphs (1) to (4), inclusive, of subdivision (a), as approved pursuant to Section 99071, there is hereby continuously appropriated from the General Fund, for the purposes of this chapter, an amount that will provide sufficient revenues to meet whatever requirements specified in paragraphs (1) to (4), inclusive, of subdivision (a) cannot be met from revenues appropriated from the Fiscal Recovery Fund.

(c) The sales and use tax revenues received pursuant to Sections 6051.5 and 6201.5 of the Revenue and Taxation Code and deposited into the Fiscal Recovery Fund are hereby irrevocably pledged to the payment of principal and interest on the bonds issued pursuant to this title, to payment of any ancillary obligations, and to costs necessary for servicing and administering the bonds and ancillary obligations. The Legislature may elect to deposit additional revenues in the Fiscal Recovery Fund. The pledge of this subdivision shall vest automatically upon execution and delivery of any resolution or agreement relating to ancillary obligations, without the need for any notice or filing in any office or location.

99074. All money deposited in the Economic Recovery Fund that is derived from accrued interest on bonds sold shall be reserved in that fund and shall be available for transfer to the Fiscal Recovery Fund as a credit to expenditures for bond interest.

99075. The bonds may be refunded in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 4 of Title 2, which is a part of the State General Obligation Bond Law. Approval by the electors of the state for the issuance of the bonds described in this title shall include approval of the issuance of any bonds issued to refund any bonds originally issued under this title or any previously issued refunding bonds.

99076. The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this title are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by that article.

99077. The state hereby pledges and agrees with the holders of any bonds issued pursuant to this title that it will not reduce the rate of imposition of either of the taxes imposed pursuant to Sections 6051.5 and 6201.5 of the Revenue and Taxation Code, which generate the revenue deposited in the Fiscal Recovery Fund.

SEC. 8. Sections 1 to 4.20, inclusive, of this act shall become operative only if both of the following occur:

(a) ACA 5 of the 2003–04 Fifth Extraordinary Session is submitted to and approved by the voters at the March 2, 2004, statewide primary election.

(b) The voters adopt the Economic Recovery Bond Act, as set forth in Section 3 of this act.

Proposition 58

This amendment proposed by Assembly Constitutional Amendment 5 of the 2003–2004 Fifth Extraordinary Session (Resolution Chapter 1, 2003–2004 Fifth Extraordinary Session) expressly amends the California Constitution by adding sections thereto and amending sections thereof; therefore, existing provisions proposed to be deleted are printed in ~~strike-out type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED AMENDMENTS TO ARTICLES IV AND XVI

First—That Section 10 of Article IV is amended to read:

SEC. 10. (a) Each bill passed by the Legislature shall be presented to the Governor. It becomes a statute if it is signed by the Governor. The Governor may veto it by returning it with any objections to the house of origin, which shall enter the objections in the journal and proceed to reconsider it. If each house then passes the bill by rollcall vote entered in the journal, ~~two thirds~~ *two-thirds* of the membership concurring, it becomes a statute.

(b) (1) Any bill, other than a bill which would establish or change boundaries of any legislative, congressional, or other election district, passed by the Legislature on or before the date the Legislature adjourns for a joint recess to reconvene in the second calendar year of the biennium of the legislative session, and in the possession of the Governor after that date, that is not returned within 30 days after that date becomes a statute.

(2) Any bill passed by the Legislature before September 1 of the second calendar year of the biennium of the legislative session and in the possession of the Governor on or after September 1 that is not returned on or before September 30 of that year becomes a statute.

(3) Any other bill presented to the Governor that is not returned within 12 days becomes a statute.

(4) If the Legislature by adjournment of a special session prevents the return of a bill with the veto message, the bill becomes a statute unless the Governor vetoes the bill within 12 days after it is presented by depositing it and the veto message in the office of the Secretary of State.

(5) If the 12th day of the period within which the Governor is required to perform an act pursuant to paragraph (3) or (4) of this subdivision is a Saturday, Sunday, or holiday, the period is extended to the next day that is not a Saturday, Sunday, or holiday.

(c) Any bill introduced during the first year of the biennium of the legislative session that has not been passed by the house of origin by January 31 of the second calendar year of the biennium may no longer be acted on by the house. No bill may be passed by either house on or after September 1 of an even-numbered year except statutes calling elections, statutes providing for tax levies or appropriations for the usual current expenses of the State, and urgency statutes, and bills passed after being vetoed by the Governor.

(d) The Legislature may not present any bill to the Governor after November 15 of the second calendar year of the biennium of the legislative session.

(e) The Governor may reduce or eliminate one or more items of appropriation while approving other portions of a bill. The Governor shall append to the bill a statement of the items reduced or eliminated with the reasons for the action. The Governor shall transmit to the house originating the bill a copy of the statement and reasons. Items reduced or eliminated shall be separately reconsidered and may be passed over the Governor's veto in the same manner as bills.

(f) (1) If, following the enactment of the budget bill for the 2004–05 fiscal year or any subsequent fiscal year, the Governor determines that, for that fiscal year, General Fund revenues will decline substantially below the estimate of General Fund revenues upon which the budget bill for that fiscal year, as enacted, was based, or General Fund expenditures will increase substantially above that estimate of General Fund revenues, or both, the Governor may issue a proclamation declaring a fiscal emergency and shall thereupon cause the Legislature to assemble in special session for this purpose. The proclamation shall identify the nature of the fiscal emergency and shall be submitted by the Governor to the Legislature, accompanied by proposed legislation to address the fiscal emergency.

(2) If the Legislature fails to pass and send to the Governor a bill or bills to address the fiscal emergency by the 45th day following the issuance of the proclamation, the Legislature may not act on any other bill, nor may the Legislature adjourn for a joint recess, until that bill or those bills have been passed and sent to the Governor.

(3) A bill addressing the fiscal emergency declared pursuant to this section shall contain a statement to that effect.

Second—That Section 12 of Article IV is amended to read:

SEC. 12. (a) Within the first 10 days of each calendar year, the Governor shall submit to the Legislature, with an explanatory message, a budget for the ensuing fiscal year containing itemized statements for recommended state expenditures and estimated state revenues. If recommended expenditures exceed estimated revenues, the Governor shall recommend the sources from which the additional revenues should be provided.

(b) The Governor and the Governor-elect may require a state agency, officer, or employee to furnish whatever information is deemed necessary to prepare the budget.

(c) *(1)* The budget shall be accompanied by a budget bill itemizing recommended expenditures. ~~The~~

(2) The budget bill shall be introduced immediately in each house by the persons chairing the committees that consider ~~appropriations. The~~ *the budget.*

(3) The Legislature shall pass the budget bill by midnight on June 15 of each year. ~~Until~~

(4) Until the budget bill has been enacted, the Legislature shall not send to the Governor for consideration any bill appropriating funds for expenditure during the fiscal year for which the budget bill is to be enacted, except emergency bills recommended by the Governor or appropriations for the salaries and expenses of the Legislature.

(d) No bill except the budget bill may contain more than one item of appropriation, and that for one certain, expressed purpose. Appropriations from the General Fund of the State, except appropriations for the public schools, are void unless passed in each house by rollcall vote entered in the journal, ~~two thirds~~ *two-thirds* of the membership concurring.

(e) The Legislature may control the submission, approval, and enforcement of budgets and the filing of claims for all state agencies.

(f) For the 2004–05 fiscal year, or any subsequent fiscal year, the Legislature may not send to the Governor for consideration, nor may the Governor sign into law, a budget bill that would appropriate from the General Fund, for that fiscal year, a total amount that, when combined with all appropriations from the General Fund for that fiscal year made as of the date of the budget bill's passage, and the amount of any General Fund moneys transferred to the Budget Stabilization Account for that fiscal year pursuant to Section 20 of Article XVI, exceeds General Fund revenues for that fiscal year estimated as of the date of the budget bill's passage. That estimate of General Fund revenues shall be set forth in the budget bill passed by the Legislature.

Third—That Section 1.3 is added to Article XVI thereof, to read:

SEC. 1.3. (a) For the purposes of Section 1, a "single object or work," for which the Legislature may create a debt or liability in excess of three hundred thousand dollars ($300,000) subject to the requirements set forth in Section 1, includes the funding of an accumulated state budget deficit to the extent, and in the amount, that funding is authorized in a measure submitted to the voters at the March 2, 2004, statewide primary election.

(b) As used in subdivision (a), "accumulated state budget deficit" means the aggregate of both of the following, as certified by the Director of Finance:

(1) The estimated negative balance of the Special Fund for Economic Uncertainties arising on or before June 30, 2004, not including the effect of the estimated amount of net proceeds of any bonds issued or to be issued pursuant to the California Fiscal Recovery Financing Act (Title 17 (commencing with Section 99000) of the Government Code) and any bonds issued or to be issued pursuant to the measure submitted to the voters at the March 2, 2004, statewide primary election as described in subdivision (a).

(2) Other General Fund obligations incurred by the State prior to June 30, 2004, to the extent not included in that negative balance.

(c) Subsequent to the issuance of any state bonds described in subdivision (a), the State may not obtain moneys to fund a year-end state budget deficit, as may be defined by statute, pursuant to any of the following: (1) indebtedness incurred pursuant to Section 1 of this article, (2) a debt obligation under which funds to repay that obligation are derived solely from a des-

Proposition 58 *(cont.)*

ignated source of revenue, or (3) a bond or similar instrument for the borrowing of moneys for which there is no legal obligation of repayment. This subdivision does not apply to funding obtained through a short-term obligation incurred in anticipation of the receipt of tax proceeds or other revenues that may be applied to the payment of that obligation, for the purposes and not exceeding the amounts of existing appropriations to which the resulting proceeds are to be applied. For purposes of this subdivision, "year-end state budget deficit" does not include an obligation within the accumulated state budget deficit as defined by subdivision (b).

Fourth—That Section 20 is added to Article XVI thereof, to read:

SECTION 20. (a) The Budget Stabilization Account is hereby created in the General Fund.

(b) In each fiscal year as specified in paragraphs (1) to (3), inclusive, the Controller shall transfer from the General Fund to the Budget Stabilization Account the following amounts:

(1) No later than September 30, 2006, a sum equal to 1 percent of the estimated amount of General Fund revenues for the 2006–07 fiscal year.

(2) No later than September 30, 2007, a sum equal to 2 percent of the estimated amount of General Fund revenues for the 2007–08 fiscal year.

(3) No later than September 30, 2008, and annually thereafter, a sum equal to 3 percent of the estimated amount of General Fund revenues for the current fiscal year.

(c) The transfer of moneys shall not be required by subdivision (b) in any fiscal year to the extent that the resulting balance in the account would exceed 5 percent of the General Fund revenues estimate set forth in the budget bill for that fiscal year, as enacted, or eight billion dollars ($8,000,000,000), whichever is greater. The Legislature may, by statute, direct the Controller, for one or more fiscal years, to transfer into the account amounts in excess of the levels prescribed by this subdivision.

(d) Subject to any restriction imposed by this section, funds transferred to the Budget Stabilization Account shall be deemed to be General Fund revenues for all purposes of this Constitution.

(e) The transfer of moneys from the General Fund to the Budget Stabilization Account may be suspended or reduced for a fiscal year as specified by an executive order issued by the Governor no later than June 1 of the preceding fiscal year.

(f) (1) Of the moneys transferred to the account in each fiscal year, 50 percent, up to the aggregate amount of five billion dollars ($5,000,000,000) for all fiscal years, shall be deposited in the Deficit Recovery Bond Retirement Sinking Fund Subaccount, which is hereby created in the account for the purpose of retiring deficit recovery bonds authorized and issued as described in Section 1.3, in addition to any other payments provided for by law for the purpose of retiring those bonds. The moneys in the sinking fund subaccount are continuously appropriated to the Treasurer to be expended for that purpose in the amounts, at the times, and in the manner deemed appropriate by the Treasurer. Any funds remaining in the sinking fund subaccount after all of the deficit recovery bonds are retired shall be transferred to the account, and may be transferred to the General Fund pursuant to paragraph (2).

(2) All other funds transferred to the account in a fiscal year shall not be deposited in the sinking fund subaccount and may, by statute, be transferred to the General Fund.

Fifth—That this measure shall become operative only if the bond measure described in Section 1.3 of Article XVI of the Constitution, as added by this measure, is submitted to and approved by the voters at the March 2, 2004, statewide primary election.

Sixth—That this measure shall be submitted to the voters at the March 2, 2004, statewide primary election.

Secretary of State
1500 11th Street
Sacramento, CA 95814

Primary Election

English: 1-800-345-VOTE (8683)
Español/Spanish: 1-800-232-VOTA (8682)
日本語/Japanese: 1-800-339-2865
Việt ngữ/Vietnamese: 1-800-339-8163
Tagalog/Tagalog: 1-800-339-2957
中文/Chinese: 1-800-339-2857
한국어/Korean: 1-866-575-1558

www.voterguide.ss.ca.gov

Official Voter Information Guide

SUPPLEMENTAL

In an effort to reduce election costs, the State Legislature has authorized the State and counties to mail only one guide to addresses where more than one voter with the same surname resides. You may obtain additional copies by writing to your county elections official or by calling 1-800-345-VOTE.