**Collection:** Reagan, Ronald: Gubernatorial Papers, 1966-74: Press Unit

**Folder Title:** [Proposition One] – Examination of Governor's State Expenditure Limitation Program, 04/30/1973 (2 of 2)

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## Part 3. Reimbursements to Local Government for State Mandates

### I. Basic Rules

Section 8 of Article 29 prohibits the state from mandating to local government a new program or an increased level of service under an existing program until an appropriation has been made to pay the cost of performing the mandate. This provision applies to school districts as well as to cities, counties, and other special districts. Because the prohibition applies to "State" mandates, it probably applies to executive regulations as well as to statutes. The prohibition applies to any mandate made after the effective date of Article 29.

If this prohibition applies to executive regulations as well as to statutes, then no executive regulation mandating a cost on local government can become effective until the Legislature has made an appropriation to pay the cost. This is a change from Chapter 1406 of 1972 (SB 90), which requires the state to pay the costs resulting from mandates in executive regulations but does not require an appropriation before an executive regulation becomes effective.

As an exception to the general rule requiring state reimbursement to local government, Section 8 excludes state mandates determined by the Legislature to be applicable generally to persons, associations, or corporations, as well as to local government. It is likely that this exception will enable the Legislature to exclude from the reimbursement requirement some of the orders of quasi-legislative bodies such as the Public Utilities Commission, the State Water Resources Control Board, or Regional Air Pollution Control Boards. This exception is a substantial change from Chapter 1406 of 1972 (SB 90), which requires the state to reimburse local governments for the cost of a state mandate whether or not the mandate applies to private entities as well as to public entities. The exception holds the potential for becoming a major loophole in the reimbursement requirement. If a bill or executive regulation is drafted to apply to private entities as well as to public entities, Article 29 does not require the state to reimburse the public entities for mandated costs.

Article 29 omits the following two reimbursement provisions included in Chapter 1406 of 1972 (SB 90): (1) SB 90 requires the state to reimburse local government for the actual loss of property tax revenue caused by any classification or exemption of property enacted after January 1, 1973; (2) SB 90 requires the state to reimburse cities and counties for sales or use tax exemptions enacted after January 1, 1973.

The reimbursement requirements in Article 29 contain two major flaws:

(1) In many instances, mandates cannot be defined and their cost cannot be measured with satisfactory precision. In many instances, to make even imprecise estimates is a costly enterprise both for the state and for local government.

(2) If the Legislature or the Governor, or both, do not carry out the reimbursement requirement, or, because of the difficulties of definition and measurement, cannot do so, the only possible remedy for local government will be through the courts. It is conceivable that the courts will be able to provide a remedy if the State chooses not to carry out the reimbursement requirement, but such a procedure will be awkward even if it succeeds, for it will require the judicial branch of government to order the other two branches of government to tax and to spend - a responsibility not ordinarily thought of as belonging to the judiciary. It is not, however, probable that the courts will be any more successful than the Legislature at solving the problem

of defining and measuring state mandates that do not lend themselves to definition and measurement. In that situation, additional costs will accrue to local government without reimbursement from the state. Article 29 recognizes the inevitability of this consequence by excluding new crimes and changes in the definition of a crime from the reimbursement requirement. It is certain that other subjects of state mandate will present problems as difficult as those presented by criminal mandates.

## II. Operational Provisions

Section 8 sets forth four specific directives for the Legislature to follow in enacting statutes to implement the reimbursement requirement:

1. If a local government is voluntarily performing a function prior to the time the state mandates its performance, the state must nevertheless reimburse for the mandated cost.

2. Workload increases under an existing program will be excluded from the reimbursement requirement. A possible example is a mandate regarding the number or salary of court personnel.

3. The implementation of statutes existing on the effective date of Article 29 will be excluded from the reimbursement requirement.

4. Statutes defining a new crime or changing the definition of any existing crime will be excluded from the reimbursement requirement.

## Part 4. Income Tax Reductions and Exemption.

Unless the Legislature, by a two-thirds vote, provides otherwise, Article 29 provides for (1) a one-time reduction of up to 20 percent of personal income tax, (2) an ongoing reduction of 7.5 percent of personal income tax, and (3) a personal income tax exemption for single persons having an income of less than $4,000 and married couples having an income of less than $8,000.

### I. The Twenty Percent, One-Time Credit.

Section 2 (b) of Article 29 requires the Controller, on the effective date of Article 29, to determine the amount of the surplus in the General Fund for the 1972-73 fiscal year and to designate "such portion of the surplus as is necessary and available" to pay for a one-time income tax credit of up to 20 percent of personal income taxes. The precise percentage of the credit will be determined by the Director of the Department of Finance, based on the amount of the 1972-73 surplus. If, prior to the effective date of Article 29, the Legislature enacts a personal income tax credit of up to 20 percent to dispose of the 1972-73 surplus, that fulfills this requirement of Article 29.

Given these provisions, the Legislature could dispose of the 1972-73 surplus by postponing the effective date of the 1¢ sales tax increase scheduled for June 1, 1973. If the postponement is for a year or more, the state surplus will be insufficient to fund the 20 percent one-time income tax credit. Moreover, postponing the sales tax increase has the long-term effect of reducing the base upon which the expenditure limitation in Article 29 is calculated. Article 29 provides that the 20 percent, one-time reduction of the income tax is not subtracted from 1973-74 revenues for the purpose of calculating the expenditure limitation. Any postponement of the sales tax increase, on the other hand (including the Governor's proposal on this subject), will reduce 1973-74 revenues for the purpose of calculating the expenditure limitation. A reduction of the expenditure limitation in 1974-75, the first year of its operation, will be carried forward in all subsequent calculations of the expenditure limitation under the declining percentage formula.

The 20 percent, one-time credit against tax liability will not be applicable to tax liability arising from capital gains, from tax preference income, or from estates and trusts. If Article 29 is effective in 1973, the credit will be effective with respect to the 1973 taxable year; if Article 29 is effective in 1974, the credit will be effective with respect to the 1974 taxable year.

Section 2 (b) (3) requires the Legislature to implement the 20 percent, one-time refund with respect to (1) nonresident taxpayers, (2) fiscal year taxpayers and (3) the order of computing the various credits in the personal income tax law. If Article 29 is enacted in 1973, it will be necessary for the Legislature to carry out this directive in time for the Franchise Tax Board to prepare returns for filing by April, 1974. If the Legislature is in recess from September 15, 1973, to January 6, 1974, it might become necessary to call a special session of the Legislature to carry out this directive of Article 29. No special session will be necessary, however, if the Legislature enacts an appropriate statute prior to the proposed September 15, 1973, recess.

The Department of Finance estimates the revenue loss from this provision will be $355 million in 1973-74 if it is effective in 1973 or $400 million in 1974-75 if it is effective in 1974.

## II. The 7.5 Percent, Ongoing Credit

Section 4 (b) of Article 29 provides that state personal income tax liability shall be reduced by a 7.5 percent credit, unless the Legislature, by a two-thirds vote, provides otherwise. Unlike the 20 percent, one-time credit, this ongoing credit will be applicable to tax liability arising from capital gains, from tax preference income, or from estates and trusts. If Article 29 is enacted in 1973, this credit will be effective in the 1974 taxable year, and thereafter; if Article 29 is enacted in 1974, this credit will be effective in the 1975 taxable year and thereafter.

The Department of Finance estimates the revenue loss from this provision, if it is effective in 1973, at $65 million in 1973-74 and $190 million in 1974-75.

## III. Income Tax Exemption.

Article 29 provides that the following persons shall bear no state income tax: (1) single individuals whose adjusted gross income is less than $4,000; (2) married couples and heads-of-households whose adjusted gross income is less than $8,000.[/5]

In Article 29, this exemption appears both in the provisions dealing with the 20 percent credit and in the provisions dealing with the 7.5 percent ongoing credit. In the latter section, the language makes clear that the exemption applies only to state taxation and would not necessarily apply to a local income tax. In the former section, the language does not restrict the exemption to state taxation, but the context of the language leads to that conclusion. Therefore, whether this exemption applies to any local income tax that may be authorized is a question to be resolved.

The Department of Finance estimates the revenue loss from this provision will be $7 million in 1973-74 and $5 million in 1974-75 if it is effective in 1973. The department estimates that this exemption will move approximately 300,000 returns from a tax liability status to a no tax liability status. The Department of Finance estimates that about 100,000 of these are returns filed by single taxpayers, about 150,000 are returns filed by married taxpayers, and about 50,000 are returns filed by head-of-household taxpayers.

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/5 This exemption also applies to the tax on tax preference income. Thus a taxpayer with a low or a negative adjusted gross income will not have to pay the two percent tax on such items as capital gains income, depletion allowances, and special depreciation allowances.

## III. Income Tax Rate Freeze

Section 4 (b) of Article 29 provides that, for the 1974 taxable year and thereafter, tax rates in the personal income tax law will be frozen at the rates in effect on January 1, 1973. But Section 4 (b) goes on to say that this provision can be modified by a two-thirds vote of the Legislature. Thus, Article 29 does not freeze into the Constitution income tax rates at their January 1, 1973, level.

## Part 5. Change in Voting Requirements on Revenue Measures

Article 29 revises the present constitutional rules governing the passage of laws affecting state taxation.

Present law authorizes the Legislature to change the rate or base of a tax by a majority vote, except measures (1) imposing a tax on banks and corporations, or (2) changing the rate of the gross premiums tax on insurers, either of which must be enacted by a two-thirds vote. Also, changes in constitutional provisions regarding taxation require both a two-thirds vote of the Legislature and a majority vote of the electorate. Under the present system, the Legislature, for example, can change sales and income tax rates by a majority vote, can enact sales tax exemptions and income tax deductions by a majority vote, and can authorize local government to impose a sales tax or a personal income tax by a majority vote.

Article 29 provides as follows:

1. The imposition of any new tax by the Legislature will require a two-thirds vote.

2. Changing the rate or base of any state tax will require a two-thirds vote. This provision will apply not only to tax increases but also to tax exemptions and tax deductions. Changing the payment date of any tax will continue to require a majority vote.

3. No local government (including school districts) may impose an income tax unless the Legislature authorizes the tax by a two-thirds vote. This change increases the vote requirement from a majority to two-thirds and settles the legal question whether charter cities have the power to impose income taxes.

4. Tax refunds or reductions by appropriation out of the Tax Surplus Fund (see above, 35 ) may be enacted by a majority vote. This provision modifies the present constitutional requirement that appropriations require a two-thirds vote.

Part 6. Possible Shift of Costs From the State to Local Government.

A strong possibility exists that Article 29 will have the effect of shifting government costs from the state taxpayer to the local taxpayer and in particular to the local property and sales taxpayer.

This possibility arises from the following factors:

1. If Article 29 operates as its authors intend, the rate of growth of state expenditures will be slowed, and, because two-thirds of the state budget is local assistance, it will become necessary to reduce growth in that part of the budget. We have pointed out the legal difficulty which Section 9(a) may pose in this regard. Despite that difficulty, it will be impossible to fund reductions of the magnitude required by Article 29 from State Operations and Capital Outlay. If the Legislature does curtail growth in the local assistance budget, costs will be shifted to local government and will result in increased tax rates or in the imposition of new taxes.

2. By a four-fifths vote of the governing board, Article 29 authorizes any local government unit to increase property taxes over the limit provided in Article 29. That power is not negated by the fact that such an increase expires after two years unless it is approved by the electorate; the tax can be renewed at any time by another four-fifths vote. Nor is that power negated by the fact that it is conditioned upon the existence of an Emergency Situation, for the declaration of an Emergency Situation is within the discretion of the local governing body. As we have pointed out above, this is a loosening of the maximum tax rate provisions enacted in Chapter 1406 of 1973 (SB 90).

3. The electorate, by a majority vote, may approve local increases in property tax rates, and will be more inclined to do so if state funding of desired services is reduced or eliminated.

4. The Legislature may interpret broadly the power granted in Article 29 to authorize an increase in local property tax rates in "circumstances creating hardship for individual local entities."

5. Qualifications, exceptions, and inherent flaws in the requirement that the state reimburse local government for state mandated costs probably will lead to increased local costs.

6. Article 29 authorizes the Legislature by a majority vote to authorize increases in the local sales tax rate. Article 29 requires a two-thirds vote by the Legislature to authorize a local income tax.

## Chapter 4

### Estimated Reduction in State Expenditures if the Governor's Limitation Plan Had Been Adopted in 1966

Last February we were asked to make a preliminary estimate of the financial implications of this limitation plan, assuming it had been approved by the voters at the November 1966 election, and had become operative starting with the 1967-68 Budget. At that time we only had the Governor's press release as the basis for making this estimate (the actual wording of the initiative was not available until March 30, 1973) and there were uncertainties over the composition of the so-called $9.8 billion revenue base. Based on this limited information, we concluded that the adoption of this program would have resulted in a $3 billion, or 31 percent, reduction in 1973-74 state revenues.

Since that time the Governor's office has reduced the tax limit base from $9.8 billion to $9.3 billion. In addition, we have reduced it another $.3 billion to $9.0 billion based on a Legislative Counsel's opinion as to the status of income to the Veterans' Farm and Home Loan Building Fund. Also, we have followed the wording of the initiative and have excluded $215 million in federal revenue sharing proceeds which will be used to support local schools, and $93 million of other receipts, such as fishing and hunting licenses, beach and park fees, and intergovernmental transfers. We have also excluded $230 million of school expenditures (SB 90) from the expenditure limit, because Section 10-a of the initiative provides that state funds used to roll back property tax rates are exempt from the limitation.

After making these adjustments, we now conclude that if this limitation had been adopted in 1966, 1973-74 expenditures would have to be reduced by $2,351 million, or 25.5 percent. Had it not been for the adoption of federal revenue sharing, this reduction would have totaled $2,582 million. Table 10 summarizes our calculations and findings.

Table 10

Derivation of Revenue Control Limitation and Expenditure Reductions Required
1967-68 to 1973-74
(In Millions)

| | | Limitation | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Fiscal Year | California Personal Income/1 | Percentage | Amount | Special Adjustments | Federal Revenue Sharing And Other Excluded Items | Total Avail-able | Existing Expenditures | Expenditure Reduction Required |
| 1966-67 | $ 65,156 | 6.22% | $4,052 | | $ 67 | $4,119 | $4,192 | -- |
| 1967-68 | 69,936 | 6.14 | 4,294 | $+194/2 | 52 | 4,540 | 4,734 | $ 194 |
| 1968-69 | 76,867 | 6.06 | 4,658 | +8/3 | 86 | 4,752 | 5,353 | 601 |
| 1969-70 | 83,192 | 5.98 | 4,975 | +16/3 | 95 | 5,086 | 6,075 | 989 |
| 1970-71 | 88,825 | 5.90 | 5,241 | | 96 | 5,337 | 6,341 | 1,004 |
| 1971-72 | 94,118 | 5.82 | 5,478 | +170/2 | 98 | 5,746 | 6,696 | 950 |
| 1972-73 | 102,220 | 5.74 | 5,867 | | 326 | 6,193 | 7,542 | 1,349 |
| 1973-74 | 111,535 | 5.66 | 6,313 | +230/4 | 303 | 6,846 | 9,197 | 2,351 |

/1 Income for calendar year in which the fiscal year commences.
/2 To repay prior year borrowings.
/3 Between June 1 and August 31, 1969 an additional one cent per gallon tax on gasoline and diesel fuel was imposed to finance repairs to roads that were damaged by severe floods early in 1969. (See pages A-43 and A-44 of the 1970-71 Governor's Budget.)
/4 Refer to Section 10(a) of the Governor's Initiative.
The limitation would be increased by $230 million for property tax relief in school programs, authorized under [illegible]ter 1406 (SB 90) Statutes of 1972.

The starting point for calculating this limitation was the $4,052 million in state revenues for 1966-67 (Column 4 in Table 10). This amount was then divided by the $65,156 million personal income figure for calendar 1966, which produced a percentage of 6.22. This base percentage was then reduced in each successive year, starting with 1967-68, by 8/100 of one percent. This percentage reduction, using a lower base, is comparable to the proposed 10/100 of one percent reduction contained in the initiative.

In calculating the expenditure reductions for each fiscal year, starting with 1967-68, we followed the procedure of first deducting new programs that were enacted during the year, and if this were not sufficient, then pro rata reductions were made in controllable (Budget Act) expenditures. For example, in 1967-68, actual expenditures (after all adjustments, including the "Emergency Fund" payback of the 1966-67 carryover deficit) would have exceeded the limitation by $194 million. Therefore, it would <u>not</u> have been possible within this limitation to enact the $168 million increase in school funds pursuant to AB 272 (Chapter 1209, Statutes of 1967). Because this reduction, by itself, would not have been sufficient, the new cigarette tax revenue sharing program for cities and counties was reduced from $46 million to $20 million.

In 1968-69, actual expenditures would have been $601 million above the limitation, thus necessitating the following program reductions or eliminations:

| | | Millions |
|---|---|---|
| 1. | Eliminate senior citizens' property tax relief | $ - 8 |
| 2. | Eliminate the $70 homeowners' rebate/1 | -176 |
| 3. | Eliminate all of city and county shared cigarette tax revenues | - 70 |
| 4. | Eliminate higher education program increases for scholarships and student loans | - 3 |
| 5. | Eliminate second year expenditures for increased school aid (AB 272 - 1967 Session) | -164 |
| 6. | Reduce budget act appropriations | -180 |
| | Total reductions | $ -601 |

/1 Even though this program was approved by the voters, it was funded out of the proceeds of SB 556, the Governor's 1967 Tax Program, which could not have been enacted under this limitation.

In subsequent years, the same procedure was followed to ascertain which programs would have to be reduced or eliminated. Table 12 summarizes the results for 1973-74, and they indicate that state support for local education would be cut by 30.4 percent, higher education expenditures would be reduced by 15.7 percent, and the entire property tax relief program, including the homeowners' exemption, renters' relief, senior citizens' relief, and the business inventory exemption would be eliminated. About two-thirds of the required reductions (Table 11) would occur in statutory programs, by preventing their enactment.

Table 11

Comparisons Between Existing Expenditures
and Total Reductions Required by the
Governor's Limitation

1973-74 Data

| | Existing Expenditures | | Total Reductions | |
|---|---|---|---|---|
| | Amount (millions) | Percent | Amount (millions) | Percent |
| Fixed by Constitution | $1,398 | 15.2% | $ 277 | 11.8% |
| Fixed by Statute | 4,094 | 44.5 | 1,559 | 66.3 |
| Authorized by Budget Act | 3,705 | 40.3 | 515 | 21.9 |
| Total | $9,197 | 100.0% | $2,351 | 100.0% |

Table 12

Summary of 1973-74 Program Reductions
Required to Meet Expenditure Limitation

(In Millions)

| Program | Estimated Expenditures | Required Reduction | Percentage Reduction |
|---|---|---|---|
| Education | $2,435 | $ 740/1 | 30.4% |
| Higher Education | 851 | 134 | 15.7 |
| Social Welfare | 859 | 125 | 14.6 |
| Department of Health | 963 | 147 | 15.3 |
| Corrections and Youth Authority | 213 | 27 | 12.7 |
| Property Tax Relief | 979 | 979 | 100 |
| Shared Revenue | 737 | 76 | 11.5 |
| Debt Service | 175 | 0 | 0 |
| Public Works | 501 | 0 | 0 |
| Salary Increase | 226 | 0 | 0 |
| Nongovernmental Cost Funds | 160 | 0 | 0 |
| Other | 1,098 | 123 | 11.2 |
| Total Estimated Expenditure | $9,197 | | |
| Total Expenditure Reduction Required | | $2,351 | |
| Percentage Reduction Required | | | 25.5% |

/1 This reduction does not include the $230 million in Chapter 1406, Statutes of 1972 (SB 90) which will be used to reduce school property tax rates, because such an expenditure is exempt from the state tax limitation, (Section 10a).

Table 13 contains the details on each program reduction, using 1973-74 Budget estimates. The reductions are divided among (1) Budget Act, (2) statutory, and (3) constitutional changes. The last category relates to the homeowners' exemption and it would not have been possible to fund this program within the expenditure limitations.

Table 13

Detail of 1973-74 Program Reductions

| Program | Millions |
|---|---|
| 1. EDUCATION | |
| Statutory: | |
| Increased school financing (SB 90, Chapter 1406, Statutes of 1972) | $224 |
| Increased basic aid (AB 606, Chapter 784, Statutes of 1969); Increased basic aid and aid to low wealth school districts (AB 272, Chapter 1209, Statutes of 1967) | 468 |
| Budget Act: | |
| New or Increased Programs: | |
| Increase in Miller-Unruh and Children's Centers program | 18 |
| Unspecified further reductions | 30 |
| Total Education Reductions | $740 |
| Percentage Reduction | 30.4% |
| 2. HIGHER EDUCATION | |
| Budget Act: | |
| New or Increased Programs: | |
| Increase in scholarship programs | $ 18 |
| New programs--includes college opportunity grants ($6.0 million) Medical School Contract program ($1.0 million), New Graduate Fellowship program ($1.1 million), Occupational Training Grants ($0.6 million), and Special Clinical Intern programs ($0.5 million) | 9 |
| New Economic Opportunity Programs: | |
| Community Colleges | 5 |
| State University and Colleges | 4 |
| State University and Colleges Innovation program | 2 |
| Unspecified further reductions | 96 |
| Total Higher Education Reductions | $134 |
| Percentage Reduction | 15.7% |

| Program | Millions |
|---|---|
| 3. SOCIAL WELFARE | |
| Statutory: | |
| Exempts $7.50 of income of adult aid recipient (AB 1712, Chapter 1520, Statutes of 1970) | $ 13 |
| Welfare Reform Act--AFDC cost of living increase (SB 796, Chapter 578, Statutes of 1971) | 15 |
| Provides $2 grant increase (SB 90, Chapter 1406, Statutes of 1972) | 12 |
| Changed BHI sharing ratio (AB 2089, Chapter 1371, Statutes of 1972) | 7 |
| Potential HR 1 cost | 42 |
| Budget Act: | |
| New or Increased Programs: | |
| Established Out-of-Home Care program (SB 999, Chapter 660, Statutes of 1969) | 22 |
| Unspecified further reductions | 14 |
| Total Social Welfare Reduction | $125 |
| Percentage Reduction | 14.6% |
| 4. DEPARTMENT OF HEALTH | |
| Budget Act: | |
| New or Increased Programs: | |
| Short-Doyle--revises cost sharing formula from 75/25 to 90/10 (AB 1454, Chapter 989, Statutes of 1968) | $ 37 |
| Unspecified further reductions | 110 |
| Total Department of Health Reduction | $147 |
| Percentage Reduction | 15.3% |
| 5. DEPARTMENTS OF CORRECTIONS AND THE YOUTH AUTHORITY | |
| Budget Act: | |
| New or Increased Programs: | |
| Increase security staffing (408 positions) and psychiatric staffing (80 positions) in 1972-73 budget | $ 2 |

| Program | Millions |
|---|---|
| Unspecified further reductions | $ 25 |
| Total Corrections and Youth Authority Reduction | $ 27 |
| Percentage Reduction | 12.7% |

6. PROPERTY TAX RELIEF

| | |
|---|---|
| Constitutional: | |
| New Programs: | |
| Homeowners' Property Tax Relief ($750 exemption) | $277 |
| Statutory: | |
| New Programs: | |
| Senior Citizens', Business Inventory, Open Space, Renters', and Homeowners' (that part above $750 constitutional exemption) | 702 |
| Total Property Tax Relief Reduction | $979 |
| Percentage Reduction | 100% |

7. SHARED REVENUES

| | |
|---|---|
| Statutory: | |
| Cigarette Tax apportionments (SB 556, Chapter 963, Statutes of 1967) | $ 76 |
| Total Shared Revenue Reduction | $ 76 |
| Percentage Reduction | 11.5% |

8. OTHER (CATEGORY)

| | |
|---|---|
| Budget Act - Unspecified Programs: | $123 |
| Total "Other" Reductions | $123 |
| Percentage Reduction | 11.2% |
| Grand Total Reduction | $2,351 |
| Total Percentage Reduction | 25.5% |

# State Expenditures 1967-68 to 1973-74
(In Millions)

| | Actual 1967-68 | 1968-69 | 1969-70 | 1970-71 | 1971-72 | Estimated 1972-73 | Propose[d] 1973-7[4] |
|---|---|---|---|---|---|---|---|
| **Education** | | | | | | | |
| Fixed by Constitution | $ 853 | $ 889 | $ 889 | $ 941 | $ 941 | $ 943 | $ 946 |
| Fixed by Statute | 412 | 430 | 536 | 513 | 538 | 668 | 1,216 |
| Budget Act | 138 | 169 | 177 | 193 | 119 | 227 | 27 |
| Subtotal | $ 1,403 | $ 1,488 | $ 1,602 | $ 1,647 | $ 1,598 | $ 1,838 | $ 2,435 |
| **Higher Education** | | | | | | | |
| Budget Act | $ 444 | $ 542 | $ 630 | $ 662 | $ 675 | $ 799 | $ 851 |
| **Debt Service** | | | | | | | |
| Fixed by Constitution | $ 121 | $ 123 | $ 132 | $ 141 | $ 159 | $ 171 | $ 175 |
| **Social Welfare** | | | | | | | |
| Fixed by Statute | $ 394 | $ 457 | $ 520 | $ 642 | $ 657 | $ 625 | $ 680 |
| Budget Act | 29 | 32 | 76 | 83 | 94 | 161 | 137 |
| Potential HR 1 Cost | -- | -- | -- | -- | -- | -- | 42 |
| Subtotal | $ 423 | 489 | 596 | 725 | 751 | 786 | 859 |
| **Medical Assistance** | | | | | | | |
| Budget Act | $ 208/1 | $ 324 | $ 388 | $ 484 | $ 504 | $ 594 | $ 96 |
| **Mental Hygiene** | | | | | | | |
| Budget Act | $ 217 | $ 235 | $ 268 | $ 292 | $ 306 | $ 264 | |
| **Corrections and Youth Authority** | | | | | | | |
| Budget Act | $ 130 | $ 145 | $ 162 | $ 171 | $ 182 | $ 208 | $ 21 |
| **Property Tax Relief** | | | | | | | |
| Fixed by Constitution | -- | $ 176 | $ 200 | $ 218 | $ 232 | $ 243 | $ 27 |
| Fixed by Statute | -- | 8 | 57 | 99 | 130 | 206 | 702 |
| Subtotal | -- | $ 184 | $ 257 | $ 317 | $ 362 | $ 449 | $ 979 |
| **Shared Revenues** | | | | | | | |
| Fixed by Statute | $ 545 | $ 567 | $ 595 | $ 629 | $ 667 | $ 701 | $ 73 |
| **Public Works** | | | | | | | |
| Fixed by Statute | $ 426 | $ 512 | $ 572 | $ 486 | $ 459 | $ 518 | $ 501 |
| **Salary Increases** | | | | | | | |
| Budget Act | $ /3 | $ /3 | $ /3 | $ /3 | $ /3 | $ /3 | $ 226 |
| **Other** | | | | | | | |
| Fixed by Statute | $ 34 | $ 34 | $ 38 | $ 33 | $ 36 | $ 69 | $ 56 |
| Budget Act | 532 | 624 | 735 | 626 | 675 | 994 | 1,042 |
| Subtotal | $ 566 | $ 658 | $ 773 | $ 659 | $ 711 | $ 1,063 | $ 1,098 |
| Total Governmental Cost Funds | $ 4,484 | $ 5,267 | $ 5,975 | $ 6,213 | $ 6,374 | $ 7,391 | $ 9,037 |
| Nongovernmental Cost Funds | 56 | 86 | 100 | 128 | 152 | 151 | 160 |
| Overall Total | $ 4,540 /4 | $ 5,353 | $ 6,075 | $ 6,341 | $ 6,526 /4 | $ 7,542 | $ 9,197 |

/1 Medical assistance was fixed by statute through 1967-68.
/2 Department of Health.
/3 Distributed to various programs 1967-68 to 1972-73.
/4 Does not include repayment of carryover debt.

The details on existing expenditures are shown in Table 14. These data were used as the starting point to calculate the impact of the Governor's limitation program, and is inserted herein as a reference source. The repayment of carryover borrowings in 1967-68 and 1971-72 were added to these totals when computing the required expenditure reductions in Table 10.

## Chapter 5

### Projected Impact of the Governor's Limitation on Future State Budgets, 1974-75 to 1977-78

#### Introduction

To make this analysis of future impact, we first projected personal income and state revenues under existing law. Second, we made workload projections of existing expenditure programs. Third, we compared these workload expenditure projections with the Governor's limitation plan to determine the magnitudes, by year, of the reductions that would be required in these workload budgets.

These calculations are based on the law as it exists on April 30, 1973. If the Governor's legislative program (SB 238) to return the current year's General Fund surplus is enacted, and still contains the postponement of the sales tax during 1973-74, then this action will reduce the tax limitation base for 1973-74 and all subsequent years. Other future legislation could likewise affect these calculations.

#### Personal Income Projection

The starting point for estimating revenues is a reliable projection of personal incomes. To obtain this, we contracted with Professor Donald Ratajczak of the UCLA Business Forecasting Project because his work at UCLA has demonstrated a high degree of accuracy in forecasting economic results over the last several years. The basic assumptions which are incorporated into his five-year forecast of California income include the following:

1. Growth in population is estimated at 1.2 percent in 1973, rising to 1.5 percent in 1976, and then dropping slightly to 1.4 percent in 1977.

2. Consumer price increases are estimated to increase at a 5.0 percent rate during 1973, dropping to a 4.5 percent rate in 1974, and then growing about 3.0 percent annually thereafter.

3. Employment is projected to increase from 8.6 million in 1973 to 9.5 million in 1977. The rate of growth is expected to decline in 1974, then accelerate in 1975 and 1976, and stabilize at about 222,000 new jobs in 1977.

4. The unemployment rate is forecast at 5.4 percent for the current year, declining gradually to 4.8 percent by 1977.

Professor Ratajczak forecasts that California personal income will total $111.6 billion in 1973, a 9.4 percent increase over 1972. He projects that personal income will increase by 7.5 percent in 1974, over 8 percent in 1975 and 1976, and 6.5 percent in 1977. These variations in growth rates are attributable to a combination of the high inflationary rates during 1973 and 1974, which will have a lagged impact on wage increases during the next two years, and an anticipated slowdown in the 1974 economy. Details of these personal income and employment growth estimates are contained in Appendix G.

Revenue Projections - Existing Law

Our revenue projections generally are based on the elasticity relationship of individual taxes to the growth in personal income. These relationships were obtained by examining revenues, adjusted for law changes, over the ten-year period, 1963 to 1972, and then relating changes in population, aggregate income, and per capita income.

Our revenue projections, including both General and Special Funds, are contained in Table 15, and they indicate an average four-year growth rate of 8.3 percent, which is slightly higher than the 7.7 percent average increase in personal incomes. This table also indicates that current state revenues, plus federal revenue sharing proceeds, will exceed projected workload expenditures, thereby producing current surpluses from $82 million in 1974-75, to $366 million in 1976-77, and then declining to $197 million in 1977-78, if the federal revenue sharing program terminates.

Table 15

Projection of State Expenditures and Revenues
Under Existing Law - General and Special Funds
(Nongovernmental Cost Funds Excluded)

(In Millions)

| Year | Estimated State Revenues | Federal Revenue Sharing | Total Available Revenues | Estimated State Expenditures | Current Surplus |
|---|---|---|---|---|---|
| 1973-74 | $ 8,949 | $210 | $ 9,159 | $ 9,037 | $122 |
| 1974-75 | 9,660 | 215 | 9,875 | 9,793 | 82 |
| 1975-76 | 10,518 | 220 | 10,738 | 10,523 | 215 |
| 1976-77 | 11,498 | 170 | 11,668 | 11,302 | 366 |
| 1977-78 | 12,318 | - | 12,318 | 12,121 | 197 |

Revenue Projections - Governor's Program

Table 16 illustrates the possible effect of the Governor's limitation on state revenues over the next four budget years starting with 1974-75. These estimates show the exclusions and tax credits provided by the initiative, and also contain the nongovernmental cost fund receipts specified as being subject to the limitation. This table indicates that net revenues will be below the limitation in 1974-75 (due to the tax credits), exceed it by $129 million in 1975-76, and this excess, which will be transferred to the Tax Surplus Fund, will grow to $573 million in 1977-78.

Table 16

Effect of Governor's Limitation Plan on State Revenues
For Period 1973-74 Through 1977-78

(In Millions)

| Year | Estimated State Revenues Under Existing Law | Less Revenue Not Subject To Limitation | Plus Non-Gov't Cost Fund Receipts | Less Personal Income Tax Credit /1 | Net Revenues Subject To Limitation | State Revenue Limit | Amount Transferred To Tax Surplus Fund |
|---|---|---|---|---|---|---|---|
| 1973-74 | $ 8,949 | -$ 93 | $160 | -$ 72 | $ 8,944 | $ -- | $ -- |
| 1974-75 | 9,660 | - 100 | 170 | - 195 | 9,535 | 9,575 | -- |
| 1975-76 | 10,518 | - 108 | 180 | - 216 | 10,374 | 10,245 | 129 |
| 1976-77 | 11,498 | - 117 | 190 | - 248 | 11,323 | 10,981 | 342 |
| 1977-78 | 12,318 | - 125 | 200 | - 275 | 12,118 | 11,545 | 573 |

/1 Credit of 7½ percent of personal income tax liability for married taxpayers with incomes of $8,000 and above and single taxpayers with incomes of $4,000 and above, plus 100 percent credit for taxpayers with incomes below those levels.

Workload Expenditure Projection to 1977-78

Expenditure projections to 1977-78 indicate that state costs will increase between seven percent and eight percent per year to finance programs on a workload basis.

Table 17 shows total expenditures, including nongovernmental cost funds, increasing from $9,197 million in 1973-74, to $12,323 million in 1977-78. The separate program categories are anticipated to grow at divergent rates based on demographic and workload factors. It was assumed in preparing these projections, that there will be a continuation of strong economic activity during this period with a gradual tapering off becoming more apparent by 1977-78.

It is emphasized that these are workload projections. There are a number of impending variables that could change these assumptions. For instance, in the social welfare category, potential state costs resulting from HR 1 (P.L. 92-603) are estimated at $84 million per year after 1973-74 (this is about the mid-point of a range of possible costs). Federal cuts in grants-in-aid, about which full information is not yet available, could also affect state costs.

The anticipated 1977-78 expenditure level (including an estimated $202 million in the nongovernmental cost funds category) is distributed by program and also by type of expenditure including: (1) those programs or program portions in which expenditures are fixed by the Constitution; (2) those fixed by continuing statutory authority, and (3) those subject to the Budget Act or other legislation each year. A breakout of the totals for each of these categories follows:

| | 1977-78 Expenditures (Millions) |
|---|---|
| Fixed by Constitution | $ 1,504 |
| Fixed by Statute (including nongovernmental cost funds and potential HR 1 cost) | 5,306 |
| Budget Act | 5,513 |
| Total | $12,323 |

Expenditure
Projection 1973-74 to 1977-78
Workload Basis
(In Millions)

| | 1973-74 | 1974-75 | 1975-76 | 1976-77 | 1977-78 | Projection Factor |
|---|---|---|---|---|---|---|
| **Education** | | | | | | |
| Fixed by Constitution | $ 946 | $ 952 | $ 958 | $ 964 | $ 970 | $ +6 mil./1 |
| Fixed by Statute | 1,216 | 1,316 | 1,424 | 1,541 | 1,667 | 8.2% |
| Budget Act | 273 | 289 | 306 | 324 | 343 | 6% |
| Subtotal | $ 2,435 | $ 2,557 | $ 2,688 | $ 2,829 | $ 2,980 | |
| **Higher Education** | | | | | | |
| Budget Act | $ 851 | $ 906 | $ 965 | $ 1,028 | $ 1,095 | 6.5% |
| **Debt Service** | | | | | | |
| Fixed by Constitution | $ 175 | $ 186 | $ 197 | $ 209 | $ 222 | 6% |
| **Social Welfare** | | | | | | |
| Fixed by Statute | $ 680 | $ 734 | $ 793 | $ 856 | $ 924 | 8% |
| Budget Act | 137 | 148 | 160 | 173 | 187 | |
| Potential HR 1 Cost | 42 | 84 | 84 | 84 | 84 | |
| Subtotal | $ 859 | $ 966 | $1,037 | $1,113 | $1,195 | 8.6% |
| **Department of Health** | | | | | | |
| Budget Act | $ 963 | $ 1,040 | $ 1,123 | $1,235 | $1,375 | Various |
| **Corrections and Youth Authority** | | | | | | |
| Budget Act | $ 213 | $ 226 | $ 239 | $ 254 | $ 269 | 6% |
| **Property Tax Relief** | | | | | | |
| Fixed by Constitution | $ 277 | $ 285 | $ 294 | $ 303 | $ 312 ) | Various |
| Fixed by Statute | 702 | 756 | 786 | 820 | 853 ) | |
| Subtotal | $ 979 | $ 1,041 | $ 1,080 | $ 1,123 | $ 1,165 | |
| **Shared Revenues** | | | | | | |
| Fixed by Statute | $ 737 | $ 774 | $ 812 | $ 852 | $ 894 | 5% |
| **Public Works** | | | | | | |
| Fixed by Statute | $ 501 | $ 526 | $ 552 | $ 580 | $ 609 | 5% |
| **Salary Increases** | | | | | | |
| Budget Act | $ 226 | $ 346 | $ 473 | $ 584 | $ 678 | |
| (Yearly increases) | | (120) | (127) | (111) | ( 94) | Various |
| **New Legislation** | -- | $ 50 | $ 100 | $ 150 | $ 200 | $+50 mil./ |
| **Other** | | | | | | |
| Fixed by Statute | $ 56 | $ 60 | $ 64 | $ 68 | $ 73 ) | 7% |
| Budget Act | 1,042 | 1,115 | 1,193 | 1,277 | 1,366 ) | |
| Subtotal | $ 1,098 | $ 1,175 | $ 1,257 | $ 1,345 | $ 1,439 | |
| Total Governmental Cost Funds | $ 9,037 | $ 9,793 | $10,523 | $11,302 | $12,121 | 7.6% |
| Nongovernmental Cost Funds | $ 160 | 170 | 180 | 191 | 202 | 6% |
| Overall Total | $ 9,197 | $ 9,963 | $10,703 | $11,493 | $12,323 | 7.6% |



/1 Amount per year.

The major impact of expenditure reductions, which would be required if the Governor's limitation is approved, most likely would fall in the Budget Act category since changes in law or the Constitution would be required in the other categories. Because certain programs such as higher education, corrections and youth authority, and the Department of Health are funded entirely from the Budget Act or other special legislation, most pressure for reductions could therefore be expected in these programs.

Derivation of the Expenditure Control Limitation

Table 19 and 19A show two derivations of the Governor's expenditure limitation using our estimates of personal income. In each case, we started by using the Governor's revenue estimate of $9,309 million in 1973-74 (Table 9 in Chapter 3), and then excluding $293 million of income to the Veterans' Farm and Home Loan Fund because the Legislative Counsel states that these receipts are not in the limitation base. Table 19 used the net figure of $9,016 million, and the estimate is based on the law as it exists today (April 30, 1973).

In Table 19A, we made an additional deduction for the possible future enactment of the Governor's legislative program (SB 238 and AB 148), which among other changes would postpone the sales tax increase to January 1, 1974, thus reducing 1973-74 revenues by $317 million. Under this condition, the Governor's limitation base would be $8,699 million in 1973-74, which is 7.79 percent of California personal income.

The initiative provides that state expenditures can be financed by certain excluded revenues (fish and game licenses, park and recreation fees, intergovernmental transfers), and by federal revenue sharing proceeds. Therefore, these amounts ($93 million and $210 million) were added to the limitation bases, and the totals were then compared to our estimates of workload expenditures.

Table 18 summarizes the budgetary reductions that would have to be made. During 1974-75, for example, workload expenditures would have to be reduced by either $79 million (Table 19) or $420 million (Table 19A). By 1977-78, when federal revenue sharing proceeds (under existing law) will not be available to partially offset the impact of this initiative, the reductions will be either $672 million (Table 19) or $1,099 million (Table 19A). If federal revenue sharing is continued beyond calendar 1976, then there is a possibility these latter reductions could be reduced by about $200 million a year.

This material indicates that:

1. It would appear to be imprudent for the Legislature to enact the Governor's program (SB 238 in its present form) to return the current surplus to the taxpayers, or any other measure (such as changes in revenue accruals) which significantly reduces the initiative's 1973-74 limitation base, because such actions will magnify expenditure reductions in the future, to the point of impracticality.
2. State expenditures will be reduced to the 7.0 percent of personal income level much faster than the Governor predicted. His report indicated that it would take about 15 years to reach the initiative's goal. Our estimates indicate that this "goal" will be reached in either the eighth (Table 19A) or the 11th (Table 19) year, which means that expenditures will decline faster than the Governor anticipated.

Table 18

Required Reductions in State Expenditures if the Governor's Limitation Plan is Adopted

(In Millions)

| Year | Without SB 238 | With the Enactment of SB 238 |
|---|---|---|
| 1974-75 | -$ 79 | -$ 420 |
| 1975-76 | - 141 | - 510 |
| 1976-77 | - 240 | - 641 |
| 1977-78 | - 672 | - 1,099 |

Table 19

Derivation of the Governor's Limitation and Resulting Reductions in Expenditures,
Without SB 238
1973-74 to 1977-78
(In Millions)

| Fiscal Year | California Personal Income /1 | Governor's Limitation | | Federal Revenue Sharing | Other Excluded Revenues | Total Available For Expenditure | Estimated Workload Expenditures | Expenditure Reductions Required |
|---|---|---|---|---|---|---|---|---|
| | | Percentage | Amount | | | | | |
| 1973-74 | $111,616 | 8.078 | $ 9,016 | $210 | $ 93 | $ 9,319 | $ 9,197 | -- |
| 1974-75 | 120,018 | 7.978 | 9,575 | 215 | 94 | 9,884 | 9,963 | $ 79 |
| 1975-76 | 130,045 | 7.878 | 10,245 | 220 | 97 | 10,562 | 10,703 | 141 |
| 1976-77 | 141,180 | 7.778 | 10,981 | 170 | 102 | 11,253 | 11,493 | 240 |
| 1977-78 | 150,367 | 7.678 | 11,545 | -- | 106 | 11,651 | 12,323 | 672 |

/1 Income for calendar year in which the fiscal year commences.

Table 19A

Derivation of the Governor's Limitation and Resulting Reductions in Expenditures
With the Enactment of SB 238
1973-74 to 1977-78
(In Millions)

| Fiscal Year | California Personal Income/1 | Governor's Limitation | | Federal Revenue Sharing | Other Excluded Revenues | Total Available For Expenditure | Estimated Workload Expenditure | Expenditure Reductions Required |
|---|---|---|---|---|---|---|---|---|
| | | Percentage | Amount | | | | | |
| 1973-74 | $111,616 | 7.794 | $ 8,699 | $210 | $ 93 | $ 9,002 | $ 9,197 | $ -- |
| 1974-75 | 120,018 | 7.694 | 9,234 | 215 | 94 | 9,543 | 9,963 | 420 |
| 1975-76 | 130,045 | 7.594 | 9,876 | 220 | 97 | 10,193 | 10,703 | 510 |
| 1976-77 | 141,180 | 7.494 | 10,580 | 170 | 102 | 10,852 | 11,493 | 641 |
| 1977-78 | 150,367 | 7.394 | 11,118 | -- | 106 | 11,224 | 12,323 | 1,099 |

/1 Income for calendar year in which the fiscal year commences.

Table 19 showed that $11,651 million would be the total amount available for expenditure in 1977-78. Subtracting this amount from estimated workload expenditures indicates a $672 million or 5.5 percent reduction.

Of the total expenditures, the Budget Act category will account for $5,513 million, and the remainder consists of constitutional and statutory fixed costs. Most of the pressure for budgetary reductions will be centered in the Budget Act category. If all the reductions were made in this category, then the percentages would be 12.2 percent without SB 238, and 19.9 percent with the enactment of the Governor's tax surplus refund program.

Table 20 compares the reductions, by program, that would be required during 1977-78 in Budget Act workload expenditures if the Governor's initiative is adopted.

Table 20

Estimated Reduction in 1977-78
Budget Act Expenditures
From the Enactment of the
Governor's Limitation

(In Millions)

| Program | Workload Expenditures | Required Reductions Without SB 238 | Required Reductions With SB 238 |
|---|---|---|---|
| Higher Education | $1,095 | -$133 | -$219 |
| Department of Health | 1,375 | - 168 | - 274 |
| Corrections & Youth Authority | 269 | - 33 | - 54 |
| Local Education/1 | 343 | - 42 | - 68 |
| Social Welfare/1 | 187 | - 23 | - 37 |
| Other/2 | 2,244 | - 273 | - 447 |
| Total | $5,513 | -$672 | -$1,099 |

/1 Budget Act portion.

/2 Includes salary increases, new legislation and also various state agencies such as Highway Patrol, Motor Vehicles, etc., partly or wholly funded in the Budget Act category.

# APPENDIX A

## Table A

### Comparison of State Taxes and Revenues in the Governor's Budget vs. Those Used by the Governor's Office to Estimate the Tax Burden on Californians

1969-70 Data in Millions

| | Sources | In Governor's Budget (a) | Governor's Office Tax Burden Estimate | Difference |
|---|---|---|---|---|
| I. | Major Taxes and Licenses | $5,409 | $5,410 | +$ 1 |
| II. | Other Revenues | | | |
| | Corporate License Fees | $ 7 | $ 3 | |
| | Public Utility Fees | 5 | 2 | |
| | Occupational Licenses | 30 | 48 | |
| | Hunting and Fishing Licenses | 14 | 14 | |
| | Beach and Park Charges | 6 | 9 | |
| | Agricultural Fees | 12 | 20 | |
| | Hospital Charges | 83 | 80 | |
| | Rents and Royalties | 29 | 42 | |
| | Fines and Penalties | 23 | 24 | |
| | Interest Earnings | 81 | 173 | |
| | Sale of Property | 5 | 21 | |
| | Other | 38 | 126 | |
| | Total Other Revenues | $ 333 | $ 562 | +$229 |

Table A (Continued)

| Sources | In Governor's Budget (a) | Governor's Office Tax Burden Estimate | Difference |
|---|---|---|---|
| III. Nonbudget Funds | | | |
| A. Current Charges | | | |
| Higher Education Auxiliary Enterprises | | $ 89 | |
| Other Education Charges | | 116 | |
| Highway Toll and Other Charges | | 54 | |
| Donations (mainly to U.C.) | | 31 | |
| Subtotal | | $ 290 | |
| B. Employee and Insurance Trust Income | | | |
| 1. Employees Retirement | | | |
| Employee Contribution | | $ 376 | |
| Local Government Contribution | | 189 | |
| Earnings on Investments | | 268 | |
| 2. Unemployment Compensation | | | |
| Employer Contributions | | $ 531 | |
| Earnings on Investments | | 60 | |
| 3. Workmen's Compensation | | | |
| Employer Contributions | | $ 105 | |
| Earnings on Investments | | 13 | |
| 4. Other Insurance Trust Activities | | 312 | |
| Subtotal - Insurance Trust Income | $ 0 | $1,854 | |
| Total Nonbudget Funds | $ 0 | $2,144 | +$2,144 |
| Totals | $5,742 | $8,116 | +$2,374 |

(a) Actual collections for 1969-70 as shown in Schedule 2 on page B-2 of the Governor's 1971-72 Budget.

Table B

State Government "Revenues" Collected from "Californians"

1969-70 Data

| Sources | | Millions |
|---|---|---|
| 1. General (Retail) Sales Tax | | $1,757 |
| 2. Selected Sales Taxes | | |
| Motor vehicle fuel | $673 | |
| Alcoholic beverage | 106 | |
| Cigarettes | 235 | |
| Insurance tax | 135 | |
| Motor vehicle truck tax | 23 | |
| Horseracing fees | 60 | |
| Agricultural and marketing fees | 20 | |
| Total Selected Sales Taxes | | 1,252 |
| 3. Individual Income Tax | | 1,151 |
| 4. Corporation Income Tax | | 588 |
| 5. Licenses | | |
| Motor vehicle registration fees | $259 | |
| Motor vehicle operators' fees | 12 | |
| Corporation license fees | 3 | |
| Public utility fees | 2 | |
| Alcoholic beverage licenses | 20 | |
| Occupational and business licenses | 48 | |
| Hunting and fishing licenses | 14 | |
| Other licenses | 1 | |
| Total License Fees | | 359 |
| 6. Property Taxes | | |
| Motor vehicle in lieu taxes | $230 | |
| Private car tax | 4 | |
| Total Property Taxes | | 234 |
| 7. Other Revenues | | |
| (a) Current Charges | | |
| Higher education auxiliary enterprises | $ 89 | |
| Other higher education charges | 112 | |
| Other education charges | 4 | |
| Highway toll charges | 41 | |
| Other highway charges | 13 | |
| Hospital charges | 80 | |
| Natural resource charges | 11 | |
| Forestry and park charges | 9 | |
| Other charges | 87 | |
| Subtotal Current Charges | $446 | |
| (b) Miscellaneous General Revenue | | |
| Sale of property | $ 21 | |
| Interest earnings | 173 | |
| Fines and forfeits | 24 | |
| Rents and royalties | 42 | |

Table B (Continued)

| Sources | | Millions |
|---|---|---|
| Donations | $ 31 | |
| Miscellaneous general revenue | 26 | |
| Subtotal - Miscellaneous General Revenue | $317 | |
| (c) Death and Gift Taxes | 157 | |
| (d) Severance Taxes | 1 | |
| Total Other Revenue | | 921 |
| 8. Employee and Insurance Trust Income | | |
| (a) Employees' Retirement | | |
| Employee contributions | $376 | |
| Local government contributions | 189 | |
| Earnings on investments | 268 | |
| (b) Unemployment Compensation | | |
| Employer contributions | $531 | |
| Earnings on investments | 60 | |
| (c) Workmens' Compensation | | |
| Employer contributions | $105 | |
| Earnings on investments | 13 | |
| (d) Other Insurance Trust Activities | | |
| Contributions | $305 | |
| Earnings on investments | 7 | |
| Total Employee and Insurance Trust Income | | 1,854 |
| Total State Government "Revenues" | | $8,116 |
| California Personal Income in Calendar 1969 | | $83,192 |
| Governor's Definition of "State Revenues" as a Percent of California Personal Income | | 9.76% |

Sources:

Revenue categories are from Table 1, page 32 of the Governor's March 12, 1973 report on "Revenue Control and Tax Reduction".

Details of revenues in each category are from the U. S. Department of Commerce, Bureau of the Census report " State Government Finances in 1970", pp 19 to 26.

# APPENDIX C

## Table C

## Local Government "Revenues" Collected From "Californians"

### 1969-70 Data in Millions

| Sources | | Millions |
|---|---|---|
| 1. Local Property Taxes | | $4,998 |
| 2. Other Taxes | | |
| Retail sales | $431 | |
| Public utility taxes | 37 | |
| Other sales taxes | 54 | |
| Licenses, permits and other taxes | 143 | |
| Total Other Taxes | | 665 |
| 3. Charges and Miscellaneous Revenue | | |
| Airports | $ 65 | |
| Miscellaneous commercial activities | 46 | |
| School lunches | 133 | |
| Other school receipts | 38 | |
| Higher education receipts | 30 | |
| Hospital charges | 431 | |
| Highways | 16 | |
| Housing and urban renewal | 30 | |
| Parking facilities | 16 | |
| Parks and recreation | 60 | |
| Sewage charges | 68 | |
| Water transportation terminals | 51 | |
| Other miscellaneous charges | 60 | |
| Special assessments | 172 | |
| Sale of property | 77 | |
| Interest earnings | 45 | |
| Miscellaneous other revenue (fines, forfeits) | 287 | |
| Donations, insurance adjustments | 200 | |
| Total Charges and Miscellaneous Revenue | | 1,825 |
| Total Local Government "Revenue" | | $7,488 |
| California Personal Income in Calendar 1969 | | $83,192 |
| Governor's Definition of "Local Revenue" as a Percent of California Personal Income | | 9.00% |

Sources:

Revenue categories are from Table 1, page 31 of the Governor's March 12, 1973 report on "Revenue Control and Tax Reduction".

Details on revenues in each category are from the U. S. Bureau of the Census. The "Charge and Miscellaneous Revenue" data was obtained by phone.

## Table D

## Federal "Revenues" Collected From "Californians"

## 1969-70 Estimates

| Sources | | Millions |
|---|---|---|
| 1. Individual Income Taxes and Insurance Trust Revenues | | $13,408 (a) |
| 2. Excise Taxes | | |
| Alcoholic beverage | $505 | |
| Gasoline | 345 (d) | |
| Motor vehicle, parts, etc. | 46 | |
| Telephone, telegraph | 218 | |
| Transportation | 25 | |
| Sugar | 12 | |
| Diesel and other oils | 43 | |
| Others | 5 | |
| Total Excise Taxes | | 1,199 (b) |
| 3. Corporation Income | | 3,637 (c) |
| 4. Estate and Gift | | 439 |
| 5. Customs | | 269 (c) |
| 6. Other Revenues | | |
| Postal receipts | $685 | |
| Natural resources | 251 | |
| Sale of agricultural products | 97 | |
| Other current charges | 230 | |
| Sale of property | 38 | |
| Interest earnings | 204 | |
| Other miscellaneous revenue | 434 | |
| Other taxes | 100 | |
| Motor vehicle fuel taxes | 418 (d) | |
| Other sales and gross receipt taxes | 175 (d) | |
| Total Other Revenue | | 2,632 (d) |
| Total "Federal Revenue" From "Californians" | | $21,584 |
| California Personal Income in Calendar 1969 | | $83,192 |
| Governor's Definition of "Federal Revenues" as a Percent of California Personal Income | | 25.94% |

Sources:

Revenue categories from Table 1, page 33 of the Governor's March 12, 1973 report on "Revenue Control and Tax Reduction".

Details on revenues in each category were supplied by Mr. Charles Hobbs of the Governor's Office.

Table D (Continued)

(a) Estimated by the Governor's Office. About $9 billion of the total represents personal income taxes. There is an element of double counting in this category because part ($124 million) of the receipts consists of state and local government employer contributions to OASDI. Also, the total is probably overstated by about $1 billion because only half of the personal income tax refunds were deducted from gross collections.

(b) California Statistical Abstract for 1971, page 142.

(c) Estimated by Governor's Office by prorating national collections based on California's ratio of personal income in 1969 - which was 11.0786 percent of the national total.

(d) Estimated by Governor's Office by prorating national collections based on California's ratio of personal income. There may be a double counting of motor vehicle fuel and other gross receipt taxes in both this category and in the excise tax category.

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LOS ANGELES 90012

# Legislative Counsel of California

GEORGE H. MURPHY



Sacramento, California
April 24, 1973

Mr. A. Alan Post
Legislative Analyst
925 L Street, Suite 650
Sacramento, California 95814

<u>Governor's Tax and Expenditure Limitation Initiative - #7466</u>

Dear Mr. Post:

## QUESTION

Are loan repayments and interest paid to the Veterans' Farm and Home Building Funds "fees" within the meaning of Section 16 (b) (3) of the so-called Governor's Tax and Expenditure Limitation Initiative, so that the Legislature might by statute designate them as excluded state revenues?

## OPINION

In our opinion, such payments do not fall within the definition of "state tax revenue" and would not be considered as such by the courts.

## ANALYSIS

Subdivision (a) of Section 16, as contained therein, first defines "state tax revenue" as including various revenues of the state, but excepts "excluded state revenues" from the definition. "Excluded state revenues" are defined in subdivision (b) of such section as including various receipts, and fees.

Subdivision (a) of this particular section provides, in part, as follows:

> "(a) 'State Tax Revenue' means the revenue of the State from every tax, fee, penalty, receipt and other monetary exaction, interest in connection therewith ... except Excluded State Revenues . . . ."

However, notwithstanding these definitions, we do not think that the payments in question constitute "revenues," tax or otherwise. Consider, for example, the following definitions:

> "The word 'revenue' is used in many senses. It is, like thousands of words in our language, ambiguous in meaning, the significance of which can only properly be determined by the words with which it is connected. Let it be conceded that the usual and ordinary meaning of the word, when used alone, is 'net income,' - that which remains of the annual income of property after deducting from gross receipts the expenses incurred in producing the gross income, - still we must resort to the context to find the sense in which it is used in the writing presented for interpretation. If the context indicates a meaning different from its ordinary and popular signification, we must adopt the meaning so indicated; that is, indicated by the words of the statute or instrument in which it is used." (Bates v. Porter (1887), 74 Cal. 224, 240, with emphasis added.)

> ". . . The term 'revenue' is ... 'the income which a state collects and receives into its treasury, and is appropriated for the payment of its expenses.'" (Public Market Company of Portland v. City of Portland (1942, Oregon), 130 P. 2d 624, 644, with emphasis again added.)

> ". . . A debt is a sum of money due by contract, express or implied. A tax is a charge upon persons or property to raise money for public purposes." (Perry v. Washburn (1862), 20 Cal. 318, 350).

". . . While 'fees' in some cases have been held to include salaries, there is a distinction in that 'fees' ordinarily constitute payment for particular services performed, while 'salaries' constitute fixed compensation for continuous services over a period of time." (County of San Diego v. Milotz (1956), 46 Cal. 2d 761, 769, with citations omitted.)

"Exaction ... the act or process of exacting: compulsion to furnish: a levying especially by force of various dues and fees. . . ." (Webster's.)

Since the payments by the veterans under the Veterans' Farm and Home Purchase Act of 1943 are merely a return to the state of the funds that it has "loaned" to them from bond proceeds and these same funds are ultimately used to repay the bonds, the payments do not represent income in the ordinary sense, as defined above, in the sense of any new money coming into the state treasury by virtue of the transactions. Thus, we think the courts in construing subdivision (a) of Section 16 would not consider the payments in question as revenue.

For example, Chapter 3 (commencing with Section 16430) of Part 2 of Division 4 of Title 2 of the Government Code provides for the investment of the state's surplus money. Under this chapter, the state could, as an illustration, invest "X" million dollars in United States bonds (Secs. 16430, 16480.1, Gov. C.). When the "X" million dollars is returned with interest, the state would, in effect, be receiving a return of its own money with the earnings thereon.

If each such return is held to be "state tax revenue," this would seem to be contrary to the purpose of the initiative, which is to limit and reduce state taxes. In other words, if the state invested revenues pending their expenditure, the same revenues would be counted the second time when the investments were returned. Such a construction would be absurd.

Further, even assuming that the payments from veterans in question are considered to be revenue within the meaning of the initiative, it should be noted that the program for veterans is financed by the sale of general obligation bonds of the state (see, for example, Proposition 1, Ballot Pamphlet, Primary Election, June 6, 1972). The proceeds from such sales are used to assist veterans to acquire farms and homes under the Veterans' Farm and Home Purchase Act of 1943. Such act is provided for in Article 3 (commencing with Section 984) of Chapter 6 of Division 4 of the Military and Veterans Code.

Generally speaking, under the act, the Department of Veterans Affairs acquires a farm or home for a veteran, or arranges with a veteran for the construction of a dwelling house or other improvement for a farm or home for him; and in either case contracts with the veteran for the sale of the farm or home to him subject to conditions requiring the payment by him to the department of the purchase price plus interest (Secs. 986.2, 986.3, 986.4, 986.5, 986.6, 986.9, and 987, M.& V.C.).

With respect to these transactions, Section 986.9 of the Military and Veterans Code provides, in part, as follows:

> "986.9. The department shall then enter into a contract with the veteran for the sale of the property to the veteran. . . ."

Thus, technically speaking, we are here discussing the sale of property by a department of state government to a private party.

If this interpretation is adopted, we do not overlook the fact that the eighth clause of paragraph (1) of subdivision (b) of Section 16 in the initiative would provide that "excluded state revenues" means the following receipts:

> "(viii) proceeds from the sale of real and personal property. . . ."

However, we do not think the "sales" would be considered as the sale of property since in Eisley v. Mohan (1948), 31 Cal. 2d 637, the California Supreme Court held that property purchased by a veteran was not exempt from property taxation as property of the state and stated, at page 643:

> ". . . For tax purposes, then, the security title is not considered to be property, and it necessarily follows that the vendee in possession of the land under an executory contract is for all purposes the owner and the vendor retains mere legal title." (With citations omitted and emphasis added.)

Mr. A. Alan Post - p. 5 - #7466

Under the reasoning in Eisley v. Mohan, it could be urged that the Department of Veterans Affairs--despite the intricacies of the transaction--makes "loans" to veterans, rather than "selling" them property.

Considered as "loans," the veteran must repay the principal of the loan, with interest. The repayment of the principal to the state constitutes a return of the funds "loaned" to the veteran.

In view of the above, it is our opinion that neither the principal nor the interest paid to the Department of Veterans Affairs under the Veterans' Farm and Home Purchase Act of 1943 will be deemed to be "state tax revenue" within the meaning of the initiative, if the measure is adopted.

Very truly yours,

George H. Murphy
Legislative Counsel

By Russell L. Sparling
Russell L. Sparling
Principal Deputy

RLS:db

ATTORNEY GENERAL

CHARLES A. BARRETT
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OFFICE OF THE ATTORNEY GENERAL
Department of Justice
ROOM 500, WELLS FARGO BANK BUILDING
FIFTH STREET AND CAPITOL MALL, SACRAMENTO 95814

April 2, 1973

FILED
In the office of the Secretary of State
of the State of California

APR 3 1973

EDMUND G. BROWN Jr., Secretary of State
By [signature]
Deputy Secretary of State

Honorable Edmund G. Brown, Jr.
Secretary of State
117 State Capitol
Sacramento, California 95814

Dear Sir:

TAX AND EXPENDITURE LIMITATIONS
Initiative Constitutional Amendment

Pursuant to the provisions of section 3507 of the Elections Code, you are hereby informed that on this day we mailed to Mr. Norman Topping, as proponent, the following title and summary:

> TAX AND EXPENDITURE LIMITATIONS. Initiative Constitutional Amendment. Limits State expenditures; restricts use of defined surplus revenue to tax reductions, refunds, or emergencies. Eliminates personal income tax for lower income persons; reduces others' 1973 or 1974 tax up to 20%, from surplus, and subsequent year rates 7½%. Requires two-thirds legislative vote for new or changed State taxes. Limits local property tax rates except school districts'. Requires State funding of new programs mandated to local governments. Provides for tax and expenditure limit adjustments when functions transferred. Contains special indebtedness obligation provisions. Allows local tax rate and expenditure limit increases upon voter approval. If the proposed initiative is adopted undefined additional financing from State sources in the approximate amount of Five Hundred Sixty Eight Thousand dollars ($568,000) on a one-time basis and Two Hundred Thirty Six Thousand dollars ($236,000) annually thereafter will be required for State administrative costs.

Office of the Secretary of State
Edmund G. Brown Jr.

State Capitol
Sacramento, California 95814

(916) 445-6371

April 3, 1973

TO THE COUNTY CLERKS AND REGISTRARS OF VOTERS:

Pursuant to Section 3507 of the Elections Code, there is transmitted herewith a copy of the Title and Summary prepared by the Attorney General on a proposed Initiative Measure entitled:

TAX AND EXPENDITURE LIMITATIONS
INITIATIVE--CONSTITUTIONAL AMENDMENT

Circulating and Filing Schedule:

1. Minimum signatures required: 520,806

2. Official Summary Date .................................... 4-2-73

3. Deadline to circulate and file sections of Original Petition. 7-2-73*

4. First date to circulate sections of Supplemental Petition.... 7-3-73
IF INITIAL FILING WAS MADE ON 7/2. OTHERWISE, FIRST DATE WILL BE THE DAY FOLLOWING THE INITIAL FILING.

5. Deadline to transmit your certificate as to number of valid.. 7-23-73*
signatures on Original Petition IF INITIAL FILING WAS MADE ON 7/2. OTHERWISE, DEADLINE WILL BE THE 20TH DAY AFTER THE INITIAL FILING.

6. Deadline to file sections of Supplemental Petition IF YOUR... 9-4-73*
INITIAL CERTIFICATION WAS DATED 7/23. OTHERWISE, THE DEADLINE WILL BE THE 40TH DAY AFTER THE DATE OF YOUR INITIAL CERTIFICATION.

7. Deadline to transmit your certificate as to the number of ... 9-14-73
valid signatures on Supplemental Petition IF SUPPLEMENTAL PETITION WAS FILED ON 9/4. OTHERWISE, THE DEADLINE WILL BE THE 10TH DAY AFTER THE SUPPLEMENTAL FILING.

*Date adjusted for official deadlines which fall on Saturday, Sunday or holidays.

8. The proponent of the above-named measure is:

Mr. Norman Topping
P O Box 225
Sacramento, CA 95802
Attention: John Diepenbrock

Mr. Norman Topping
100 South Plymouth Blvd.
Los Angeles, CA 90004

Edward Arnold Jr.
Edward Arnold Jr.
Elections Assistant

EA:jay

To Honorable Secretary of State of California:

The undersigned hereby proposes that the Constitution of the State of California be amended by adding Article XXIX and petitions the Secretary of State to submit this proposal to the electors of California for adoption. The text of the proposed measure is as follows:

"The People of the State of California do enact as follows:

"The Constitution of the State of California is amended by adding Article XXIX, to read:

ARTICLE XXIX

REVENUE CONTROL AND TAX REDUCTION

Section 1. Declaration of Purpose.

The people of the State of California declare it is in the best interests of the State to effect an orderly reduction of their tax burden, without shifting costs to local government, by enacting this Constitutional provision to:

(a) Limit and reduce State taxes,

(b) Provide for refunds to the taxpayers of surplus State revenues,

(c) Limit Local Entity property tax rates,

(d) Establish funding procedures for Emergency Situations, and

(e) Require voter approval of taxes which exceed the limits set forth in this Article.

Section 2. State Tax Revenue Limit; Tax Surplus Fund; 20% Tax Refund.

(a) There is a State Tax Revenue Limit determined as provided in this Article.

(1) If State Tax Revenues for any fiscal year exceed the State Tax Revenue Limit for that fiscal year, the excess shall be transferred to the Tax Surplus Fund, which is hereby established.

(2) The Tax Surplus Fund shall be used only for one or more of the following purposes:

(i) For tax refunds or reductions;
(ii) For approved Emergency Situation appropriations under Section 6 of this Article.

(3) The Legislature shall minimize accumulations within the Tax Surplus Fund by making periodic tax refunds or reductions as permitted by this Article.

(b) On the effective date of this Article, the Controller shall determine the amount of surplus in the General Fund as of the end of fiscal year 1972-73 and shall designate such portion of the surplus as is necessary and available to effect the refund of subdivision (b)(1) hereof.

(1) The surplus so designated shall be utilized for a refund by means of a credit of 20% of personal income taxes for the calendar year 1973, excluding taxes on capital gains on assets held for more than one year, items of tax preference, estates and trusts, or in such lesser percentage as the Director of the Department of Finance shall certify is available for such refund. Single individuals whose adjusted gross income is less than $4,000.00 and married couples and heads of households whose adjusted gross income is less than $8,000.00 shall bear no personal income tax. If this Article is effective on or before December 31, 1973, then this paragraph shall apply to the 1973 taxable year. If this Article becomes effective after December 31, 1973, then this Section shall apply to the 1974 taxable year.

(2) If, prior to the effective date of this Article, a statute is enacted providing the refund as set forth in subdivision (b)(1) of this Section, such statute shall be deemed compliance with the requirements of this subdivision (b) to the extent such refund is provided.

(3) The Legislature shall, by statute, implement the tax refund required by subdivision (b)(1) as to application to non-resident and fiscal year taxpayers and as to credits in computing liability.

(4) State Tax Revenue for purposes of computing the State Tax Revenue Limit as here defined shall not be reduced by refunds made pursuant to this subdivision (b).

Section 3. Appropriation Limit.

No appropriation shall cause an expenditure during any fiscal year of State Tax Revenues for that fiscal year in excess of the State Tax Revenue Limit for that fiscal year, other than for tax refunds or, pursuant to Section 6 of this Article, for Emergency Situations. Subject only to such exceptions, any such expenditure in excess of the State Tax Revenue Limit is prohibited. The Legislature shall, prior to any other appropriation, first make provision for the payment of the principal and interest on the indebtedness of the State.

Section 4. State Tax Adjustments; Personal Income Tax Reduction.

(a) The imposition of any new tax or the change in the rate or base of any tax by the Legislature shall be by statute passed by roll-call vote entered in the journal, two-thirds of the membership of each house concurring, except for tax refunds or reductions by appropriations specifically declared to be out of the Tax Surplus Fund which shall be by statute passed by a vote of the majority of the membership of each house.

(b) For 1974 and thereafter, the State personal income tax liability of taxpayers shall be determined at rates no higher than those in effect on January 1, 1973, less a credit of $7\frac{1}{2}$%. Single individuals whose adjusted gross income is less than $4,000.00 and married couples and heads of households whose adjusted gross income is less than $8,000.00 shall bear no State personal income tax. The Legislature shall, by statute, implement the tax reduction required by this Section as to application to nonresident and fiscal year taxpayers and as to credits in computing liability. The provisions of this subdivision (b) may be modified by statute passed by roll-call vote entered in the journal, two-thirds of the membership of each house concurring. If this Article becomes effective after December 31, 1973, then this subdivision shall apply to 1975 and thereafter instead of 1974 and thereafter.

Section 5. State Tax Revenue Limit Adjustment by Election.

The State Tax Revenue Limit may be increased or decreased by a designated dollar amount by a majority vote of the people at a Statewide election approving a measure placed on the ballot by the Legislature by a roll-call vote entered into the journal, two-thirds of the membership of each house concurring, or placed on the ballot as an initiative statute pursuant to Article IV of this Constitution. A measure so approved shall take effect the day after the election, unless the measure provides otherwise.

Section 6. Emergency Fund and Emergency Appropriations.

(a) A Special Emergency Fund of not more than 0.2% of the State Personal Income shall be established and maintained by the Legislature. Money appropriated to the Special Emergency Fund shall be from State Tax Revenues and shall be subject to the State Tax Revenue Limit.

(b) Upon the Governor's declaration of an Emergency Situation and the exhaustion of such emergency funds as may be available from the Federal Government, the Legislature may make appropriations to meet the Emergency Situation from the Special Emergency Fund or, if that Fund is exhausted, either from the Tax Surplus Fund or from State Tax Revenues derived from a specific tax increase or a specific new tax designated for the Emergency Situation and enacted in accordance with Section 4 of this Article. Any tax so enacted shall remain in effect no longer than two years, unless its continuation is approved by a majority of the votes cast for and against its continuance at a Statewide election.

Section 7. Local Taxes.

(a) The Maximum Property Tax Rates of each Local Entity are set at the rates levied for the fiscal year 1971-72 or for the fiscal year 1972-73, whichever is the higher. The Maximum Property Tax Rates for a Local Entity created after the effective date of this Article shall be established by the electorate of the Local Entity at the time of its creation.

(b) To permit adjustment of the Maximum Property Tax Rates set in subdivision (a) of this Section, the Legislature shall enact statutes, within the general intent of this Article, to permit:

(1) Maximum Property Tax Rates to be increased or decreased to reflect cost variations due to cost-of-living or population changes not offset by assessed valuation changes or to allow for other special circumstances creating hardship for individual Local Entities.

(2) Maximum Property Tax Rates to be increased or decreased when authorized by the electorate of the Local Entity, or if there is no electorate, then as provided by the Legislature.

(3) Maximum Property Tax Rates to be increased by a four-fifths vote of the governing board of a Local Entity, to secure revenue to defray the costs of an Emergency Situation affecting the Local Entity, but any such increase shall remain in effect no longer than two years, unless its continuation is approved by the Local Entity's electorate.

(c) All property taxable by Local Entities and School Districts, except personal property specially classified for the purpose of assessment and taxation pursuant to the provisions of Section 14 of Article XIII of this Constitution, shall be assessed at a uniform percentage of full value established by the Legislature. If that percentage is any figure other than twenty-five, the maximum rates prescribed in subdivisions (a) and (b) of this Section shall be converted into new maximums by multiplying them by twenty-five and dividing them by the new assessment percentage. Full value, as used herein, means fair market value or such other standard of value as is required or authorized under this Constitution.

(d) No Local Entity or School District shall impose, levy or collect any tax upon or measured by income, or any part thereof, except as authorized by the Legislature by a statute passed by a roll-call vote entered in the journal, two-thirds of the membership of each house concurring. This subdivision (d) shall not be construed to prohibit the imposition, levy or collection of any otherwise authorized license tax upon a business measured by or according to gross receipts.

Section 8. Protection of Local Entities and School Districts from State-Imposed Costs.

(a) After the effective date of this Article, no new program, or increase in level of service under an existing program, shall be mandated to Local Entities or School Districts by the State until an appropriation has been made to pay to the Local Entities or School Districts the costs of the mandated program or service, but no appropriation for payments to Local Entities or School Districts shall be required if such program or increase in level of service under a program is determined by the Legislature to be applicable generally to private entities or individuals, as well as to Local Entities or School Districts.

(b) The Legislature shall enact statutes to establish procedures for implementing this Section consistent with the following principles and directives:

(1) The performance of functions or services not required to be performed prior to a mandate to the Local Entity or School District shall be considered a new program or increase in level of service.

(2) The increased workload under an existing program, the implementation of statutes existing at the effective date of this Article or the definition of a new crime or change in the definition of an existing crime by statute shall not be considered a mandated new program or a mandated increase in level of service.

Section 9. Maintenance of Local Property Tax Relief.

(a) If the State reduces local property tax relief by decreasing the specific unit amount, rate or percentage established by statute for payments made under formula to Local Entities or School Districts from that in effect upon the effective date of this Article, the State Tax Revenue Limit shall be decreased by an amount equivalent to the decrease in payments to Local Entities or School Districts.

(b) The adjustment to the State Tax Revenue Limit required by this Section shall be made in the first fiscal year of the decrease of payment described in subdivision (a) of this Section. Such adjustment shall remain in effect for each subsequent fiscal year.

Section 10. Adjustments for Program and Cost Transfers.

To maintain a balance between the tax burden and the cost of specific government programs at the State and local level, and to further accomplish the purposes of this Article, the Legislature shall enact statutes consistent with the following principles and directives:

(a) If the Legislature enacts a specific property tax relief measure funded by State Tax Revenues or if, by order of any court, the costs of a program are transferred from Local Entities or School Districts to the State, the State Tax Revenue Limit may be increased, providing the Maximum Property Tax Rates of affected Local Entities or the then existing tax rates of affected School Districts are commensurately decreased.

(b) If the costs of a program are transferred from the State or Local Entities or School Districts to the Federal Government, the State Revenue Limit or the Maximum Tax Rates of affected Local Entities or the then existing tax rates of affected School Districts shall be commensurately decreased.

(c) If the costs of a program are transferred to or imposed on existing or newly created Local Entities by Federal Law or the order of any court, the Maximum Property Tax Rates of affected Local Entities may be commensurately increased, pursuant to such specific conditions of State approval in each case as the Legislature may impose.

(d) If the costs of a program are transferred between existing or newly created Local Entities or School Districts, the Maximum Property Tax Rates or the then existing tax rates of each shall be commensurately adjusted.

(e) If Federal taxes are reduced on condition that the State increase expenditures by an amount equivalent to the Federal reduction, the State Tax Revenue Limit may be increased by such amount.

(f) The adjustments required by this Section of the State Tax Revenue Limit, the Maximum Property Tax Rates or the then existing tax rates in the case of School Districts shall be made in the first fiscal year of transfer or operation. Such adjustment shall remain in effect for each subsequent fiscal year.

Section 11. Economic Estimates Commission.

(a) There shall be an Economic Estimates Commission consisting of the State Controller; the Director of the Department of Finance or an appointee of the Governor as designated by him; and a designee appointed by the Legislature who is not a member of the Legislature, selected in a manner provided by the Joint Rules of the Legislature. The Commission shall act by a vote of two-thirds of its membership. The Commission Chairman shall be designated by the Governor. The Commission shall utilize the resources of existing State agencies in carrying out its duties.

(b) The Commission shall determine and publish, prior to April 1 of each year, the State Tax Revenue Limit for the following fiscal year by making and publishing all necessary estimates and calculations as provided in this Article. If this Amendment is not effective prior to April 1, 1974, the Commission shall determine the State Tax Revenue Limit for fiscal year 1974-75 as soon after enactment as it can act. If it does not act prior to July 1, 1974, the State Tax Revenue Limit for fiscal year 1974-75 shall be the amount of the State Tax Revenue as here defined for fiscal year 1973-74. The Commission shall also determine and publish such estimates of the State Tax Revenue Limit as are necessary for the orderly and proper development of State budgets. If the Commission does not act to determine the State Tax Revenue Limit before July 1 of a fiscal year, the State Tax Revenue Limit for that fiscal year shall remain the same as for the previous fiscal year.

Section 12. Computation of State Tax Revenue Limit.

(a) The State Tax Revenue Limit for a fiscal year shall be computed as the dollar sum of

(1) the greater of the following:

(i) The dollar amount derived by multiplying together the State Tax Revenue Limit Income Quotient for the specified fiscal year and the State Personal Income for the calendar year in which the specified fiscal year commences; or

(ii) The dollar amount derived by multiplying together the State Tax Revenue Limit Population-Inflation Quotient, the State Population for the calendar year in which the specified fiscal year commences and the Consumer Price Index; plus

(2) the dollar amount increase or decrease to the State Tax Revenue Limit authorized for that fiscal year pursuant to Sections 5, 9 and 10 of this Article.

(b) Beginning with the fiscal year 1989-90, or with a fiscal year in which the State Tax Revenue Limit Income Quotient is no greater than 0.0700, the Legislature, by statute passed by roll-call vote entered in the journal, two-thirds of the membership of each house concurring, may terminate further reduction in the State Tax Revenue Limit Income Quotient. Thereafter, the State Tax Revenue Limit Income Quotient shall be maintained at the level reached in the fiscal year in which such statute is enacted; however, annual reductions may be reinstated by statute passed by roll-call vote, two-thirds of the membership of each house concurring.

(c) If the statistical series used to determine the Consumer Price Index, State Personal Income and State Population, as defined in Section 16 of this Article, are recomputed by or succeeded by new series reported by the United States Department of Commerce or the United States Department of Labor or a successor agency of the United States Government, the State Tax Revenue Limit Income Quotient or State Tax Revenue Limit Population-Inflation Quotient shall be re-derived in accordance with the recomputation or new series, and the re-derived quotient shall be used in computing the State Tax Revenue Limit for the fiscal year succeeding the fiscal year in which the quotient was re-derived.

Section 13. Bonds and Pensions.

(a) Nothing in Section 3 or in any other provision of this Article shall limit the taxes levied or otherwise to be levied or appropriations made for the payment or discharge of any indebtedness of the State and the interest thereon heretofore or hereafter authorized by vote of the electors, or State notes or other securities issued in anticipation of the collection of taxes, and all bonds or other indebtedness of the State shall be payable from taxes of any kind or character which may be levied by the State without limitation of rate or amount.

(b) Nothing herein contained shall limit any indebtedness or liability of Local Entities or School Districts which has been duly authorized by a vote of the electors thereof. All taxes or assessments required to be levied or collected for the payment of indebtedness so incurred may be levied upon all property subject to taxation or special assessment by the Local Entities or School Districts without limit as to rate or amount, and the Maximum Property Tax Rates applicable herein shall not apply to the payment of indebtedness so incurred. The Maximum Property Tax Rates applicable to Local Entities shall not be applicable to obligations to levy taxes under the Improvement Bond Act of 1915 or to the authority of Local Entities or School Districts to levy and collect taxes to pay for Local Entities or School Districts retirement and pension benefits pursuant to laws which have been, or may in the future be, approved by the voters.

Section 14. Severability.

If any portion, section, subdivision or clause of this Article, or the application thereof to any entity, person or circumstance, be declared unconstitutional or held invalid or deemed unenforceable for any reason, the remaining portions of this Article and the application of such portions to other entities, persons or circumstances, shall not be affected thereby.

Section 15. Implementing Statutes.

(a) The Legislature, by statute, shall establish procedures for elections required by this Article, shall appropriate funds for any Statewide special election called pursuant to this Article and shall enact any other statutes necessary to carry out the provisions of this Article.

(b). The Legislature, by statute, may determine the fund or funds from which transfers to the Tax Surplus Fund, as established by subdivision (a) of Section 2 of this Article, shall be made, unless this Constitution restricts the use of a designated fund to other specified purposes. In the absence of statutory provisions, transfer to the Tax Surplus Fund shall be from the State General Fund.

Section 16. Definitions.

(a) "State Tax Revenue" means the revenue of the State from every tax, fee, penalty, receipt and other monetary exaction, interest in connection therewith, and any transfer out of the Tax Surplus Fund other than for tax refund, except Excluded State Revenues are not part of State Tax Revenues.

(b) "Excluded State Revenues" means

(1) The following receipts:

(i) intergovernmental transfer payments;
(ii) contributions and deposits to, receipts of, income of and proceeds of capital transactions of Employment Trust Funds;
(iii) revenue derived from a specific tax levied as permitted in Section 6 to the extent such revenue is used to meet an Emergency Situation;
(iv) proceeds from the sale or issuance of State bonds or notes;
(v) grants and contract income for projects or research sponsored and funded by non-governmental agencies;
(vi) internal fund transfers such as inter-fund or inter-agency transfers, revenue, reimbursements, abatements, advances, loans, repayment of loans;
(vii) proceeds from the sale of investments and the redemption of matured securities;
(viii) proceeds from the sale of real and personal property;
(ix) gifts, donations, bequests to the State;
(x) endowment income;
(xi) service fees and charges derived from projects which are financed by revenue bonds secured solely by the revenue of such projects to the extent that such fees and charges are used for the payment of principal and interest on such bonds;

(2) The following fees:

(i) proceeds from the activities of the University of California and the State University and College System, including, but not limited to, student tuition and fees and post-secondary education income derived from housing, parking, food service, student union fees, book stores or similar enterprises;

(ii) non-commercial fish and game fees, assessments and other revenues;

(iii) service or use fees levied by the Department of Parks and Recreation;

(iv) income from environmental license plates;

(v) revenue derived from State-owned parking lots and garages;

(3) Fees which meet all of the following criteria:

(i) the service or product for which the fee is paid is generally available from a non-State source, or the fee is collected solely to regulate a non-commercial, non-professional, non-criminal activity other than those referred to in Article XXVI;

(ii) the fee collected is used to defray all or part of the costs of the State in providing the service;

(iii) the payer of the fee receives the benefit derived from payment of the fee; and

(iv) are designated by statute as Excluded State Revenues.

(c) "Intergovernmental Transfer Payments" means dollar amounts received by the State of California from the Federal Government or any Local Entity or School District except those taxes, fees and penalties imposed by the State and collected by the Local Entity or School District for the State.

(d) "Employment Trust Funds" means the Unemployment Fund, Unemployment Administration Fund, Unemployment Compensation Disability Fund, Old Age and Survivors Insurance Revolving Fund, Uninsured Employers Fund, State Compensation Insurance Fund, State Employees Contingency Reserve Fund; and the Public Employees Retirement Fund, Teachers Retirement Fund, Judges Retirement Fund, Legislators Retirement Fund and other similar retirement funds.

(e) "Expenditure." As used herein, an expenditure occurs at the time and to the extent that a valid obligation against an appropriation is created. For the purpose of capital outlay in connection with this Article, a valid obligation shall be considered to have been incurred when the Legislature appropriates the funds.

(f) "Emergency Situation" means an extraordinary occurrence requiring unanticipated and immediate expenditures to preserve the health and safety of the people.

(g) "Maximum Property Tax Rates" means the property tax rate or rates and ad valorem special assessment rate or rates for any Local Entity.

(h) "Local Entity" means any city, county, city and county, chartered city, chartered county, chartered city and county, taxing zone, special district or other unit of government encompassing an area less than the entire State, or any Statewide district, or any combination thereof in existence on the effective date of this Article or any such entity established thereafter. Local Entity does not include a School District.

(i) "School Districts" means the entities specified as parts of the Public School System in Article IX, Section 6, of this Constitution and includes Community Colleges but does not include the State University and College System.

(j) "Estimated State Tax Revenues" means the dollar amount of State Tax Revenues as estimated by the Economic Estimates Commission.

(k) "State Personal Income" means the estimate made by the Economic Estimates Commission of the dollar amount that will be reported as Total Income by Persons for the State of California for the specified calendar year by the United States Department of Commerce or successor agency in its official publications.

(l) "State Tax Revenue Limit Income Quotient" means:

- (1) For the fiscal year 1974-75, the number derived by:
  - (i) Dividing the sum of Estimated State Tax Revenues for the fiscal year 1973-74 by the State Personal Income for the calendar year 1973, and
  - (ii) Subtracting 0.001.
- (2) For each fiscal year succeeding the fiscal year 1974-75, the number derived by:
  - (i) Dividing the State Tax Revenue Limit for the previous fiscal year by the State Personal Income for the previous calendar year, and
  - (ii) Subtracting 0.001.

(m) "State Population" means the estimate made by the Economic Estimates Commission of the number that will be reported as Total Population of the State of California for the specified calendar year by the United States Department of Commerce or successor agency in its official publications.

(n) "Consumer Price Index" means the number reported as the Consumer Price Index for the United States (Base Year 1967 = 100) by the United States Department of Labor, or successor agency of the United States Government, for the most current month in its latest official publication.

(o) "State Tax Revenue Limit Population-Inflation Quotient" means the number derived by dividing:

(1) The Estimated State Tax Revenue for the fiscal year 1973-74 by

(2) The State Population for the calendar year 1973 as multiplied by the Consumer Price Index available to the Economic Estimates Commission at the time it computes the State Tax Revenue Limit for fiscal year 1974-75.

OUR ESTIMATE OF CALIFORNIA PERSONAL INCOME 1/
(in millions)

| By Component | 1972 | Percent Change | 1973 | Percent Change | 1974 | Percent Change | 1975 | Percent Change | 1976 | Percent Change | 1977 | Percen Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Wages and Salaries | $ 68,518 | 9.5 | $ 75,820 | 10.7 | $ 81,981 | 8.1 | $ 89,822 | 9.6 | $ 98,619 | 9.8 | $105,549 | 7.0 |
| Other Labor Income | 4,014 | 13.4 | 4,435 | 10.5 | 4,790 | 8.0 | 5,145 | 7.4 | 5,587 | 8.6 | 6,001 | 7.4 |
| Proprietors' Income | 7,715 | 6.8 | 8,194 | 6.2 | 8,518 | 4.0 | 8,967 | 5.3 | 9,535 | 6.3 | 9,986 | 4.7 |
| Farm | 1,248 | 5.1 | 1,320 | 5.8 | 1,335 | 1.1 | 1,360 | 1.9 | 1,433 | 5.4 | 1,536 | 7.2 |
| Other | 6,467 | 7.1 | 6,874 | 6.3 | 7,183 | 4.5 | 7,607 | 5.9 | 8,102 | 6.5 | 8,450 | 4.3 |
| Property Income | 13,518 | 4.3 | 14,535 | 7.5 | 15,480 | 6.5 | 16,300 | 5.3 | 17,083 | 4.8 | 17,851 | 4.5 |
| Transfer Payments | 12,576 | 8.3 | 13,905 | 10.6 | 15,183 | 9.2 | 16,402 | 8.0 | 17,632 | 7.5 | 18,955 | 7.5 |
| Less: Contributions for Social Insurance | 4,286 | 12.7 | 5,273 | 23.0 | 5,934 | 12.5 | 6,591 | 11.1 | 7,276 | 10.4 | 7,975 | 9.6 |
| Total California Personal Income | $102,055 | 8.4 | $111,616 | 9.4 | $120,018 | 7.5 | $130,045 | 8.4 | $141,180 | 8.6 | $150,367 | 6.5 |

1/ Prepared by Professor Donald Ratajczak, of the UCLA Business Forecasting Project.

# OUR ESTIMATES OF CALIFORNIA EMPLOYMENT AND LABOR FORCE

(In Thousands)

| | 1972 | % Change | 1973 | % Change | 1974 | % Change | 1975 | % Change | 1976 | % Change | 1977 | % Change |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Civilian Labor Force | 8830 | 2.6 | 9057 | 2.6 | 9236 | 2.0 | 9426 | 2.1 | 9714 | 3.1 | 9963 | 2.6 |
| Unemployment | 516 | -13.9 | 487 | -5.6 | 503 | 3.3 | 464 | -7.8 | 454 | -2.2 | 481 | 5.9 |
| Unemployment Rate | 5.8% | -- | 5.4% | -- | 5.4% | -- | 4.9% | -- | 4.7% | -- | 4.8% | -- |
| Civilian Employment | 8314 | 3.8 | 8570 | 3.1 | 8733 | 1.9 | 8962 | 2.6 | 9260 | 3.3 | 9482 | 2.4 |
| Nonagricultural Wage and Salary | 7229 | 4.5 | 7482 | 3.5 | 7641 | 2.1 | 7871 | 3.0 | 8168 | 3.8 | 8390 | 2.7 |
| Mining | 29 | -3.3 | 31 | 6.3 | 31 | -- | 31 | -- | 31 | -- | 31 | -- |
| Construction | 324 | 7.3 | 321 | -0.9 | 307 | -4.4 | 300 | -2.3 | 299 | -0.3 | 300 | 0.3 |
| Manufacturing | 1531 | 4.0 | 1600 | 4.5 | 1626 | 1.6 | 1682 | 3.4 | 1748 | 3.9 | 1770 | 1.3 |
| Aerospace | 454 | 3.2 | 473 | 4.2 | 473 | -- | 485 | 2.5 | 504 | 3.9 | 509 | 1.0 |
| Transportation, Communications, and Utilities | 457 | 0.9 | 465 | 1.8 | 468 | 0.6 | 471 | 0.6 | 479 | 1.7 | 481 | 0.4 |
| Trade | 1628 | 5.1 | 1688 | 3.7 | 1724 | 2.1 | 1778 | 3.1 | 1842 | 3.6 | 1892 | 2.7 |
| Finance | 407 | 5.4 | 428 | 5.2 | 448 | 4.6 | 471 | 5.1 | 497 | 5.6 | 518 | 4.3 |
| Services | 1359 | 6.3 | 1414 | 4.0 | 1461 | 3.3 | 1518 | 3.9 | 1598 | 5.3 | 1664 | 4.1 |
| Federal Government | 317 | -0.5 | 318 | 0.4 | 317 | -0.3 | 321 | 1.3 | 330 | 2.8 | 340 | 3.0 |
| State & Local Govt. | 1178 | 4.3 | 1217 | 3.3 | 1259 | 3.5 | 1299 | 3.2 | 1344 | 3.5 | 1394 | 3.7 |
| Other Nonagricultural | 806 | 0.5 | 811 | 0.7 | 817 | 0.7 | 821 | 0.5 | 825 | 0.5 | 828 | 0.4 |
| Agriculture | 279 | -2.8 | 277 | -0.6 | 275 | -0.7 | 270 | -1.9 | 267 | -1.3 | 264 | -1.1 |