

AMENDED IN ASSEMBLY JUNE 4, 2007

CALIFORNIA LEGISLATURE—2007—08 REGULAR SESSION

Assembly Constitutional Amendment

No. 3

Introduced by Assembly Member Gaines

(Coauthors: Assembly Members ~~DeVore~~, Cook, DeVore, Garrick, Jeffries, La Malfa, and Maze Maze, Silva, Strickland, Tran, and Walters)

(Coauthors: Senators Aanestad and Harman)

December 4, 2006

Assembly Constitutional Amendment No. 3—A resolution to propose to the people of the State of California an amendment to the Constitution of the State, by repealing and adding Article XIII B thereof, and by amending Section 8.5 of Article XVI thereof, relating to expenditure limits.

LEGISLATIVE COUNSEL'S DIGEST

ACA 3, as amended, Gaines. Expenditure limits.

(1) Existing provisions of the California Constitution prohibit the annual appropriations subject to limitation, as defined, of any entity of state or local government from exceeding its adjusted annual appropriations limit. These provisions also require 50% of the excess revenues received by the state in a fiscal year and the fiscal year immediately following it to be transferred and allocated, from a fund established for that purpose, to the State School Fund, and the remaining 50% of those excess revenues to be returned by a revision of tax rates or fee schedules within the next 2 subsequent fiscal years.

This measure would repeal those provisions, and instead would limit total state General Fund and special fund expenditures to an annual increase of no more than the increase in the cost of living, as specified,

multiplied by the percentage increase in state population. ~~The As to revenues exceeding this expenditure limitation in a fiscal year, the measure would require excess revenues to be allocated in prescribed amounts to a reserve account,~~ *allocate 50% to the State School Fund, and would allocate the remaining 50% in equal amounts to a reserve account, to personal income taxpayers for rebates, and to fund, with a specified exception, health and dental care benefits for employees of the state and of the California State University.*

(2) Existing provisions of the California Constitution require that whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the state is required to provide a subvention of funds to reimburse the local government for the costs of the program or increased level of service, with specified exceptions.

This measure would prohibit the filing of a claim for reimbursement for any mandate if no claim for that reimbursement is filed within a 2-year period following the effective date of the mandate.

Vote: $\frac{2}{3}$. Appropriation: no. Fiscal committee: no.
State-mandated local program: no.

1 *Resolved by the Assembly, the Senate concurring,* That the
2 Legislature of the State of California at its 2007-08 Regular Session
3 commencing on the fourth day of December 2006, two-thirds of
4 the membership of each house concurring, hereby proposes to the
5 people of the State of California that the Constitution of the State
6 be amended as follows:

7 First—That Article XIII B thereof is repealed.

8 Second—That Article XIII B is added thereto, to read:

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ARTICLE XIII B
EXPENDITURE LIMIT

11

12

13 SECTION 1. (a) (1) The total expenditures made in a fiscal
14 year from the General Fund of the State and state special funds
15 may not increase from the amount of those total expenditures in
16 the prior fiscal year by more than the percentage increase in the
17 cost of living multiplied by the percentage increase in the state
18 population. However, if the total expenditures in the prior fiscal
19 year are less than the amount of allowable expenditures for that
20 year, then the amount of total expenditures for the next fiscal year

1 may equal, but not exceed, the amount of allowable expenditures
2 for the prior fiscal year.

3 (2) As used in this section, “percentage increase in the cost of
4 living,” as applied to determine the expenditure limit for a fiscal
5 year, means the percentage change from April 1 of the prior year
6 to April 1 of the current year in the California Consumer Price
7 Index for all items, as determined by the Department of Industrial
8 Relations or its successor. For purposes of this calculation, “current
9 year” means the calendar year in which the fiscal year commences.

10 (b) The expenditure limit in subdivision (a) may be exceeded
11 for a fiscal year in an emergency, but any such excess spending is
12 not part of the expenditure base for the purposes of determining
13 the amount of allowable expenditures pursuant to subdivision (a)
14 for the next fiscal year. As used in this subdivision, “emergency”
15 means the existence, as declared by the Governor, of conditions
16 of disaster or of extreme peril to the safety of persons and property
17 within the State, or parts thereof, caused by such conditions as
18 attack or probable or imminent attack by an enemy of the United
19 States, fire, flood, drought, storm, civil disorder, earthquake, or
20 volcanic eruption.

21 (c) Any revenue that may not be expended in the current fiscal
22 year due to the expenditure limitation in this section shall be
23 allocated as follows:

24 (1) *Fifty percent shall be transferred and allocated, from a fund*
25 *established for that purpose, pursuant to Section 8.5 of Article*
26 *XVI.*

27 (2) *Fifty percent shall be allocated in equal amounts to the*
28 *following:*

29 (A) To the Special Reserve Account, which is hereby created
30 in the General Fund of the State, ~~to the extent that this account~~
31 ~~contains an amount less than or equal to 10 percent of the total~~
32 ~~amount of allowable expenditures for the current fiscal year.~~
33 Notwithstanding any other provision of this section, money in the
34 reserve account may be expended in an amount equal to the amount
35 by which revenues reported by the Department of Finance pursuant
36 to this paragraph during the fiscal year fall below the final estimates
37 for that year provided in the Final Budget Summary published by
38 the Department of Finance or its successor document. Any funds
39 expended from the Special Reserve Account pursuant to this
40 paragraph are part of the expenditure base for the purposes of

1 determining the amount of allowable expenditures pursuant to
2 subdivision (a) for the next fiscal year. ~~Subject to the 10-percent~~
3 ~~restriction set forth in this paragraph, any unexpended balance in~~
4 *Any unexpended balance* in the reserve account, including any
5 interest earnings, shall carry over from one year to the next.

6 ~~(2) Revenue that exceeds the amount that may be deposited into~~
7 ~~the reserve account shall be allocated as follows:~~

8 ~~(A) Fifty percent shall be transferred and allocated, from a fund~~
9 ~~established for that purpose, pursuant to Section 8.5 of Article~~
10 ~~XVI.~~

11 ~~(B) Fifty percent shall be paid as a rebate to~~ *To* all personal
12 income taxpayers *as a rebate* in proportion to their tax liability for
13 the tax year that encompasses the first half of the current fiscal
14 year in which the excess exists.

15 ~~(C) To a trust fund to be established by the Legislature for the~~
16 ~~purpose of funding health care and dental care benefits for~~
17 ~~annuitants, as defined in the Public Employees' Medical and~~
18 ~~Hospital Care Act, the State Employees' Dental Care Act, or~~
19 ~~successor legislation as designated by the Legislature, related to~~
20 ~~employment by the State of California or the California State~~
21 ~~University system. No allocation of revenues to this trust fund shall~~
22 ~~be made in a fiscal year if unfunded actuarially accrued liabilities~~
23 ~~of the State of California and the California State University system~~
24 ~~for health care and dental care benefits for annuitants are zero or~~
25 ~~less, as reported in the most recent financial statements for these~~
26 ~~entities that were prepared consistent with generally accepted~~
27 ~~accounting principles.~~

28 (d) If the financial responsibility for providing services is
29 transferred, in whole or in part, from the state government to an
30 entity of local government, then the amount of allowable spending
31 in the year in which the transfer is implemented shall be reduced
32 by an amount equal to the cost of providing the transferred services,
33 to prevent an effective increase in the level of allowable state
34 spending. For the purposes of this section, a transfer of financial
35 responsibility for providing services does not include any mandate
36 of a program or level of service for which reimbursement is
37 required by Section 3.

38 SEC. 2. (a) As used in Section 7.5 of Article IV, “the
39 percentage increase in the appropriations limit for the State
40 established pursuant to Article XIII B” means the percentage

1 change in California per capita personal income from the prior
2 year, plus (1) the percentage change in the State's population
3 multiplied by the percentage change in the State's budget in the
4 prior fiscal year that is expended for other than educational
5 purposes for kindergarten and grades 1 to 12, inclusive, and the
6 community colleges, and (2) the percentage change in the total
7 statewide average daily attendance in kindergarten and grades 1
8 to 12, inclusive, and the community colleges, multiplied by the
9 percentage of the State's budget in the prior fiscal year that is
10 expended for educational purposes for kindergarten and grades 1
11 to 12, inclusive, and the community colleges.

12 (b) As used in Section 8 of Article XVI, "change in the cost of
13 living pursuant to paragraph (1) of subdivision (e) of Section 8 of
14 Article XIII B" means the percentage change in California per
15 capita personal income from the prior year.

16 SEC. 3. (a) Whenever the Legislature or any state agency
17 mandates a new program or higher level of service on any local
18 government, the State shall provide a subvention of funds to
19 reimburse the local government for the costs of that program or
20 increased level of services, except that the Legislature may, but is
21 not required to, provide that subvention of funds for the following
22 mandates:

23 (1) A legislative mandate requested by the local government
24 affected.

25 (2) Legislation defining a new crime or changing an existing
26 definition of a crime.

27 (3) A legislative mandate enacted prior to January 1, 1975, or
28 an executive order or regulation initially implementing legislation
29 enacted prior to January 1, 1975.

30 (b) (1) Except as provided in paragraph (2), for the 2005–06
31 fiscal year and every subsequent fiscal year, for a mandate for
32 which the costs of a local government claimant have been
33 determined in a preceding fiscal year to be payable by the State
34 pursuant to law, the Legislature shall either appropriate, in the
35 annual Budget Act, the full payable amount that has not been
36 previously paid, or suspend the operation of the mandate for the
37 fiscal year for which the annual Budget Act is applicable in a
38 manner prescribed by law.

1 (2) Payable claims for costs incurred prior to the 2004–05 fiscal
2 year that have not been paid prior to the 2005–06 fiscal year may
3 be paid over a term of years, as prescribed by law.

4 (3) Ad valorem property tax revenues shall not be used to
5 reimburse a local government for the costs of a new program or
6 higher level of service.

7 (4) This subdivision applies to a mandate only as it affects a
8 city, county, city and county, or special district.

9 (5) This subdivision shall not apply to a requirement to provide
10 or recognize any procedural or substantive protection, right, benefit,
11 or employment status of any local government employee or retiree,
12 or of any local government employee organization, that arises
13 from, affects, or directly relates to future, current, or past local
14 government employment and that constitutes a mandate subject
15 to this section.

16 (c) A mandated new program or higher level of service includes
17 a transfer by the Legislature from the State to cities, counties, cities
18 and counties, or special districts of complete or partial financial
19 responsibility for a required program for which the State previously
20 had complete or partial financial responsibility.

21 (d) A claim may not be filed for reimbursement pursuant to
22 subdivision (a) for any mandate if more than two years have passed
23 since the effective date of the mandate and no claim for that
24 reimbursement was filed in that period.

25 (e) For the purposes of this section, “local government” means
26 a city, county, city and county, school district, special district,
27 authority, or other political subdivision of or within the State.

28 Third—That Section 8.5 of Article XVI thereof is amended to
29 read:

30 SEC. 8.5. (a) In addition to the amount required to be applied
31 for the support of school districts and community college districts
32 pursuant to Section 8, the Controller shall during each fiscal year
33 transfer and allocate all revenues available pursuant to
34 subparagraph (A) of paragraph (2) of subdivision (c) of Section 1
35 of Article XIII B to that portion of the State School Fund restricted
36 for elementary and high school purposes, and to that portion of
37 the State School Fund restricted for community college purposes,
38 respectively, in proportion to the enrollment in school districts and
39 community college districts respectively.

1 (1) With respect to funds allocated to that portion of the State
2 School Fund restricted for elementary and high school purposes,
3 no transfer or allocation of funds pursuant to this section shall be
4 required at any time that the Director of Finance and the
5 Superintendent of Public Instruction mutually determine that
6 current annual expenditures per student equal or exceed the average
7 annual expenditure per student of the 10 states with the highest
8 annual expenditures per student for elementary and high schools,
9 and that average class size equals or is less than the average class
10 size of the 10 states with the lowest class size for elementary and
11 high schools.

12 (2) With respect to funds allocated to that portion of the State
13 School Fund restricted for community college purposes, no transfer
14 or allocation of funds pursuant to this section shall be required at
15 any time that the Director of Finance and the Chancellor of the
16 California Community Colleges mutually determine that current
17 annual expenditures per student for community colleges in this
18 State equal or exceed the average annual expenditure per student
19 of the 10 states with the highest annual expenditures per student
20 for community colleges.

21 (b) From any funds transferred to the State School Fund pursuant
22 to subdivision (a), the Controller shall each year allocate to each
23 school district and community college district an equal amount
24 per enrollment in school districts from the amount in that portion
25 of the State School Fund restricted for elementary and high school
26 purposes and an equal amount per enrollment in community college
27 districts from that portion of the State School Fund restricted for
28 community college purposes.

29 (c) All revenues allocated pursuant to subdivision (a) shall be
30 expended solely for the purposes of instructional improvement
31 and accountability as required by law.

32 (d) Any school district maintaining an elementary or secondary
33 school shall develop and cause to be prepared an annual audit
34 accounting for those funds and shall adopt a School Accountability
35 Report Card for each school.

36 Fourth—That Article XIII B as repealed from and added to the
37 California Constitution by this measure and Section 8.5 of Article
38 XVI of the California Constitution as amended by this measure

- 1 shall become operative on the first July 1 following the approval
- 2 of this measure by the voters.

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