

At its meeting on March 11, 2009 in Auburn, the *Placer County Republican Central Committee* voted unanimously to **OPPOSE Propositions 1A, 1B, and 1C**. The *Central Committee* was particularly concerned about the record-breaking tax increases associated with Proposition 1A, which will not solve the spending problem in the State Capitol. The *Central Committee* voted to **SUPPORT Propositions 1D, 1E, and 1F**, although most Republicans agree that these last three measures will have very little impact on the daily lives of most people, whether they pass or fail.

If you are unfamiliar with these measures, we recommend the following short explanations from Bill Leonard, our Board of Equalization representative:

Excerpts From Bill Leonard's Comments In The Leonard Letter On The May 19, 2009 Ballot Propositions

The following commentaries were written for the Leonard Letter by Bill Leonard, a Republican member of the Board of Equalization, California's elected tax appeals board. Prior to Mr. Leonard's election to the Board in 2002, he served in the California Legislature for 24 years. He was first elected in 1978 as an advocate for Proposition 13. To read more of this sort of commentary, you can subscribe to the Leonard Letter, a free weekly commentary on tax matters and California government, by visiting Bill Leonard's website at www.billleonard.org

Proposition 1A

*****Having Considered Spending Caps, It's a Tax Increase*****

As much as I have fought for constitutional limits on government spending there is a price I will not pay. Tax increases that hurt families and grow government destroy the concept of limiting state spending. This is what Proposition 1A is all about. My friends Senator Bob Dutton, Assemblyman Chuck DeVore, and Howard Jarvis Taxpayers Association President Jon Coupal submitted a ballot argument that clearly laid out the problems with the deal. Since these problems are being hidden from the voters in the ballot pamphlet (except for the Legislative Analyst's summary), it is important to get the word out to voters. Who knows? Some may actually be willing to tax themselves more just to impose some spending formula on state government, but it will not be me.

Here is the ballot argument that you will not see on the ballot:

WARNING TO VOTERS: THIS IS A TAX INCREASE!

A two-thirds vote of the Legislature and the signature of the governor have made California the highest taxed state in the nation -- at least for the next two years.

Proposition 1A will extend these taxes for an additional two years costing taxpayers another \$20 billion.

The already approved tax increase will cost a typical California family more than \$1,100 annually.

We will be paying higher sales taxes, which hits low income residents the hardest.

We will be paying a higher car tax, which hits everyone who must drive to work.

We will be paying higher income taxes which hurt everyone.

We will see a reduction in the tax credit for dependents, costing California families \$200 per child.

Proposition 1A extends all these taxes well into the future in return for meaningless "budget reform." Meaningless? Yes, Meaningless. Under Proposition 1A, every time taxes are raised, the so-called spending cap can be adjusted upward. Where's the spending discipline in that?

Proposition 1A is not budget reform; it is a massive \$20 billion tax increase!

Vote NO!

Senator Bob Dutton
31st Senate District

Assemblyman Chuck DeVore
70th Assembly District

Jon Coupal, President
Howard Jarvis Taxpayers Association

Proposition 1A

*****LAO Update*****

The more I scrutinize the mega Budget deal coming before voters on May 19, the worse it looks. When I first heard about it, I hoped the spending cap component would take us back to the original Gann limit and I was assured by some that it would. The language on the cap is so vague I asked the Legislative Analyst's Office to calculate what the spending cap in 1A would be for 2009-10, assuming the cap was in place now. The Analyst's rough calculation is that the cap for the next Budget would be around \$108 billion on revenues of only \$97 billion. It is clear that the formula generates a cap far above what we are likely to have, so it will not control spending for many years, absent a huge and unexpected spike in revenue. Proposition 1A is a massive tax increase that pretends to control spending. It only does the former.

Proposition 1B

*****Promising Schools More Money That We Don't Have*****

Proposition 1B is a constitutional amendment that was placed on the ballot by the Legislature in the middle of the night as part of a last-minute budget deal. The deal avoids a lawsuit between the schools and the state over how to read Prop. 98 of 1988. It may avoid the legal battle, but at a cost of \$9.3 billion state taxpayer dollars being transferred to the schools, in addition to the generous funding schools would otherwise receive.

There were 21 "NO" votes in the Legislature, including: Senators Aanestad, Benoit, Cox, Dutton, Harman, Hollingsworth, Runner, Strickland, Walters, and Wyland, and Assemblymembers Anderson, DeVore, Fuentes, Gaines, Hagman, Harkey, Knight, Miller, Nielsen, Silva, and Tran.

Prop. 98 was designed to provide minimum funding guarantees for public schools and community colleges. The funding guarantees are based on state revenues, so when state revenues decline as they did this year, the state was able to reduce the amount transferred to schools by roughly \$3.8 billion over what it might have been. The lobbyists who perpetually demand more money for schools demanded that the schools should "get back" the money they "lost" in this year's budget deal, so Proposition 1B was placed on the ballot. Some people claim that the schools have a legal right to get back the funds that were saved this year under the existing terms of Prop. 98.

The Legislative Analyst has explained this unresolved legal debate (known as the "maintenance factor") in the ballot pamphlet at some length. For now, the important point is that Proposition 1B resolves that debate in favor of higher spending in the future and at a higher dollar amount than a court might order even if the state lost a lawsuit. It gives \$1.3 billion to the schools each year for seven years, beginning in 2011-12, in addition to the guaranteed funding required by Prop. 98. Then this amount would be added into the base of school funding, which will increase the formula guarantees for all future years.

This is ballot box budgeting at its worst since no one has any idea what state revenues might look like starting July 1, 2011. This measure would increase mandated spending before we have any idea how much money we will have, what school funding would be otherwise, or what other state spending priorities might exist in future years. This whole fight is over the minimum amount the state is obligated to pay to schools, but there is nothing to prevent the state from spending more on schools whenever it wants to do so, even if this measure were to fail.

This is also the only measure of the 6 measures on the May 19th ballot that is linked to another before it can take effect. Proposition 1A (the budget stabilization and tax increase extension plan) must be approved by voters or else Proposition 1B cannot be implemented, no matter what the vote.

Politically, this creates an interesting minefield because at least two education groups (the California Faculty Association and California Federation of Teachers) are opposing 1A while supporting 1B. Their position is inconsistent. While no special interest group is officially opposed to 1B, there are many liberal-oriented groups who fear the increased spending on education will crowd out their opportunities for increased spending on their favorite programs. They are correct. If 1A and 1B pass, and the budget deficit continues (which seems likely), the state will be obligated to increase school funding even while cutting every other program.

Likewise, conservative-oriented groups who fear that 1B is unaffordable foresee increased pressure on Legislators to increase taxes in an attempt to fund all of these obligations.

All in all, this is an expensive and risky way to solve a legal dispute over arcane language written in the 1980s, long before the state put itself into this budget catastrophe.

I urge a "NO" vote on Proposition 1B.

Proposition 1C

*****Spending Tomorrow's Lottery Money Today*****

Proposition 1C is a constitutional amendment. It would allow the State to borrow \$5 billion from the lottery program so that all of the money could be spent in the fiscal year beginning on July 1st. The funds would be paid back, along with billions in interest, with the profits that we hope to make from lottery ticket sales in future years.

Insiders call it “securitizing the lottery,” but it is the financial equivalent of taking out a second mortgage on your house to pay for this week’s groceries. This is an act of desperation that will make our financial situation even worse.

I wonder if some gamblers will play the lottery less often when they realize that the profits no longer fund our education system. If Proposition 1C passes, the lottery might as well change its slogan from “Our Schools Win, Too” to “Help Us Pay Our Irresponsible Debt!” or perhaps “Wealthy Wall Street Bond-holders Win, Too!”

1C contains contradictory funding guarantees for our schools to get at least as much as they are getting now from the lottery proceeds and a guarantee to pay off the \$5 billion in bonds plus interest. The proponents never explain where the State is going to get the money to fulfill these guarantees.

Proposition 1C is a reminder that our State can never borrow enough money to create prosperity. At best, this is a one year fix at a multi-year spending problem. Since it does not fix the spending problem, it is not worth the trouble or the risk. Sooner or later, we will be forced to deal with California’s spending problem. 1C might postpone the day of reckoning for a few weeks or months, but it will not solve the spending problem.

I urge a NO on Proposition 1C.

Proposition 1D

*****Not Completely Worthless****

Proposition 1D is a constitutional amendment that was placed on the ballot by the Legislature. Although it was inspired by the budget crisis, it should not be viewed in the context of the other May 19th ballot measures because it would be supportable even if California had a budget surplus.

Prop. 1D amends Proposition 10 from 1998, which was the poorly-designed tobacco tax increase of 50 cents per pack. Prop. 10 set aside about two-thirds of the funds from that tax increase to the local First 5 Commissions in each of the state’s 598 counties, plus the State First 5 Commission, to be used on child development programs. NONE of the funds from this tobacco tax are subject to legislative appropriation, and not a penny has been made available to deal with our budget crisis.

Prop. 10 created an unaccountable bureaucracy, run by political appointees, who were free to spend billions of dollars without legislative oversight. To the surprise of almost no one, these people spent millions of taxpayers’ dollars to promote Rob Reiner’s universal childcare initiative. No one went to jail for that outrageous incident, but it helps to illustrate the fact that Prop. 10 taxes have been used as a

slush fund that has been made available for the whims of powerful people without any of the normal checks and balances that apply to most state spending.

Unfortunately, Prop. 1D does not repeal Prop. 10 and it does not even impact most of the revenues from that tax. 1D simply redirects a fraction of the revenues from the tobacco taxes, for only five years, to make those funds available for appropriation by the legislature. The legislature has indicated that the redirected funds will be used for children's health programs that would otherwise be funded by the General Fund. 1D limits the revenue transfer to \$340 million from the accumulated surplus plus \$268 million annually from the tobacco taxes, until the end of the 2013-14 fiscal year. It also contains some very minor reforms, such as deleting the current 6% mandatory allocation for mass media communications from the State First 5 Commission's annual budget.

Prop. 1D is a very modest proposal and its passage will do very little to alleviate the budget crisis. However, it serves as an important reminder that there are numerous ways of solving California's budget crisis without raising taxes at all. Our state has hundreds of separate boxes of money that have been declared "off limits" to the Legislature and unavailable to reduce the deficit. Before raising taxes, we need to blow up those boxes and fully utilize the tax revenues that we already have on hand. 1D is a baby step in that direction.

I urge a YES vote on Prop. 1D.

Proposition 1E

*****Also Not Completely Worthless*****

Proposition 1E was placed on the ballot by the Legislature to deal with the budget crisis. It is a statutory amendment to Proposition 63 from 2004, which was a jobs-destroying income tax increase that raised the top rate to 10.3%, the highest tax rate among all the states. None of the funds raised by Prop. 63 are available to the General Fund because that measure set aside all of its revenue for new mental health programs.

Prop. 1E does not repeal Prop. 63, but it does modify it so that a third or less of the revenues can be made available to the General Fund for two years. But this quarter of a billion dollars in transferred funds is restricted to be spent on the Early and Periodic Screening, Diagnosis, and Treatment Program, which is a General Fund welfare program that provides a broad range of screening, diagnosis, and medical treatment, including mental health services, to Medi-Cal recipients under 21. By funding that federally-mandated welfare program with revenues from Prop. 63, the Governor and the legislators are hoping to reduce the General Fund deficit for at least two years without making any cuts in the program.

Like Prop. 1D, Prop. 1E is a very modest proposal that will do very little to alleviate the budget crisis. I think it is supportable because it will help our current budget crisis in a very limited way.

I urge a YES vote on Proposition 1E, but I do so without any real enthusiasm because this measure does not go far enough.

You can read the information from the official ballot pamphlet from the California Secretary of State here:

<http://www.voterguide.sos.ca.gov/>