

**PTA POSITIONS ON BALLOT MEASURES – NOVEMBER 2014 General Election
PROPOSITION 2***

State Budget. Budget Stabilization Account. Legislative Constitutional Amendment.

Proposition 2

The California State PTA has voted to take a **NEUTRAL POSITION** on Proposition 2, a constitutional amendment that will appear on the November 2014 general election ballot.

Official Title and Summary

Prepared by the Attorney General

State Budget. Budget Stabilization Account. Legislative Constitutional Amendment.

- Requires annual transfer of 1.5% of general fund revenues to state budget stabilization account.
- Requires additional transfer of personal capital gains tax revenues exceeding 8% of general fund revenues to budget stabilization account and, under certain conditions, a dedicated K–14 school reserve fund.
- Requires that half the budget stabilization account revenues be used to repay state debts and unfunded liabilities.
- Allows limited use of funds in case of emergency or if there is a state budget deficit.
- Caps budget stabilization account at 10% of general fund revenues, directs remainder to infrastructure.

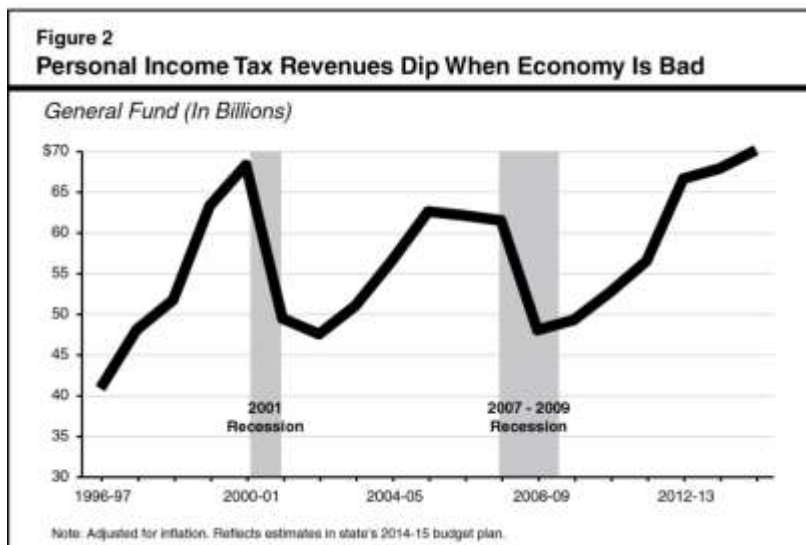
BACKGROUND INFORMATION

Legislative Analyst

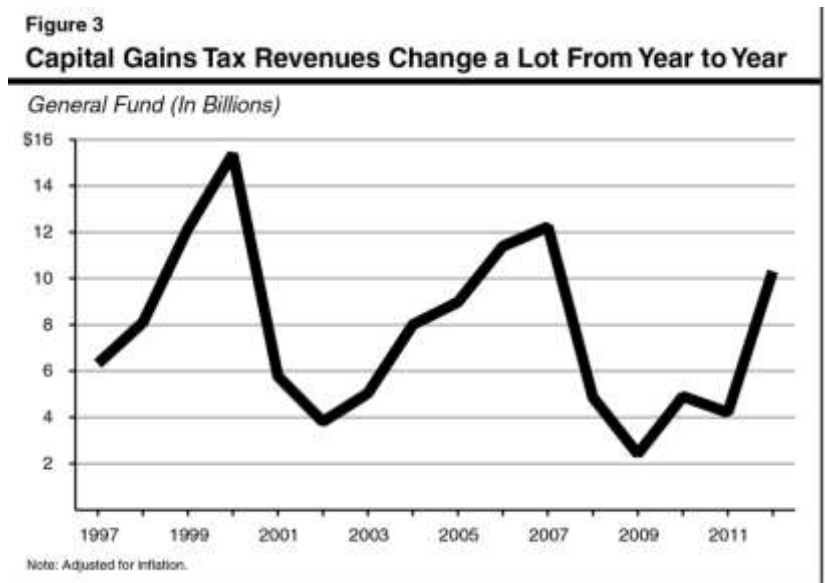
<http://www.lao.ca.gov/ballot/2014/prop-2-110414.aspx>

What Is A Rainy Day Fund?

“Rainy-Day” Reserves. Governments use budget reserves to save money when the economy is doing well. This means that money is saved instead of being spent on public programs during these periods of time.



When the economy gets worse and their revenues decline, governments use money that they saved to reduce the amount of spending cuts, tax increases, and other actions needed to balance their budgets. In other words, if a government saves more in reserves when the economy is doing well, it spends less during that time and has more money to spend when the economy is doing poorly.



<http://www.lao.ca.gov/ballot/2014/prop-2-110414.aspx>

Passage of Proposition 2 would amend the State Constitution to end the existing rules for a state budget reserve—the Budget Stabilization Account (BSA)—and replace them with new rules. The new rules would change how the state pays down debt and saves money in reserves.

In addition, if Proposition 2 passes, a new state law would go into effect that sets the maximum budget reserves school districts can keep at the local level in some future years.

Finally, the proposition places in the Constitution an existing requirement for the Governor’s budget staff to estimate future state General Fund revenues and spending.

FISCAL EFFECT

The Legislative Analyst provided *the following fiscal analysis:*

Proposition 2’s fiscal effects would depend on several factors. These include choices that the Legislature, Governor, school districts, and county education officials would make in implementing the proposition. Many of the fiscal effects of the measure would also depend on what the economy and capital gains are like in the future.

State Debts

Faster Pay Down of Existing State Debts Likely. Under Proposition 2, the state likely would make extra payments to pay down existing debts somewhat faster. This means that there would be less money for other things in the state budget—including money for public programs, infrastructure, and lowering taxes—during at least the next 15 years.

Paying down existing debts faster would lower the total cost of these debts over the long term. This means that the state could spend less on its debts in future decades, freeing up money for other things in the state budget over the long term.

State Reserves

Effect of New BSA Rules on State Budget. *Whether Proposition 2 would cause state budget reserves to be higher or lower over the long run would depend on (1) the economy and capital gains tax revenues and (2) decisions made by the Legislature and the Governor in implementing the measure. In some situations, for example, Proposition 2 could make it harder to take money out of the state's reserves, and this could lead to the reserves being larger over time. In other situations, this proposition could allow the state to put less in the BSA than the 3 percent basic amount specified in today's law. If Proposition 2 results in more money being put in the BSA in the future, it could lessen some of the "ups and downs" of state spending that occurred in the past.*

School Reserves

Effects of State Reserve for Schools. *As described earlier, certain conditions would have to be met before money would go into the state reserve for schools. Because of these conditions, money would be unlikely to go into the state reserve for schools in the next few years. In the future, money would go into this reserve only occasionally—likely in years when the economy is very good. State spending on schools and community colleges would be lower in the years when money goes into the state school reserve and higher in later years when money is taken out of this reserve.*

Effects on School District Reserves and Spending. *As discussed above, money likely would not go into the state reserve for schools in the next few years. Once money does go into this reserve, a new state law then would set a maximum amount of reserves that school districts could keep at the local level. In the past, most school districts have kept reserve levels much higher than these maximum levels.*

If Proposition 2 passes, school districts would respond to this new law in different ways. Some districts likely would spend more on teacher pay, books, and other costs in the few years after the proposition passes in order to bring their reserves closer to the future maximum levels. Other districts might wait until after money goes into the state reserve for schools and then either (1) spend large amounts all at once to bring their reserves down to the maximum levels or (2) seek exemptions from county education officials to keep their reserves above the maximum levels.

As a result of the new state law, some districts likely would have smaller reserves the next time the economy is bad. Those districts might have to make more difficult decisions to balance their budgets at that time. If money is available in the state reserve for schools, it could help districts avoid some of these difficult decisions.

ARGUMENTS FOR

Proposition 2 establishes a STRONG RAINY DAY FUND in the State Constitution that will force the Legislature and Governor to save money and pay down debts, which will shield TAXPAYERS from UNNECESSARY TAX INCREASES and PROTECT SCHOOLS from devastating cuts. BOTH Democrats and Republicans SUPPORT Proposition 2.

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ARGUMENTS AGAINST

Vote NO on 2 to PROTECT SCHOOLS. Proposition 2 hides a DANGEROUS financial time bomb that will LIMIT districts' ability to save. Proposition 2 helps to keep California ranked 50th in the nation in per pupil spending. Don't trust Sacramento. Get facts from parents, not politicians at www.2BadForKids.org.

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RATIONALE FOR PTA NEUTRAL POSITION ON PROPOSITION 2

Uncertainty of Impact

The Legislative Analyst indicates this measure requires complex computations and states it is unclear how these computations will affect state budgeting in the future. Additionally, when these reserve formulas are applied to budgets for the past 24 years, the Proposition 98 reserve would have only occurred two times. This measure would require repayment of funds owed to schools from prior years before depositing any money in the reserve account. The LAO forecasts it will take more than 5 years for this to be paid off. Further, Proposition 2 does not contain an authorization or a prohibition on the use of Budget Stabilization Account (BSA) funds for public education when there are no funds in the Proposition 98 reserve account. The Legislature would have to vote to appropriate BSA funds to public education under those circumstances.

PTA Policies support some aspects of Proposition 2, oppose others

California State PTA policies that apply to Proposition 2 are General Principles 5 and 8 of the Legislation Platform.

- General Principle 5ⁱ would provide the basis for **supporting** Proposition 2 because it would establish greater fiscal responsibility than we have seen for several years.
- General Principle 8ⁱⁱ and Legislation Plank 2ⁱⁱⁱ would provide the authority to **oppose** Proposition 2 because it may not protect adequate funding for public education. As noted above, passage of Proposition 2 would trigger implementation of a 2014 law that would restrict the level of reserves that school districts could accrue, thus limiting local control of school finances.

Accordingly, the uncertainty of the impact of Proposition 2 and the mixed potential for benefit and/or harm led the Board of Managers to take a **Neutral** position^{iv} on Proposition 2.

CONCLUSION

The California State PTA has a neutral position on Proposition 2

ⁱ General Principle 5, *“Establishment of and adherence to fiscal responsibility in government, with concern for fair taxation, but keeping priorities for the needs of all children and youth foremost.”*

ⁱⁱ General Principle 8. *Budgets and financial support to provide needed public services for all children and youth with the continued constitutional guarantee of financial support for public schools as the first claim on all state revenues in the general fund.*

ⁱⁱⁱ Legislation Planks 2: The California State PTA will support legislation...” *To secure financing for public education that will be sufficient to provide optimum educational opportunity for all students, including state aid to school districts for building purposes as well as state funds to cover excess costs of all programs mandated by the Legislature.*

^{iv} Neutral: The initiative may be relevant to the welfare of children and youth, but after careful analysis, the California State PTA has chosen to neither support nor oppose this particular initiative due to either lack of existing specific authority or conflicting authorities. Will not support or oppose passage of the initiative.