



**OFFICE OF THE
CITY ATTORNEY**

JAMES P. JACKSON
CITY ATTORNEY

THEODORE H. KOBAY, JR.
ASSISTANT CITY ATTORNEY

**CITY OF SACRAMENTO
CALIFORNIA**

March 22, 1988

812 TENTH STREET
SACRAMENTO, CA
95814-2694

916-449-5346

DEPUTY CITY
ATTORNEYS:
SAMUEL L. JACKSON
WILLIAM P. CARNAZZO
LAWRENCE M. LUNARDINI
GARLAND E. BURRELL, JR.
DIANE B. BALTER
RICHARD F. ANTOINE
TAMARA MILLIGAN-HARMON
RICHARD E. ARCHIBALD
LINDA M. GONZALEZ

Law and Legislation Committee
City Council Chambers
Sacramento, California 95814

**RE: PROPOSITION 71 - APPROPRIATIONS
LIMIT ADJUSTMENT**

Honorable Members in Session:

SUMMARY

This report presents for Committee endorsement Proposition 71 concerning adjustment of the Gann/Prop 4 appropriations limits.

BACKGROUND

Proposition 71 would amend the provisions of the California Constitution which impose annual spending limits on state government and local governmental entities.

The amendments would change the formula for adjusting annual limits based on consumer price index (CPI) increases and population growth. An adjustment which is now based on the U.S. CPI change or the change in California per capita personal income, whichever is less, would instead be based upon the California CPI change or the change in California per capita personal income, whichever is greater.

Appropriations adjustments would take into account not only population growth, but also the extent to which the increase in K-12 and community college attendance exceeds population growth. Local entities could consider increases in number of persons

employed as well as number of residents, on the theory that commuting employees also require essential local services.

The proposition also takes motor vehicle taxes and gasoline taxes out of the appropriations limit by redefining them as user fees.

Proposition 71 is an initiative proposition supported by Californians for Quality Government, a coalition of numerous organizations including the League of California Cities and the County Supervisors Association of California.

Attached to this report is a package of material prepared by Californians for Quality Government.

RECOMMENDATION

It is recommended that the Law and Legislation Committee endorse Proposition 71 on behalf of the City of Sacramento.

Respectfully submitted,

JAMES P. JACKSON, City Attorney



DIANE B. BALTER
Deputy City Attorney

DBB:je
Att.

March 31, 1988
Law and Legislation
All Districts

CALIFORNIANS for QUALITY GOVERNMENT

111 Anza Boulevard, Suite 406 • Burlingame, California 94010 • (415) 340-0470
5757 West Century Boulevard, Suite 400 • Los Angeles, California 90045 • (213) 670-8221
10393 San Diego Mission Road, Suite 208 • San Diego, California 92108 • (619) 280-2462
4309 U St., Sacramento, CA 95817 916/739-8414

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Persons-CA
League of Women Voters
of California
California Association of Highway
Patrolmen
Bill Honig, Superintendent of
Public Instruction
California State Sheriffs Association
California Fire Chiefs Association
Congress of California Seniors
California Police Chiefs Association
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10-MARCH-88

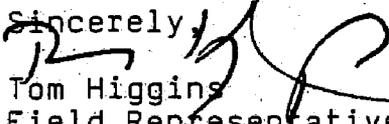
Mr. Terry Kastanis, Chair
Law and Legislation Committee
Sacramento City Council
915 I Street
Sacramento, CA 95814

Dear Mr. Kastanis:

Thank you for the opportunity
to speak to the Law and Legislation
Committee about Californians
for Quality Government's initiative-
Proposition 71.

I have enclosed information and a
sample resolution on our initiative.

I look forward to speaking to your
committee on Thursday March 31 at 4 pm.

Sincerely,

Tom Higgins
Field Representative

UPDATE THE SPENDING LIMIT

In 1979, nearly a decade ago, California was a dramatically different place.

Jerry Brown was governor and the state was embroiled in an unprecedented taxpayer revolt. Double-digit inflation was considered a permanent fixture of the state and national economy. More than 90% of the then 23 million Californians were younger than 65. School enrollments were declining and prison population was less than one-third of what it is today. Traffic jams did not clog nearly every freeway, AIDS had not yet been discovered, and the disposal of toxic waste was but a minor problem.

Today, ever-changing California is one of the fastest-growing states in the nation.

Inflation has steadily declined since the mid-1980's. The California economy continues to grow. California per capita personal income currently ranks one of the highest in the nation.

More than 27 million people now call California home. Every year, 130,000 new children enter our school system. Our senior citizen population also has soared, growing twice as fast as the general population, and is expected to far outstrip other demographic groups well into the next century. By the year 2000, 3.8 million Californians will be 65 or older.

We have 4 million more cars on the road today than in 1979. Californians now waste 300,000 hours every day, stuck in traffic jams. And, as Governor Deukmejian recently noted, "If you think traffic is bad today, in just 15 years we will be sharing the road with 15 million additional cars and trucks."

The public's demand for tougher criminal laws and longer prison sentences has tripled our inmate population. California now houses one-tenth of all the prisoners in the nation, making us the state with the worst prison overcrowding problem. Just five years ago, the Department of Corrections budget was \$500 million. Today it exceeds \$1.4 billion and continues to skyrocket.

Since 1979, state spending on anti-toxics programs has increased more than 400%. And California now accounts for fully one-fourth of all the nation's AIDS cases.

Back in 1979, the year following the passage of Proposition 13, Californians approved Proposition 4, known as the Gann Spending Limit. It restricts all future state and local government spending of tax revenue to 1979 levels, allowing annual adjustments only for general population and cost of living changes. (The latter is defined as the change in the United States Consumer Price Index (CPI) or California per capita personal income, whichever is less.)

Allowing annual adjustments strictly for general population and inflation changes might well have seemed a surefire protection back in 1979. Much like the Edsel, the "unsinkable" Titanic and the "new" Coke once seemed like such good ideas.

Today, however, the spending limit has become an out-moded and inflexible document. It is unworkable, unable to meet the changing needs of Californians and sorely in need of updating. It prohibits the use of already-collected tax dollars to maintain even the current level of education, law enforcement and other critical services.

In fact, the Commission on State Finance's forecast shows that the existing limit could force more than \$23 billion in cuts in current public services during the next decade. That means \$23 billion in cutbacks to education, law enforcement, health care, senior programs and other vital services!

We need an effective government spending limitation, one that will force the politicians to set priorities and manage our tax dollars efficiently. At such a critical time for California, we can ill afford a limit that allows 1979 economics to control what we do today, encourages political shell games and fiscal mismanagement and forces current service cutbacks.

allow the recent education reform movement to continue.

At a time when senior citizens are quickly becoming the fastest growing segment in our state, we need a limit that will not force further cutbacks in Medi-Cal and health care for the elderly.

At a time when California ranks No. 50 in per capita expenditures on transportation and the Department of Transportation projects more than \$13 billion will be needed to accommodate growth by 1995, we need a limit that enables us to keep up with the present and build for the future.

At a time when the state is in the midst of the largest prison construction program in the nation to enable our prisons, currently bulging with twice their designed capacity, to accommodate our get-tough-on-crime demands, we need a limit that does not threaten to return these criminals to the streets simply because our prisons are too crowded.

At a time when the cost of research and medical care for the state's growing flood of AIDS patients is expected to increase four-fold in the next four years, we need a limit that does not prohibit us from using available resources to combat an unanticipated, deadly epidemic.

At a time when dramatic cutbacks are expected in federal funds which are currently not counted against the limit, we need a limit that will enable the state to help compensate for those lost dollars for education, law enforcement, health care and other critical services.

That's why a growing coalition of education, law enforcement, business, health care, seniors and good government organizations is placing an initiative on the June, 1988 ballot that would update the limit. Known as the "Government Spending Limitation and Accountability Act", the measure would preserve the check on government spending but adjust it to reflect our growing economy and changing needs. It would modify the annual cost of living and population adjustments used under existing law and provide taxpayers with an effective tool for holding government accountable.

Specifically, the initiative would base annual cost-of-living adjustments on the California Consumer Price Index (CPI), rather than the U.S. CPI, and would be balanced to reflect the real growth of California's economy. Why should we be held back by a national inflation indicator that reflects the combined experiences of states like Arkansas and Louisiana?

Annual population adjustments to the state limit would include increases in student enrollments. School population is currently growing twice as fast as overall state population. We need to take care of those 130,000 new kids.

In the case of municipal governments with large commute populations, annual adjustments would address the growing number of commuters requiring essential local services. Developing cities and counties should be able to put their increased resources to use in order to provide law enforcement and other local services for a growing base.

Earmarked motor vehicle and gasoline taxes would be properly treated as user fees without adversely affecting other public services. These revenues would be guaranteed for their intended transportation purpose and still subject to the taxpayer protections provided by Proposition 13.

Finally, to ensure the proper accountability to taxpayers, the existing Commission on State Finance would report annually the manner in which state revenues are spent and the amount of the state appropriations subject to limitation.

California is one of the fastest growing states in the nation. Common sense dictates that our thriving economy and increased revenues be used to meet our growing demands. We cannot afford to let a law that has become obsolete hold us back now.

For further information, please contact Californians for Quality Government:
Northern Office: 111 Anza Blvd, #406, Burlingame, CA, 94010, (415) 340-0470 or
Southern Office: 5757 W. Century Blvd, #400, Los Angeles, CA, 90045, (213) 670-8221/8315.

UPDATING THE SPENDING LIMIT FOR CALIFORNIA SCHOOLS

Q: What is the Gann Spending Limit?

A: Passed nearly a decade ago as Proposition 4, this law restricts state and local government spending to 1979 levels, allowing annual adjustments only for overall population and cost of living changes. (The law currently defines 'cost-of-living' as the national Consumer Price Index (CPI) or California's per capita personal income, whichever is lower.)

Q: Don't we need a limit on government spending?

A: Absolutely! But we need a workable limit, not one that is out-moded, inflexible and incapable of meeting the changing needs of Californians. By allowing 1979 economics to control what we do today, the existing limit not only encourages political shell games and fiscal mismanagement but forces critical cuts. Education and others suffer at the same time collected but unused tax revenues are available --needed but untouchable.

Q: Isn't the existing limit adjusted annually? Why the updating?

A: California is a dramatically different place today than it was back in 1979. Tying annual increases to the national inflation rate might have made sense 10 years ago when inflation was perceived as a permanent fixture of the economy. But today, California's economy is growing much faster than the rate of inflation which is no longer at double-digit levels.

Q: Does the spending limit reflect the growth in school population or just overall population?

A: Local school district limits are annually adjusted for growth in average daily attendance (ADA) but the state limit, the source of a full two-thirds of school funding, is not. Thus, the primary education funding source is controlled by a legal limit that does not even consider changes in school population.

Q: Hasn't school population increased dramatically since 1979?

A: Absolutely! When the spending limit was approved, school enrollment was declining. It has since grown at twice the rate of the state's overall population. Today, nearly 4.4 million students are enrolled in California's public schools. That's more people than live in one-half of the states in the nation and almost one half of the nations in the world.

Q: Will school population continue to grow?

A: You better believe it! A whopping 130,000 new children will be entering our public schools each year for the next decade.

Q: How does the limit directly affect California's schools?

A: It prohibits already-collected tax dollars from being used to maintain even the current level of education services for a growing base. And that spells CUTBACKS. The Commission on State Finance projects that the existing limit could force more than \$23 billion in cutbacks in current public services during the next decade, not only in education but in health care, law enforcement, senior care and transportation services.

Q: Have school districts been forced to make cutbacks for next year?

A: Yes, many school districts cut their budgets this year. At a time when its school enrollments will increase by 40% over the next decade, the Sacramento City Unified School District was forced to cut \$7 million from its 1987-88 budget. Among the positions being slashed are those of counselors, police, music and physical education teachers, custodians, librarians and administrators. Unless a solution is found, more severe cuts are expected in this and every other school district in the state.

Q: How will the limit affect California's efforts to improve schools?

A: The reform movement is now at a stand still. Unless the spending limit is updated, California's classrooms will remain the most crowded in the country. Programs to assist teachers improve curriculum will be cut. High school dropout rates (already one of the 10 worst in the nation) will continue to worsen.

Q: What's being done to modify the spending limit?

A: A broad based coalition of education, law enforcement, local government, business and labor organizations is working to qualify an initiative for the June, 1988 ballot. Entitled the "Government Spending Limitation and Accountability Act", it would modify the cost of living and population adjustments used under existing law and provide taxpayers with an effective tool for controlling government spending.

Q: How will the initiative update the limit?

A: (1) The cost-of-living adjustment will reflect California's inflation rate (as measured by the California, rather than U.S. CPI) or the growth in the state's economy, whichever is higher.

(2) The population adjustment will reflect increases in school enrollment in the state limit and growth in local commute populations in the case of city and county limits.

(3) Taxes and fees on motor vehicle fuels currently earmarked for transportation purposes will be treated as user fees without adversely affecting education or any other public service.

(4) The existing Commission on State Finance will report to taxpayers annually how their hard-earned tax dollars are being spent.

Q: Will the initiative raise state or local taxes?

A: Absolutely not! The initiative specifically states that it will not increase taxes.

Q: Who supports the initiative?

A: A growing coalition, including: the California State PTA, California School Boards Association, Association of California School Administrators, California Teachers Association, California Federation of Teachers, California School Employees Association, Police Officers Research Association of California, California Correctional Peace Officers Association, California Fire Chiefs Association, League of Women Voters and the Associated General Contractors of California.

Q: Who should I contact to help update the Gann Spending Limit?

A: Write Californians for Quality Government, 111 Anza Blvd., Suite 406, Burlingame, CA. 94010. Or call us at (415) 340-0470.

1/20/88

SACRAMENTO
BEE

Gann over GAIN?

On the list of major policy initiatives for which the Deukmejian administration can claim some credit, the most potentially far-reaching is GAIN, the 1985 workfare reform that seeks to move welfare recipients from the dole to the workplace. Yet even before GAIN has been fully implemented, the administration shows signs of wavering in its commitment to the program.

The governor's budget, unveiled earlier this month, requests \$408 million for GAIN in the coming fiscal year. That's a substantial increase of \$200 million over workfare spending in the current year, but it nevertheless falls about \$100 million short of what will be required to fully fund workfare when the remaining counties, such as Los Angeles and Orange, enter the program later this year.

The administration offers a plausible defense for the GAIN shortfall. Preparing welfare recipients for the workplace has turned out to be more difficult and expensive than anticipated. Two-thirds of those who've enrolled so far lack the basic skills to get and hold a job. They must be given remedial education, a costly service, before they can be routed into GAIN's training and job-search components. Those higher-than-expected costs have thrown GAIN in the zero-sum budget game created by the state's Gann

spending limit. Just like schools, highways and medical care, workfare has come out a loser.

The governor holds out hope that GAIN funding can be made whole, either from revenues derived from faster economic growth or from federal aid that would come with the passage of a federal welfare reform act. Still, a program as important as GAIN, which the governor touts as a national model, deserves a budget based on something firmer than a wish. Underfunding workfare would force counties entering GAIN to limit access to the program. New welfare applicants would no longer be enrolled in GAIN, destroying its universality. More damaging, GAIN would no longer be able to accept volunteers, mothers with children under 6 who want to get off welfare but need an assist with education, job training or child care.

When California instituted GAIN, it sent a double message: that parents have an obligation to work to support their children and that society has a duty to help prepare parents for jobs. For the governor and the Legislature to underfund the program even before it is fully operational would send the quite different, and distressing, signal that California didn't really mean it.

From Robert



Los Angeles Times

A Times Mirror Newspaper

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Health Under Gann

The chill effect of the Gann amendment on the state is starkly visible in Gov. George Deukmejian's budget proposals for health services—including AIDS, Medi-Cal, programs for the medically indigent, and other poverty health services.

The only major qualitative improvement proposed—improving the long-neglected prenatal care of Medi-Cal mothers—would be funded by cutting the fees of other doctors, thus risking a worsening of the already dismal access to care for the poor.

Major urban counties, including Los Angeles, that bear the brunt of the cost of serving medically indigent adults would receive no increase in regular state funds next year—a proposal that risks further cutbacks in basic services to an estimated 5 million Californians.

The state's AIDS program would be increased by \$5.3 million to a total of \$70.2 million, the largest in the nation, according to Deukmejian, but even this has drawn criticism. Dr. Lauren White, incoming president of the California Medical Assn., called it "unrealistic," and so it would seem, measured against caseload projections. On this score, however, the governor has promised additional money if it proves necessary.

The only substantial input of new money for basic services will come from federal funds to ease the effect of the new immigration amnesty program. California is scheduled to receive \$1.7 billion over the next four years, and Los Angeles County, a center of undocumented immigrants, will be the major beneficiary. Some of that will help emergency and obstetric services to those seeking amnesty and to other undocumented aliens.

Medi-Cal, the joint federal-state program for low-income persons, will be increased more than

8%, to \$6.2 billion. The increase is accounted for almost entirely by projected increases in the utilization of services, in increased caseloads and in increased costs. The only significant improvement in fees is in the prenatal program, in which the compensation of obstetricians would go from \$659 to \$765, with an additional \$150 to doctors providing comprehensive prenatal services. Even with that 16% increase, however, the total fee is so far below the average compensation in the state that it remains doubtful that it will attract into the program enough obstetricians to ensure access to this highly cost-effective service for all the eligible women. Additional 10% increases are proposed for other services to children under Medi-Cal. The fee increases are to be financed by 10% cuts of other doctors' fees—a serious mistake, we think.

Once again the governor has refused any funding for trauma centers, and any additional funding for treating those without health insurance—the population segment in major urban areas that has created the crisis in trauma networks.

Deukmejian makes much of what he calls "keeping faith with Proposition 4," the ill-conceived Gann amendment adopted by the voters. We think he is wrong. Flaws in that formula to limit public spending are more and more evident, and this prosperous state finds itself unable to respond adequately with cost-effective public services and forced to postpone services that will only be costlier because of the postponement. That is particularly evident in health care. But even within the constraints of the Gann initiative there are opportunities for improved services, including health services. If the governor does not understand that, perhaps the Legislature does.

APPROPRIATIONS LIMIT ADJUSTMENT. CONSTITUTIONAL AMENDMENT. Constitution limits tax revenues state and local governments annually appropriate for expenditure; allows "cost of living" and "population" changes. "Cost of living" defined as lesser of change in US Consumer Price Index or per capita personal income; measure redefines as greater of change in California Consumer Price Index or per capita personal income. "State population" redefined: includes increases in K-12 or community college average daily attendance greater than state population growth. Local government "population" redefined: includes increases in residents and persons employed. Specifies motor vehicle and fuel taxes are fees not subject to appropriations limit. Summary of estimate by Legislative Analyst and Director of Finance of fiscal impact on state and local governments: The state's appropriations limit is estimated to increase by approximately \$800 million in 1988-89 and by increasing amounts thereafter. Indeterminable effect on the appropriations limits of other public entities. Cost of Commission on State Finance report required by this measure would probably be less than \$500,000 annually.

TO THE HONORABLE SECRETARY OF STATE OF CALIFORNIA:

We, the undersigned (signatures on reverse side), registered, qualified voters of California, residents of the County (or City and County) specified on the reverse side hereof, hereby propose amendments to the Constitution of California, relating to Article XIII-B and petition the Secretary of State to submit the same to the voters of California for their adoption or rejection at the next succeeding general election or at any special statewide election held prior to that general election or otherwise provided by law. The proposed constitutional amendments read as follows:

SECTION 1. This amendment shall be known as the "Government Spending Limitation and Accountability Act."

SECTION 2. The People of the State of California find and declare that:

(1) A strong and effective constitutional limitation on government spending is necessary to guarantee accountability to taxpayers and force the politicians to set priorities and manage our tax dollars efficiently.

(2) The state and local government spending limitation contained in the California Constitution is out of date and no longer provides taxpayers with an effective tool for controlling government spending.

(3) Since its adoption in 1979, the current limit has failed to reflect the many changes in California's economy. As a result, already-collected tax revenues cannot be used to maintain the current level of education, crime prevention, public safety, and other vital public services.

(4) The current limit also has failed to reflect the changing and growing needs of California taxpayers. With 100,000 new children entering our schools each year, enrollments are increasing much faster than the overall growth in population.

(5) Adoption of this act will not increase state or local taxes or remove any funds from existing programs, including education, law enforcement, health care and senior services.

(6) Current law, assuring that the spending limit may be changed only by a vote of the people, is retained; and if the voters do raise the spending limit, that change must be voted on every four years.

(7) As taxpayers, we should be told the manner in which government is spending our hard-earned dollars. To guarantee accountability to taxpayers, the existing Commission on State Finance shall report annually to taxpayers, how state revenues are spent and the amount of the state appropriations subject to limitation. Such reports can be prepared at minimal cost, using existing information, and can be mailed to taxpayers along with other tax information.

(8) Taxes and fees on motor vehicle fuels are currently earmarked for transportation purposes and should be treated as user fees. This act properly treats them as user fees, subject to the taxpayer protections provided by Proposition 13, without adversely affecting other public services.

(9) Adjustments are necessary to update the existing spending limitation to reflect the real growth of California's economy and the needs of its citizens, and enable taxpayers to hold government accountable for the proper enforcement of this act.

SECTION 3. Article XIII B, Section 8(e) of the California Constitution is amended to read:

SEC. 8(e) "Cost of living" shall mean the Consumer Price Index for the United States as reported by the United States Department of Labor, or successor agency of the United States Government State of California as reported by the Division of Labor Statistics and Research or successor agency of the State of California; provided, however, that for purposes of Section 1, the change in the cost of living from the preceding year shall in no event exceed be less than the change in California per capita personal income from said preceding year.

SECTION 4. Article XIII B, Section 8(f) of the California Constitution is

amended to read:

SEC. 8(f) "Population" of any entity of government, other than a school district, shall be determined by a method prescribed by the Legislature, provided that such determination shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce or successor agency of the United States Government. The population of any school district shall be such school district's average daily attendance as determined by a method prescribed by the Legislature. In addition, for the state, population shall include any increases in average daily attendance for the K-12 or community college system which are in excess of the percentage growth in state population. In the case of local governments other than schools, such determination shall consider increases in the number of persons employed as well as residing within the jurisdiction.

SECTION 5. Section 12 is hereby added to Article XIII B of the California Constitution:

SECTION 12. The Commission on State Finance shall report annually to the taxpayers how state revenues received during the preceding fiscal year are spent and the amount of the state's appropriations subject to limitation under the provisions of this Article.

SECTION 6. Section 13 is hereby added to Article XIII B of the California Constitution:

SECTION 13. Changes to Section 8 adopted at the time this section is added to the Constitution shall be considered effective commencing with the 1986-87 fiscal year for purposes of calculating the appropriations limit of each entity of government for the 1988-89 fiscal year and each year thereafter.

SECTION 7. Section 14 is hereby added to Article XIII B of the California Constitution:

SECTION 14. (a) For purposes of this Article, taxes and fees imposed on motor vehicles and motor vehicle fuels to the extent they are appropriated for the purposes specified in Article XIX shall be deemed user fees.

(b) Commencing with the 1988-89 fiscal year, the appropriations limit for each fiscal year shall be reduced by an amount equal to the amount of revenues which but for subdivision (a) would be classified as proceeds of taxes.

(c) In computing the appropriations limit for the 1989-90 fiscal year and succeeding fiscal years, the appropriations limit for the immediately prior fiscal year shall be determined to be the amount of the appropriations limit prior to the reduction made in subdivision (b).

(d) For purposes of this section, "revenues which but for subdivision (a) would be classified as proceeds of taxes" includes only those revenues which would have been generated by laws in effect at the time this section becomes effective.

SECTION 8. If any section, part, clause or phrase in this Article is for any reason held invalid or unconstitutional, the remaining portions of this Article shall not be affected but shall remain in full force and effect.

SAMPLE RESOLUTION

WHEREAS, Californians for Quality Government, is sponsoring for the June, 1988, ballot an initiative that would modify the current Government Spending Limitation that would more accurately reflect California's economic growth and spiraling service populations; and

WHEREAS, the current Government Spending Limitation has threatened to halt all real increases and force reductions in education, law enforcement, health care, senior programs, transportation and other vital services; and

WHEREAS, the current Government Spending Limitation restricts state and local government spending to 1979 levels; adjusted only for population and inflation changes; and

WHEREAS, the Commission on State Finance reports that the current limit could force over \$23 billion in cuts in critical public services over the next decade; and

WHEREAS, the current Government Spending Limitation is inflexible and inhibits the state's ability to use already-collected tax dollars to at least maintain the current level of funding for critical services; and

WHEREAS, this proposed initiative would modernize both the cost of living and population formulas to more accurately reflect California's economic growth and changing needs and redefine gas taxes as user fees so to provide much needed transportation dollars without adversely affecting other crucial public services; and

WHEREAS, this initiative would ensure accountability to taxpayers by requiring the existing Commission on State Finance to report annually the manner in which state revenues are spent and the amount of the state appropriations subject to limitation; and

WHEREAS, the California Police Chiefs Association, California State Sheriffs Association, California Fire Chiefs Association, Californians for Better Transportation, California Tax Reform Association, League of Women Voters of California, California Teachers Association, California Federation of Teachers, California School Boards Association, California State PTA, California Community College Trustees, Congress of California Seniors, California Seniors Coalition, California Correctional Peace Officers Association, California Association of Homes for the Aging, California Association of Highway Patrolmen, Peace Officers Research Association of California, California State Employees Association, American Association of University Women - CA Division, California State Council of Service Employees, California Nurses Association, Lutheran Office of Governmental Ministry, and many others are in full support; now, therefore be it

RESOLVED, that _____ fully support and endorse the "Government Spending Limitation and