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California's May 2009 Special Election: Analyzing the Propositions and Offering Alternatives for Real Reform

By Adam B. Summers

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Reason Foundation

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Part 1

Introduction

With much fanfare, and after a record delay of nearly three months, the original state budget for the 2008-09 fiscal year was signed by Gov. Arnold Schwarzenegger on September 24, 2008. That budget addressed a $15.2 billion budget shortfall,[1] but did so largely by papering over the deficit with accounting gimmicks and pushing it onto the following year. Exacerbated by deteriorating economic conditions, the projected deficit has ballooned dramatically since the budget was signed. The deficit rose to an estimated $28 billion,[2] and then to $41.8 billion just weeks later.[3] Thus, the deficit has eclipsed the massive deficit of 2003-04, which was estimated between $26 billion and $34.6 billion over a similar 18-month timeframe under then-Governor Gray Davis.[4] It is ironic that Governor Schwarzenegger was forced is presiding over a larger budget deficit than his predecessor, who was recalled from office chiefly because of his fiscal mismanagement.

In order to address the problem, the legislature and the governor negotiated another round of budget reforms in February 2009 to address the projected shortfalls in fiscal years 2008-09 and 2009-10. As part of the February budget deal, a special election was called and six propositions—numbered 1A through 1F—were placed on the upcoming May 19 ballot.

The Ballot Measures

The six measures on the special election ballot represent an attempt by legislators and the governor to right the state's fiscal ship. They assert that passage of these propositions will balance the state's budget. The bills presented by legislators all have the same goal of increasing the General Fund, which legislators can spend as they see fit. Propositions 1A and 1B increase the General Fund directly through taxation, and Proposition 1C increases the General Fund via borrowing. These propositions provide a one-step process for increasing unrestricted funds. Propositions 1D and 1E take funds that taxpayers voted to spend on mental health services and children's services and reroute those monies to pay for services that are currently paid out of the General Fund. By freeing up the General Fund from having to pay for these services, these propositions effectively redirect money to the General Fund where it is unrestricted, the same money that voters had approved for specifically for mental health and children's programs. These propositions present a two-step process to increasing unrestricted funds: first encourage voters to approve increased taxes for specific causes like mental health and children's services, then ask voters to approve redirecting those funds into the General Fund.

Unfortunately, passage of these propositions will not bring any meaningful reform or solve the state's structural deficit, but will impose higher taxes on the already overburdened backs of taxpayers.

- Proposition 1A would extend the temporary taxes imposed by the February budget deal by up to two more years, at a cost of approximately $16 billion to California taxpayers. It also modifies the rainy-day reserve fund and spending restrictions.
- Proposition 1B would commit an additional $9.3 billion to education funding and lock in higher education obligations in the future, although it would only go into effect if Proposition 1A also passes.
- Proposition 1C would permit the state to borrow billions of dollars against future lottery profits.
- Propositions 1D and 1E would allow the state to transfer money dedicated to children's health and mental health programs to the General Fund.
- Proposition 1F would prevent lawmakers and statewide constitutional officers[5] from receiving pay increases in years when the state is running a budget deficit.

Unfortunately, booming revenue has not solved the state's budget problems, so more tax increases are not likely to help. Not to mention that Californians are already too heavily taxed. The spending limitations are weak and contain significant loopholes. Excessive borrowing has helped to get the state into its current fiscal crisis, and borrowing should not be used for annual spending at any rate, only to finance long-term projects like infrastructure investments. And more shell games that raid some dedicated funds to create more discretionary funds for the legislature do nothing to address the underlying problems with the budget.

In an effort to appease both sides of the political aisle, Governor Schwarzenegger and the legislature tried in their February budget deal to marry such ideologically disparate solutions as tax increases, spending limitations and borrowing and spending increases in a compromise "budget reform" package. They appear to have only alienated both sides instead. The California Republican Party has come out against all of the measures,[6] and the California Democratic Party is deeply divided, having endorsed three of the six measures—Propositions 1B, 1C, and 1F—but refusing to support Propositions 1A, 1D and 1E.[7]

In their numerous television, radio and direct mail advertisements, proponents of the measures argue that they will solve the state's chronic fiscal problems. They will not. In fact, the nonpartisan Legislative Analyst's Office has noted that even if all of the measures on the ballot pass, the state's financial position has deteriorated such that it would still be facing at least an $8 billion hole.[8] Since the February budget package counted on $5 billion in lottery borrowing under Proposition 1C and roughly $1 billion from the children's health and mental health programs affected by Propositions 1D and 1E, respectively, that gap would already be at least $14 billion if those measures fail. Moreover, even assuming that Propositions 1C through 1E do pass, the state's "structural deficit" (the deficit that remains even when the economy is booming) is projected to balloon to $26 billion by 2013-14.[9]

Public opinion polls show that Californians are pessimistic about the propositions and their prospects for reform. This is interesting since in recent elections California voters have been very willing to vote for new borrowing and spending. But now a Field Poll conducted April 16-26 found that likely voters oppose five of the six ballot measures, with only Proposition 1F enjoying strong support (see Table 1).[10] Significant majorities in both the Republican and Democratic parties—72% overall—felt that voting down the measures "would send a message to the governor and the state legislature that voters are tired of more government spending and higher taxes."[11] In addition, a March Public Policy Institute of California poll revealed record low approval ratings for the legislature (11%) and Governor Schwarzenegger (33%).[12] For the first time, a majority of Republican likely voters (54%) disapprove of the governor's performance.[13]

Table 1: How the Propositions Are Polling, April 2009

Proposition	Yes	No	Undecided
1A	40%	49%	11%
1B	40%	49%	11%
1C	32%	59%	9%
1D	40%	49%	11%
1E	40%	51%	9%
1F	71%	24%	5%

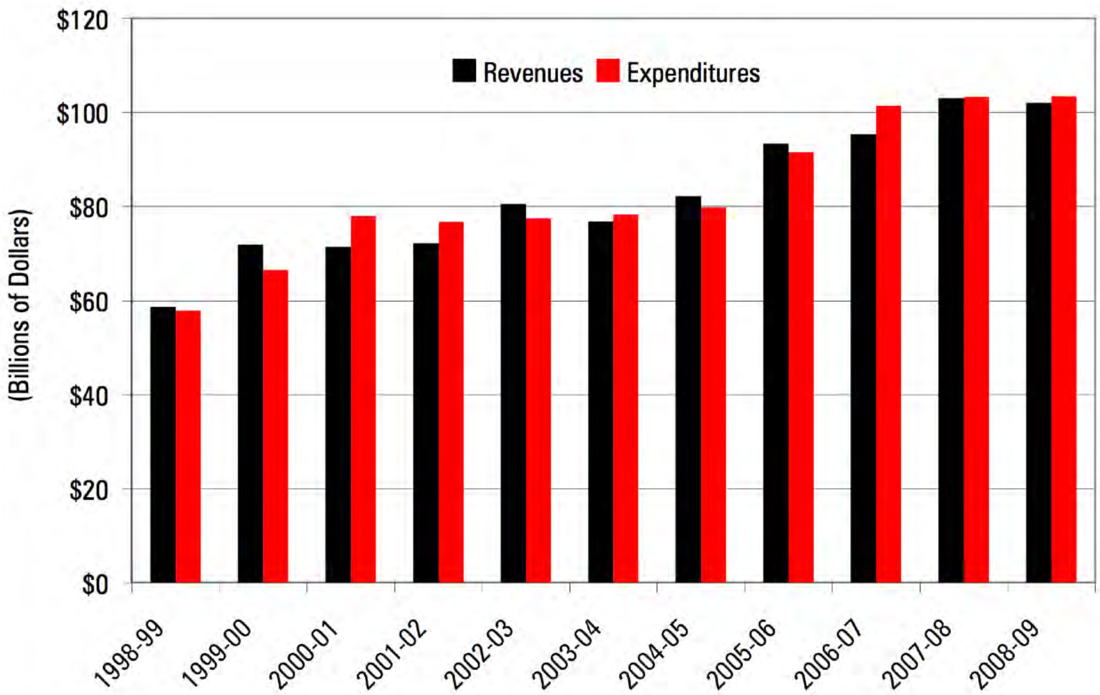
Source: Field Poll, April 16-26, 2009.

The Problem is Spending, Not Revenue

Despite occasional claims to the contrary, California's budget problems are the result of too much spending, not too little revenue. California has some of the highest taxes in the nation and, until very recently, and for many years, state revenues have grown significantly.[14] The problem is that whenever there is a period of economic boom and the state's coffers are overflowing, policymakers spend as though the good times will never end, passing legislation that depends on economic boom dollars into eternity. California voters also have a propensity to approve ballot measures that mandate new spending. When the inevitable correction comes, revenues cannot keep pace with the unrealistic new demands, and so we have another fiscal crisis.

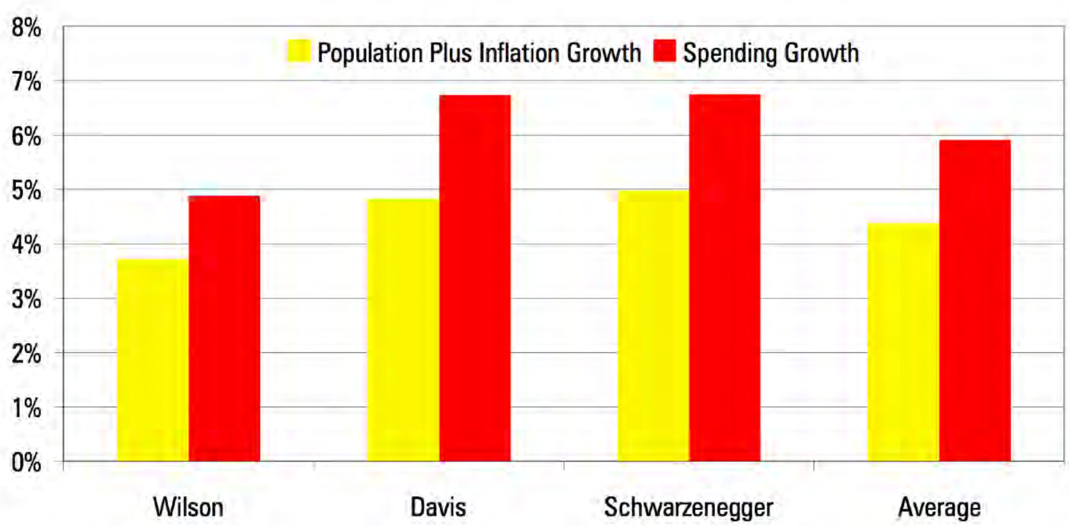
Spending has significantly outpaced the growth in population and the cost of living during the past three gubernatorial administrations—starting with Pete Wilson in fiscal year 1990-91 and covering the Gray Davis and Arnold Schwarzenegger administrations (see Figure 1). If California had simply held spending to the average population growth plus the average increase in the cost of living during this period, the state would have been sitting on a $15 billion surplus instead of having to plug the recent $42 billion deficit—a difference of $57 billion.[15] In fact, after adjusting for inflation, California spends nearly 20% more per capita than it did at the start of Wilson's first term 18 years ago.[16] How many would argue that the state government is 20% better today than it was back then? Add to all this California's enormous debt burden, which has helped earn it the dubious title of having the worst state credit rating in the nation,[17] and you have a recipe for fiscal disaster.

Figure 1: Revenues and Expenditures, 1998-99 to 2008-09



Source: California Department of Finance

Figure 2: Average Annual Population Plus Inflation Growth vs. Average Annual Spending Growth, 1990-91 to 2008-09



California will not be able to resolve its fiscal imbalance until it is able to restrain its spending, improve its regulatory and business climate and fundamentally reform its budgeting system. As the following pages will demonstrate, the measures on the May 19 ballot fail to address these critical issues, but rather continue to tinker around the edges of the failing status quo.

Part 2

Proposition 1A

What It Would Do

Increase Taxes

Proposition 1A would extend temporary tax increases enacted as part of the February budget deal. The taxes include:

- ***Sales and Use Tax (SUT).*** The February budget package increased the SUT by one cent on every dollar of goods purchased, from a state average of about 8% to 9%, through the 2010-11 fiscal year. Proposition 1A would extend this increase an additional year through 2011-12.
- ***Vehicle License Fee (VLF).*** The VLF, which is based on the value of a vehicle and paid as part of an owner's annual registration, was raised from 0.65% of a vehicle's value to 1.15%. Proposition 1A would extend this increase for two years through 2012-13.
- ***Personal Income Tax (PIT).*** PIT rates range from 1% to 10.3% depending upon one's income. The budget deal raised all rates by a 0.25 percentage point.[18] In addition, the dependent tax credit was reduced by about $210. Proposition 1A would extend these tax increases for two years through 2012-13.

Establish a Rainy-Day Fund

Proposition 1A would rename the Budget Stabilization Account reserve fund the Budget Stabilization Fund and increase the target reserve level.

Change Available Revenues Calculation

Proposition 1A would generally base the amount of revenues available to spend on the previous ten years, rather than on projections of the current fiscal year's revenues.

Overview

Proposition 1A is probably the most controversial of the six special election ballot measures, as it would impose the greatest obligation on taxpayers and has caused rifts among traditionally unified and well-mobilized interests such as labor unions. Legislators tried to draw support from both sides of the political spectrum by coupling approximately $16 billion in tax increases from 2010-11 through 2012-13[19] with changes to an existing rain-day reserve fund and the way available revenues are calculated.

California taxpayers will be excused if it sounds like they have heard this whole budget reform song before. Back in 2004, voters approved Proposition 58, the California Balanced Budget Act, which established the current rainy-day fund and purportedly required legislators to pass a balanced budget every year. Governor Schwarzenegger campaigned for Proposition 58 and famously said, "By voting yes on Proposition 58, you are basically taking the credit cards, cutting them up, and throwing them away so that the politicians over there [at the Capitol], those big spenders will never, ever, get the state into this kind of trouble again."[20] But the budget deficits continued and five years later, California is in an even bigger fiscal mess than it was then.

While the crafters of Proposition 1A did succeed in attracting the support of some strange political bedfellows—the California Teachers Association (CTA), the California Chamber of Commerce and the California Taxpayers Association—by and large, rather than attracting bipartisan support, Proposition 1A has ended up alienating both sides of the political spectrum. Those on the right side of the political spectrum, already upset over the $14 billion in tax increases imposed by the February budget deal, are adamantly opposed to an additional $16 billion in tax increases, and those on the left are fearful of the spending limitations contained in the measure. The California Republican Party came out against the measure and the California Democratic Party refused to endorse it due to deep divisions among its labor union membership. While the CTA supports the proposition, the California Federation of Teachers opposes it, and has joined the Service Employees International Union and the California Faculty Association to raise $1 million to fight the measure.[21] Other opponents include the Howard Jarvis Taxpayers Association,[22] a number of taxpayers groups, Republican gubernatorial candidate and former eBay CEO Meg Whitman,[23] and the Libertarian Party of California.[24]

California Can Ill Afford More Tax Increases

The core of Proposition 1A is extending the "temporary" tax increases approved in the most recent state budget. California's high tax, high regulation environment has severe consequences, as it is driving many of its most productive people and businesses from the state. According to the U.S. Census Bureau, California has experienced the second-largest net outmigration—behind only New York—in recent years, losing nearly 1.4 million people so far this decade.[25]

Several recent state business climate surveys and economic indexes have confirmed California's status as among the very worst states for business and economic freedom in the country. The American Legislative Exchange Council released the second edition of its *Rich States, Poor States* report in March 2009. The study analyzes the 50 states based on 16 policy variables, including top marginal personal and corporate income tax rates, property and sales tax burdens, state minimum wage and the number of public employees per 10,000 residents. California ranked near the bottom, 43rd overall, because it has the worst personal income tax progressivity in the country, the second-worst top marginal personal income tax rate and the third-highest minimum wage.[26] As the authors of the report noted in the first edition in 2007, "Despite warm weather, sandy beaches and the Pacific Ocean, Californians are leaving in droves to escape the state's oppressive tax burden" with a net over 1.3 million people leaving California between 1997-2006.[27] They added, "No state has ever taxed its way into prosperity."[28]

Chief Executive magazine's 2009 "Best and Worst States" survey similarly exposed California's poor business climate. The survey asked 543 CEOs to assess their states based on issues such as regulation, tax policies, education, infrastructure, quality of living and proximity to resources, and to grade each state on three criteria: 1) Taxation and Regulation, 2) Workforce Quality and 3) Living Environment. California ranked dead last for the fourth year in a row. As one CEO put it,

> *Michigan and California literally need to do a 180 if they are ever to become competitive again. California has huge advantages with its size, quality of work force, particularly in high tech, as well as the quality of life and climate advantages of the state. However, it is an absolute regulatory and tax disaster.*[29]

Finally, the Mercatus Center at George Mason University issued its *Freedom in the 50 States: An Index of Personal and Economic Freedom* study in February. This index contains data related to a wide variety of public policies affecting individual freedoms in the economic, social, and personal spheres. California fared poorly in this analysis as well, placing 37th in the personal freedom category, 44th in fiscal policy, 46th in regulatory policy, 48th in economic freedom and 47th in overall freedom.[30]

A Rainy-Day Fund Is Needed, But Would 1A's Changes Be Effective?

Given the state's current budget straits, a sizeable and effective rainy-day fund is sorely needed, but it has been raining for quite some time. California already has two reserve funds, the Special Fund for Economic Uncertainties and the Budget Stabilization Account (BSA). The BSA was created with the passage of Proposition 58 in 2004. Proposition 1A would make changes to the BSA and rename it the Budget Stabilization Fund.

The ease with which reserve payments can still be suspended under Proposition 1A does not inspire a great deal of confidence in the state's discipline to sock away a reasonable amount of reserves. Under current law, each year 3% of estimated General Fund revenues are deposited into the BSA up to a maximum target of the greater of $8 billion or 5% of General Fund revenues (currently about $5 billion), although the governor can suspend payment in a given year with an executive order. The transfer was cancelled this year due to the budget crisis and, according to the Legislative Analyst's Office, "it is expected that the transfers will be suspended over the next few years as the state continues to face budget problems."[31] Proposition 1A would raise the new maximum reserve target to 12.5% of state revenues (currently about $12 billion).

Flaws in the Spending Limit

The irony of offering a spending limit packaged with a request to raise taxes is rich. The whole idea of imposing a spending limit is to prevent excessive government spending and tax increases in the first place! Regardless, the spending limit contained in Proposition 1A would do very little to restrict state revenues or spending. As the LAO's analysis of the measure asserts,

> *In any given year, Proposition 1A does not strictly limit the amount of revenues that could be collected by the state or the amount of spending that could occur. The measure does not restrict the ability of the Legislature and the Governor to approve tax increases to collect on top of existing revenues. Regarding spending, while the measure could make it harder to approve spending increases in some years by restricting the access to revenues, it would not cap the total level of spending that could be authorized in any year if alternative revenues were approved.*[32]

In other words, legislators could easily get around any minor restrictions by simply exercising their existing propensity to raise taxes and "fees" to perpetuate their excessive spending habit.

California once had a meaningful spending limit, albeit all too briefly. Voters passed the Gann Spending Limit (Proposition 4) in 1979 with over 70% of the vote. The Gann Spending Limit, also known as the State Appropriations Limit, basically prevented the state spending from growing by more than the growth in population and inflation, and any tax revenues collected above the limit were to be returned to taxpayers via tax rebates. Unfortunately, the Gann limit was significantly weakened by Proposition 98 in 1988 and Proposition 111 in 1990, which carved out numerous exemptions and changed the calculation of the limit, and has not been effective since.[33]

Given the profligate nature of the legislature over many years, a spending cap is definitely needed, but Proposition 1A is not that answer. California should adopt a true cap like the original Gann limit or Colorado's Taxpayer Bill of Rights (TABOR) model (before it was weakened and temporarily suspended for five years in 2005) that would limit state revenues and spending to the increase in the growth of population plus inflation and return any revenues above this limit to the taxpayers.[34]

Who's For and Against Proposition 1A?	
For:	Against:
AARP Budget Reform Now (backed by Gov. Schwarzenegger) California Alliance for Jobs California Chamber of Commerce California Farm Bureau Federation California Fire Chiefs Association California Peace Officers Association California Police Chiefs Association California Retailers Association California Senior Advocates League California State Conference of the NAACP California State Council of Laborers California State Sheriffs' Association California Taxpayers' Association California Teachers Association University of California Board of Regents	American Federation of State, County and Municipal Employees, state council Americans for Prosperity - California California Faculty Association California Federation of Teachers California Republican Party California Spending Cap Californians Against New Taxes Congress of California Seniors Consumer Federation of California Health Access California Howard Jarvis Taxpayers Association League of Women Voters of California Libertarian Party of California National Tax Limitation Committee Older Women's League of California People's Advocate Service Employees International Union United Nurses Associations of California / Union of Health Care Professionals Meg Whitman, Republican gubernatorial candidate and former CEO of eBay Over 20 taxpayer organizations

Part 3

Proposition 1B

What It Would Do

Proposition 1B would mandate that an additional $9.3 billion in "supplemental" funds be made for K-12 and community college education beginning in fiscal year 2011-12. This includes $7.9 billion in extra payments and $1.4 billion that the state already owes from previous Proposition 98 actions (Proposition 98 was passed in 1988 and requires the state to spend 40% of the General Fund on schools). These payments would likely be made over a five-to-six-year period. The measure would go into effect only if Proposition 1A also passes.

Background

California spends more money on education than any other spending category, and education spending (K-12 and higher education) has been near or slightly above 50% of total General Fund expenditures for decades.[35] In 1988, California voters prescribed a minimum funding level, called the "minimum guarantee," for K-12 and community college (collectively, K-14) education with the passage of Proposition 98. Historically, the minimum guarantee has been determined most often by adjusting the previous year's funding based on changes in school attendance and state per capita personal income. In essence this process has more than kept state education spending up with inflation and growth in number of students.[36]

Confusing and Unnecessary Change to Education Funding

By providing billions of dollars in additional payments to K-14 education, Proposition 1B would lock in future increases in education obligations, since that money would be built into future minimum guarantee calculations. As the LAO's analysis of the measure notes, the uncertainty over the correct interpretation of the funding requirement under the law makes it impossible to determine the long-term costs of Proposition 1B but, under most scenarios, "costs for K-14 education likely would be higher than under current law—potentially by billions of dollars each year."[37] And the lack of clarification of the funding requirement means that Proposition 1B would perpetuate the complex and confusing education funding process.

Proposition 1B is entirely unnecessary if the goal is to increase education funding. While years of evidence should have demonstrated by now that throwing more money at a problem—be it education or anything else—does not tend to solve the problem, if it is determined that education funding should be increased, the legislature and the governor have discretion to raise funding levels to whatever the state can afford. Since Proposition 98 sets only *minimum* funding levels, education funding can always be increased above these levels if it is deemed a higher priority than other alternatives, but locking in future funding increases when we cannot be sure that priorities, program performance or economic conditions in the future will justify those spending levels is irresponsible.

This brings us to the larger problem with education funding: the autopilot nature and accompanying entitlement mentality of "ballot-box budgeting" measures such as Proposition 98. The legislature may not be doing much to earn the public's trust, especially when it comes to balancing the budget, but tying its hands by establishing ever-more funding mandates and minimum spending requirements for this program or that goal only make its job that much more difficult. As columnist Daniel Weintraub wrote in an April 22 *Sacramento Bee* column, such measures additionally contribute "a mindset of entitlement, a belief that programs have the right to grow by a prescribed amount each year without regard to need, performance or the state's other priorities."[38] A more sensible budgeting system would tie program performance and prioritization to the budgeting process. (For more on ballot-box budgeting and performance-based budgeting, see the discussion in the Propositions 1D and 1E section below.)

Using the Power of Teachers Unions

Unsurprisingly, Proposition 1B is supported by the teachers unions. But the legislators who crafted this bill have tied Proposition 1B to the passage of Proposition 1A, giving the unions extra incentive to support Proposition 1A—which they would otherwise oppose because of the measure's spending limit—or at least to not devote their resources to campaign aggressively against it. As a *Los Angles Times* editorial maintained, "the measure's main reason for being on the ballot is that it gives the powerful California Teachers Assn. and other school unions reason to support the overall package [of budget-related propositions], or at least not campaign too heavily against the spending caps in Proposition 1A."[39]

The fact is that Proposition 1B will do nothing to improve the quality of public education or fix the state's budget deficit. If anything, it will only make it more difficult to balance the budget in the future. Real education reform would entail reducing the existing public education bureaucracy and improving the efficiency of education programs. Real budgetary reform would involve eliminating both ballot-box budgeting restrictions and the current line-item budgeting process and replacing them with a performance-based budgeting system that attaches program performance and priorities to funding decisions.

Who's For and Against Proposition 1B?	
For:	Against:
Budget Reform Now (backed by Gov. Schwarzenegger) California Chamber of Commerce California Democratic Party California Farm Bureau Federation California Federation of Teachers California Peace Officers Association California Retailers Association California State Conference of the NAACP California Teachers Association	American Federation of State, County and Municipal Employees, state council California Nurses Association California Republican Party Libertarian Party of California National Tax Limitation Committee

Part 4

Proposition 1C

What They Would Do

Authorize Borrowing from Lottery Profits

Proposition 1C would allow the state to borrow money against future lottery profits. The measure contains no limit on how much may be borrowed, although the February budget deal assumes lottery borrowing of $5 billion for fiscal year 2009-2010.

Change Use of Lottery Funds

Proposition 1C would also change the requirement that all lottery profits (net revenues after operating costs and payouts to winners) be dedicated to K-12 schools, community colleges and public universities. To compensate for this, the measure would require that payments to educational institutions be made up from the General Fund and indexed to the growth in inflation and the number of students. For K-12 schools and community colleges, the payments in 2009-10 would be in addition to their Proposition 98 funding guarantees. Thereafter, the new General Fund payments would be part of the annual Proposition 98 funding.

It would also give the California State Lottery Commission the flexibility to increase the level of prize awards above the current requirement of 50% of funds generated from lottery ticket sales.

Provide Money for Problem Gambling Programs

Finally, Proposition 1C would mandate that $1 million in lottery revenues be directed toward gambling awareness and treatment programs through the state's existing Office of Problem Gambling.

Background

Voters approved the creation of the California State Lottery in 1984 with the passage of Proposition 37. Current law under that measure states that 50% of all revenues from lottery ticket sales be returned to players as prizes. Of the remaining 50%, at least 34% is used to fund educational institutions at the K-12, community college and university level and no more than 16% may be spent on operating expenses. The amount of money provided to schools makes up a very small part of total education funding. For example, in FY 2007-08, total lottery proceeds for education totaled approximately $1.1 billion. For K-12 schools, this funding represented just over 1% of their total revenues.[40]

The state is currently not allowed to borrow from future lottery profits. Proposition 1C would permit such borrowing. The budget plan approved in February anticipates borrowing $5 billion for FY 2009-10, although the measure does not place any limits on what may be borrowed next year or in the future. If the measure is defeated, legislators and the governor will have to find another $5 billion elsewhere to make up for the loss in anticipated "savings."

More Borrowing Is Not the Answer

Governments have never been able to borrow their way back to prosperity, and it wouldn't happen in this case. In 2004, Californians were told that the state needed to borrow money to get back on the right track, and thereby the budget problems would be resolved. Thus, voters approved the issuance of $15 billion in "Economic Recovery Bonds" via Proposition 57. The result has been several years more of increased borrowing and spending, and now the state is in even worse shape than it was before.

While the securitization of lottery profits is a bit different from borrowing via the issuance of general obligation bonds for infrastructure development because this securitization does not carry a legal commitment to pay investors with General Fund tax revenues, the principle is the same. Spending future lottery revenue now means it won't be available in the future. Bond financing is only responsible to use to fund long-term assets that continue to provide services to taxpayers over the time they are paying off the bonds. Borrowing to pay for ongoing expenses, is like using a credit card to pay your monthly bills—eventually it catches up with you. And of course, borrowing has costs. The Legislative Analyst's Office estimates that debt service on the payments to investors would total between $350 million and $450 million a year for 20 to 30 years.[41] In addition, the LAO notes that the changes to education funding will likely cause the new General Fund payments to K-12 schools and community college districts to "grow faster and more consistently than the payments that the schools now receive from the lottery," leading to even more costs in the future.[42]

California is already well beyond a healthy range for state borrowing. In FY 1990-91, the state's debt-service ratio—the amount of General Fund debt-service costs divided by total General Fund revenues—stood at 2.5%.[43] In January 2006, the LAO observed that the investment community starts to worry when a state's debt-service ratio rises above 5 or 6% and warned that California was already approaching these levels.[44] The LAO's analysis seems to have been regrettably accurate. Today, California's debt-service ratio is approximately 5.4% (not counting debt service on the $15 billion in Economic Recovery Bonds), and it is expected to rise to about 7.8% in 2011-12. Including the Economic Recovery Bonds, the ratio will swell to 9.4% in 2011-12.[45] The LAO notes that the projected debt-service ratio is "considerably higher than in past years."[46] Indeed, the investment community has taken notice of California's large and growing debt burden. Credit rating agency Standard & Poor's lowered the state's credit rating in February,[47] after a previous cut in December 2008,[48] and Fitch Ratings and Moody's Investor Services followed suit with similar downgrades in March.[49] California now has the lowest credit rating of any state in the nation.

Finally, California's debt situation and the current state of the economy beg the question: Could California even sell $5 billion in lottery bonds in this climate? And if so, given the state's credit rating, at what cost? A lower credit rating means that the state has to offer a higher yield (i.e., pay more to investors) to attract investments.

California's inability to restrain borrowing and spending is what has gotten it in to its current fiscal mess in the first place. California voters and taxpayers have been told time and time again that if the state could just borrow a little more to get it through a short-term budget crunch, it will help the state get back on the road to recovery in the longer term. Yet, more borrowing has only given the legislature and the governor more freedom to continue to spend beyond California's means. More borrowing is clearly not the answer to fixing the state's budget problems.

Who's For and Against Proposition 1C?	
For:	Against:
Budget Reform Now (backed by Gov. Schwarzenegger)	American Federation of State, County and Municipal Employees, state council
California Business for Education Excellence	California Coalition Against Gambling Expansion
California Chamber of Commerce	California Federation of Teachers
California Democratic Party	California Nurses Association
California Farm Bureau Federation	California Republican Party
California Peace Officers Association	League of Women Voters of California
California Retailers Association	Libertarian Party of California
California State Conference of the NAACP	
California State Sheriffs' Association	
California Teachers Association	

Part 5

Propositions 1D and 1E

What 1D and 1E Would Do

Whereas Propositions 1A, 1B and 1C would increase the General Fund by bringing more money in through taxation and borrowing, Propositions 1D and 1E would increase the General Fund by redirecting funds that taxpayers had specifically authorized for mental health and children to the General Fund, where legislators can spend it as they see fit.

Proposition 1D

Proposition 1D would redirect to the General Fund up to \$608 million in funding currently dedicated to children's health and human services programs in FY 2009-10, and \$268 million a year from FY 2010-11 through 2013-14.

Proposition 1E

Proposition 1E would redirect to the General Fund approximately \$230 million a year for two years (\$226.7 million in FY 2009-10 and between \$226.7 million and \$234 million in FY 2010-11) from funds currently dedicated to mental health programs provided through Proposition 63 (which dedicated funds to mental health programs). The funds would instead be used to support the federally mandated Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program, which provides mental health services to low-income children and young adults. As the Legislative Analyst's Office notes, "In effect, these Proposition 63 revenues would be used to offset state costs that would otherwise be borne by the General Fund, thereby achieving savings to help address the state's current budgetary problem."[50]

Background

Proposition 1D

In addition to other children and family services programs offered through the General Fund, the state operates the California Children and Families Program, also known as the First 5 program, to provide early development services for children up to age five. The program was created with the passage of Proposition 10, the California Children and Families Act, in November 1998. It is funded with a state excise tax on cigarettes (50 cents per pack, on top of an additional 37 cents per pack in taxes for other purposes) and other tobacco products. Twenty percent of the funds are reserved for administration of the program and the remaining 80% are distributed annually to 58 county commissions for local family functioning, child development and child health programs.[51]

The First 5 program was apparently seen by policymakers as an attractive source of much-needed funds to plug the state's budget deficit because, according to the Legislative Analyst's Office, the state commission responsible for administering the program has about $400 million in unspent funds and the local commissions have a total of approximately $2.1 billion in unspent funds.[52]

Proposition 1E

Government mental health programs are operated primarily at the county level, although such programs receive funding from federal, state and local governments. In November 2004, voters passed Proposition 63, the Mental Health Services Act, to provide additional funding—above and beyond what was being provided through the state's General Fund—for mental health programs. Proposition 63 provided this funding by imposing an income tax surcharge of 1% on a taxpayer's taxable income over $1 million. The measure also stipulated that the state cannot reduce General Fund support for mental health services below FY 2003-04 levels. Proposition 63 funds are used to support five major program activities:

1. Expanding community services;
2. Providing workforce education and training;
3. Building capital facilities and addressing technological needs;
4. Expanding prevention and early intervention programs, and
5. Establishing innovative programs.[53]

Proposition 1E is similar to Proposition 1D in that it would divert money from a dedicated fund to make up for losses in the General Fund. In the ballot argument in favor of Proposition 1E, Senate President Pro Tem Darrell Steinberg (D–Sacramento), who co-authored Proposition 63, stated:

> *While the services provided in the EPSDT program are consistent with the approach of Proposition 63, make no mistake about what we are doing here. We are diverting money from the Mental Health Services Act to help reduce the magnitude of the cuts that would otherwise have occurred in other state funded programs.*[54]

As with the First 5 program that would be affected by Proposition 1D, the Mental Health Services Act programs that would be affected by Proposition 1E were an attractive target for legislators seeking to pinch a few pennies because they, too, currently have a budget surplus of about $2.5 billion.[55]

Subversion of "Ballot-Box Budgeting"

The passage of Proposition 1D and/or Proposition 1E would subvert "ballot-box budgeting," whereby voters require that a certain portion of the state budget be dedicated to a particular program or function. Voters have attempted to control how legislators spend money through ballot-box budgeting. According to a recent *Los Angeles Times* article, voters have approved two dozen measures telling legislators how to spend money over the last 30 years.[56]

There are two sides to the argument, however. Supporters of such measures argue that they would not have to tie legislators' hands if they had done their jobs properly in the first place. According to actor and director Rob Reiner, who was a key supporter and financial backer of Proposition 10 in 1998, "The reason you have all these initiatives is you can't get anything done in Sacramento." Added Reiner, "That's why you have people like me stepping up. But I don't think it's the best way to govern."[57]

One negative effect of ballot-box budgeting is that it gives lawmakers an excuse to throw up their hands and claim that so much of the budget is out of their control that they cannot possibly cut funding for this or that, or make any significant budgetary reforms. This may be true to some extent, but the added political cover gives them even less incentive to maintain fiscal discipline, so voters pass more propositions directing funding and the vicious cycle continues.

A better solution would be to reform the entire appropriations process. Instead of the current line-item budgeting, which makes incremental adjustments to last year's budget for various spending categories—oftentimes with little or no justification—California should adopt performance-based budgeting. Under performance-based budgeting, legislators would use outcome measures adopted by agencies to link funding decisions with program performance. This would shift the focus from line items and object codes to programs and results, funding effective programs and cutting ineffective ones.

Some states have taken this concept even further. Washington and South Carolina utilize a Priorities of Government (POG) budget process, under which government services are identified by activity, rather than by agency, and categorized according to a set of pre-established goals. The activities are then ranked in order of priority and effectiveness and funded from the top of the list down until all available revenues run out. If legislators want to move a program from below the "funding line," they have to bump a program from above the line and justify their decisions. Thus, one of the greatest benefits of the POG system is that it makes priority and trade-off decisions clear to everyone.

Not Sound Fiscal Practice

Some may argue that the unspent funds in the programs that would be affected by Propositions 1D and 1E are evidence that either the taxes used to fund the programs are too high or that the programs are incapable of spending the money effectively to meet needs. This may well be true, but that is a different matter that should be addressed separately. The fact is that regardless of whether one believes in the value of the particular programs involved, or feels that they are duplicative or inefficient, voters previously agreed to dedicate funds to those purposes, and it is not sound fiscal practice to raid dedicated funds for the purpose of beefing up the General Fund. That said, such a "raid" cannot take place without the consent of the voting public on Election Day, and the public does have the right to change its mind.

Nevertheless, Propositions 1D and 1E represent short-term band-aids, not real reforms, as they reward spendthrift legislators with more General Fund money. The programs themselves, and the way and extent by which they are funded, may be ripe for reform as well, but that is discussion for another time. The focus now should be on finding ways to rein in the state government's profligate spending, particularly at a time when economic conditions are forcing everyone else to make significant cutbacks, rather than engaging in funding shell games.

Who's For and Against Proposition 1D?	
For:	Against:
Association of Regional Center Agencies	American Federation of State, County and Municipal Employees, state council
Budget Reform Now (backed by Gov. Schwarzenegger)	California Family Resource Association
California Chamber of Commerce	California Federation of Teachers
California Farm Bureau Federation	California Nurses Association
California Peace Officers Association	California Republican Party
California Retailers Association	Health Access California
California State Conference of the NAACP	League of Women Voters of California
California Taxpayers' Association	Libertarian Party of California
California Teachers Association	National Association of Social Workers
National Tax Limitation Committee	Prevent Child Abuse California

Who's For and Against Proposition 1E?	
For:	Against:
Budget Reform Now (backed by Gov. Schwarzenegger)	American Federation of State, County and Municipal Employees, state council
California Chamber of Commerce	California Federation of Teachers
California Farm Bureau Federation	California Nurses Association
California Peace Officers Association	California Psychiatric Association
California Retailers Association	California Psychological Association
California State Conference of the NAACP	California Republican Party
California Taxpayers' Association	Health Access California
California Teachers Association	League of Women Voters of California
National Tax Limitation Committee	Libertarian Party of California
	Mental Health Association in California

Part 6

Proposition 1F

What It Would Do

Proposition 1F would prohibit lawmakers and statewide constitutional officers, including the governor, from receiving pay increases in years when the state is running a budget deficit.

Background

Proposition 1F was placed on the ballot as part of the February budget deal, along with a proposition to be placed on the June 2010 ballot to reform the state's electoral system by adopting open primaries, in exchange for securing the deciding vote in support of the package from Republican State Senator Abel Maldonado (San Luis Obispo).[58] Maldonado was roundly criticized by fellow Republicans for supporting the deal—and the $14 billion in tax increases that it entailed—and there was even some talk of trying to recall him from office, although that effort was quickly abandoned.[59]

Lawmakers, likely anticipating public support for the measure, passed the Proposition 1F legislation (SCA 8) unanimously.[60]

State official pay and benefits are established by the California Citizens Compensation Commission, which was created with the passage of Proposition 112 in June 1990. The Commission's decisions apply to all 120 members of the legislature, the governor, lieutenant governor, attorney general, controller, insurance commissioner, secretary of state, superintendent of public instruction, treasurer and Board of Equalization (4 members).[61] Salaries for these officials range from about $116,000 for legislators to $212,000 for the governor.[62]

Proposition 1F would amend the state Constitution to prevent the Commission from approving salary increases for the aforementioned state officials in years where the Director of Finance certifies that the state's Special Fund for Economic Uncertainties, a form of rainy-day fund, is anticipated to have a deficit of at least 1% of General Fund revenues for the year.

Not a Significant Reform

Proposition 1F does give voters a chance to vent their anger at lawmakers over recent budget fiascos, and tying legislators' pay to some performance metrics like passing a balanced budget on time makes sense. But it would not be a significant budget reform. Any cost savings would be negligible. And Proposition 1F would represent a very marginal improvement, at best, in the incentives of legislators to reach reasonable budget deals, and voters should not become complacent in thinking that passage of the measure will have any measurable effect on the state's chronic budget deficits.

Fairness

The above notwithstanding, there does seem to be a certain aspect of fairness about Proposition 1F. It seems offensive that legislators can enjoy pay raises when they cannot control government spending and routinely ask taxpayers to make up the difference by forking over more of their own paychecks. Given taxpayer anger over legislators' handling of the state budget in recent years—chronic multi-billion dollar budget deficits, tax increases, accounting gimmicks, and the long, drawn-out budget negotiations and late budgets—it is little surprise that this is by far the most popular measure on the ballot according to polls.[63] Voters are justified in seeking to impose this small measure of fiscal discipline on their elected officials, or even just using Proposition 1F to send officials a symbolic "kick in the pants," but they should not delude themselves that this will solve the state's budget problems. They could serve their interests even better by voting fiscally irresponsible elected officials out of office altogether and electing in their place those that are serious about reforming state government and returning to a state of fiscal responsibility.

Who's For and Against Proposition 1F?	
For:	Against:
Budget Reform Now (backed by Gov. Schwarzenegger) California Alliance for Jobs California Chamber of Commerce California Democratic Party California Farm Bureau Federation California Peace Officers Association California Retailers Association California State Conference of the NAACP California Taxpayers' Association California Teachers Association Libertarian Party of California National Tax Limitation Committee Small Business Action Committee	American Federation of State, County and Municipal Employees, state council California Federation of Teachers California Nurses Association California Republican Party Pete Stahl, author, "Pete Rates the Propositions" Web site

Part 7

Recommendations and Conclusions

California is facing a serious fiscal crisis. The state has spent and borrowed beyond its means for years and the repercussions have finally caught up with it. High levels of taxation and regulation are only driving people and businesses from the state and exacerbating the dilemma. Such significant problems require significant solutions, but the prescriptions being offered to voters on May 19 are regrettably lacking.

Californians cannot afford, and neither do they deserve, Proposition 1A's $16 billion in additional tax increases, and the hikes pay much too high a price for the measure's weak and porous rainy-day fund and spending restrictions. Likewise, Californians cannot afford Proposition 1B's $9.3 billion in additional education expenditures that would raise future education obligations by locking the increase into the state's minimum funding formula. When economic conditions improve, the legislature already has the ability to increase funding accordingly if it deems fit and taxpayers should not have to bail them out because they failed to put money away during the last economic boom. The long-term borrowing of $5 billion (and possibly more in the future) from lottery profits under Proposition 1C to pay for short-term normal annual appropriations is not sound budget practice, and the hundreds of millions of dollars that would be required for debt service each year would be very costly. Raiding funds for children's health and human services programs (Proposition 1D) or mental health programs (Proposition 1E) and shifting the money to the General Fund is more of a shell game than a budget solution, and it runs counter to the intent of previous voter-approved measures. Voters will have a chance to change that intent, but the legislature has given them little reason to believe that the money would be better spent in their hands through the General Fund. Proposition 1F makes sense, as it seems only fair that legislators and statewide constitutional officers should not see a rise in their checkbooks if they cannot balance the state's checkbook. It also may allow voters frustrated with the California's chronic budget woes to vent some anger toward legislators and the governor, but they should recognize that this measure, too, fails to materially address the state's fiscal problems.

The shortcomings of the ballot propositions beg for an examination of real reforms that would help get the state's finances back on track. While by no means comprehensive, here are some ideas to show that real reform ideas are out there.

Real Budget Reforms

California Citizens Budget

In 2003 when Governor Schwarzenegger faced his first major budget crisis, Reason Foundation published the California Citizen's Budget, a plan to fix the state budget without raising taxes or reducing Californians quality of life. The plan is if anything more relevant today than it was then. The plan is available at http://www.reason.org/news/show/127417.html and it includes 10 key steps that legislators need to follow today:

1. Adopt a Constitutional Spending Limit and Biennial Budget
2. Stabilize Revenues by Creating the Most Jobs-Friendly State in the Nation
3. Streamline and Reorganize State Government
4. Identify Essential Priorities and Suspend Poorly Performing Programs
5. Reduce Personnel, Renegotiate Contracts, and Offer Employee Incentives
6. Implement Competitive Sourcing
7. Reduce Payment Fraud and Errors
8. Reform Public Education System
9. Reform Medi-Cal, Entitlement, and Welfare Programs
10. Address Long-Term Liabilities

California Performance Review

Another good place to start would be with the California Performance Review. In 2004, Governor Schwarzenegger solicited government reform ideas from state and local government leaders, the business and labor communities, public policy experts and members of the public. As a result, the California Performance Review Commission detailed over 1,200 recommendations with potential cost savings of approximately $32 billion over five years, including nearly $11 billion in savings from the General Fund.[64] These recommendations included such common-sense ideas as eliminating some of the hundreds of state boards and commissions, consolidating programs and government functions that are duplicative or overlapping, and selling off surplus property, such as state-owned golf courses, the Los Angeles Memorial Coliseum and the MTV beach house in Malibu.

Unfortunately, hardly any of the suggestions have been implemented and the California Performance Review has largely been filed away as another blue ribbon commission report to be ignored. But if the Administration already has so many ready-made, nonpartisan solutions, why not put them to use, especially now?

Spending and Debt Limit

Since legislators have proven time and again that they are unable to restrain spending, California needs a strict spending and revenue cap. However, taxpayers should not be forced into a Faustian bargain where they would have to agree to impose an additional $16 billion in taxes on themselves, as Proposition 1A on the May 19 ballot would do.

Instead California needs real spending and tax controls. The Gann spending limit was implemented in an attempt to rein in state spending, but numerous loopholes have rendered it impotent. A comprehensive fiscal limit would be a form of the Taxpayer Bill of Rights, or TABOR, that includes requirements for voter approval before higher state or local taxes or debts may be enacted, a ban on local income taxes, a flat-rate income tax, emergency reserves and comprehensive state and local spending limits tied to inflation increases and population growth. And a requirement that any surplus revenues be returned to taxpayers.

Since lawmakers sometimes get around the normal annual appropriations process by putting spending measures on the ballot and voters often pass new spending measures without having to balance the budget in the process, an additional protection would be to impose a limit on the amount of debt the state can take on at any time. Not surprisingly, states that maintain a debt limit are more effective at controlling the amount of their borrowing.

A debt limit would cap the percentage of the General Fund budget that could be devoted to debt service. If the debt limit were to be breached, the state treasurer would be prohibited from selling any additional bonds. Moreover, if the debt-service ratio exceeds the limit, no additional general obligation bond proposals could be submitted to voters. Given the LAO's previous guidance, and the preponderance of the sentiment in the investment community, a debt-service limit of 6% would be an appropriate measure.

With a state debt limit, voters could still approve bonds, but they could not authorize an unlimited amount of debt. More precisely, they could authorize more than the limit, but the state would be prevented from incurring debt over the limit until its financial position improved to the point to where it could afford to pay for the bonds while respecting the debt limit. The limit would thus serve as a final check against fiscal irresponsibility.

Budgeting Reforms

California would benefit enormously from reforming its budgetary process by replacing its line-item budgeting with a Priorities of Government appropriations system. This would tie program performance to funding decisions, thereby demanding programs to be effective to receive funding, and force lawmakers to clearly prioritize government programs and activities, making funding tradeoff decisions clear to all.

Privatization and Outsourcing

Finally, the state should make much greater use of privatization and contracting with private-sector vendors to provide services. Many government services can be provided more cheaply and effectively by the private sector, or should not be the purview of government at all, such as running golf courses. Hence, a comprehensive "Yellow Pages" test should be applied to state government. Simply put, if there are businesses listed in the Yellow Pages that are performing the same services as the government, the government should either put those services up for competitive bids for performance-based contracts or eliminate the service altogether.

A prime example would be the state lottery. Rather than borrowing against future lottery revenue, the state should sell the lottery to a private party, with reasonable regulatory controls. The funds from the sale could be used to pay off state debts and fill the rainy-day fund.

A comprehensive and strategic use of privatization by the state could have significant effects on the budget. Gov. Jeb Bush's experience in Florida is instructive. Gov. Bush brought a vision to embrace the power of the free market and competition to deliver high-quality services to taxpayers while holding the line on spending. During his term (1999-2007), Florida engaged in over 138 privatization/managed competition initiatives saving taxpayers over $550 million in aggregate. When many other states were raising taxes, these initiatives helped Florida to shed almost $20 billion in taxes during Gov. Bush's term. Over the same period, the total number of authorized positions in all of state government—including the courts, lottery, the National Guard and elected or appointed officials—fell by over 3,700.

Florida's privatization initiatives ranged from highway maintenance ($83.7 million in savings alone), to core enterprise IT infrastructure, vehicle fleet management, Medicaid billing, toll collections, online professional licensing, state psychiatric hospitals, prison food service, maintenance in state parks and custodial services, among many others. During Bush's tenure, spending on core programs like education, public safety and health care increased, but all of it was done without a state income tax and without raising other taxes. In fact, Gov. Bush *was able to lower them*. Privatization was key to facilitating this.

Real Education Funding Reforms

California has one of the most centralized public school systems in the United States. In California, local property taxes are aggregated in Sacramento and then re-allocated to school districts on a per-capita basis. These reallocated funds—both general revenue and categorical funds—do not flow directly to schools, but to school district central offices. The central offices then allocate personnel, rather than money, to schools.[65] Proposition 1B would do little to improve the funding system. Much more effective reforms would include:

Weighted Student Funding—allows individual schools to compete for students and allows principals to control their budgets and tailor their schools to the needs of their specific school populations. School districts use student characteristics to determine per-pupil funding levels and better match costs with actual student needs. In each case, schools are given responsibility for managing their own budgets in key areas such as personnel, school maintenance or learning materials. In addition, the funding follows the child to each school and is based on the characteristics of the individual child. Therefore, schools have an incentive to improve academic programs and improve programs for at-risk and low-income students.[66]

Teacher Merit Pay—pay that rewards teachers based on performance outcomes including student achievement. At the same time, California needs to move toward a value-added testing system that tracks student gains over time. This would demonstrate each teacher's contribution to an individual student's achievement gains or losses.

Deal With Failing Schools—failing schools consume too much of the education budget and produce terrible results, giving the least bang for the buck in the system. California should follow the lead of other localities that have used competition to help improve outcomes for low-achieving schools, in particular market-oriented remedies to increase higher quality school capacity and offer students in failing schools real choices, including:

- Allowing charter schools to take over public schools found to be "unsatisfactory."
- Letting nonprofit and for-profit providers and charter schools compete to run failing schools.
- Offering opportunity scholarships that allow students in failing schools to transfer to other public or private schools.

More Charter Schools—Increase the number of charter schools to increase choices for families and competition among schools to deliver results and be more cost effective.

Allow Outsourcing of Non-instructional Services—Current law severely restricts outsourcing by schools. This costs districts lots of money and has forced some to suspend instructional programs. By allowing school districts to use outsourcing as a financial tool, districts could direct more money to the classroom and focus on their core business of educating children.

Pension Reform

Another worthy reform that was abandoned was that of the state's pension system. The long running argument that government employees needed greater benefits and job stability than private-sector workers because the government could not match salaries in the private sector is clearly is no longer the case. Now government employees typically earn higher salaries and much greater benefits than their private-sector counterparts. According to a recent report from the U.S. Department of Labor's Bureau of Labor Statistics, state and local government employees make an average of 43.5% more in wages and benefits than private-sector employees ($39.25 an hour versus $27.35 an hour). This includes 33.6% higher wages ($25.87 an hour versus $19.37 an hour) and 67.7% greater benefits ($13.38 an hour versus $7.98 an hour).[67]

Pension benefits tend to be the most obscured part of these costs. The key reform is to switch new state employees from the state's generous traditional pension plans to 401(k)-style defined-contribution plans more in line with the private sector. There is a reason that the private sector has been switching to defined-contribution plans for the past 30 years: traditional pensions are simply too volatile and unaffordable.

It is impossible to predict how much the state would save by switching new employees to a defined-contribution retirement system with benefits in line with those of the private sector since, under the existing defined-benefit system, the amount of state government contributions that must be made to the system depends on the investment performance of the state's pension funds. When the funds perform well, the state contributes little or nothing, but when pension fund returns are low or negative, the state must increase its contributions to compensate. This means that the state must contribute the most during the very times that the economy (or, at least, the stock market) is struggling the most. Suffice it to say, the significantly higher pay and benefits of state employees, compared to private-sector workers, indicates that the long-term savings of switching to a reasonable defined-contribution system would be significant.

To get an idea of how the current economic downturn will affect state pension contributions, we need only look back about a decade to the aftermath of the bursting of the "dot-com" bubble in 2000. State contributions to the California Public Employees' Retirement System (CalPERS) skyrocketed from less than $200 million in fiscal year 2000-01 to about $2.6 billion in FY 2004-05.[68] Total General Fund costs for state employees' pensions and retiree benefits have roughly tripled from approximately $1.5 billion in 2000-01 to about $4.5 billion in 2008-09, and the Legislative Analyst's Office is projecting that costs will rise another 10%, to $5 billion, next year.[69] The LAO further predicted that "the pension systems' investment declines in 2008-09 probably will be so large that substantial state contribution increases cannot be avoided beginning in 2010-11," and estimated that these increases in General Fund costs will be in the hundreds of millions of dollars a year for CalPERS and hundreds of millions of dollars a year more for the California State Teachers' Retirement System (CalSTRS).[70]

To put the likely impact of the current economic calamity into perspective, consider that following the dot-com bubble burst, CalPERS experienced three years of mildly negative returns: -1.4% in calendar year 2000, -6.2% in 2001, and -9.5% in 2002.[71] As mentioned above, this resulted in a drastic increase in state pension contributions. Last year, CalPERS investments lost 27.1%.[72] This is sure to lead to an even greater jump in state pension obligations.

While, by law, pension benefits cannot be reduced for existing state employees, it is clear that the system must be drastically reformed for future employees in order to bring compensation costs in line with those in the private sector and prevent dramatic swings in state pension contributions in the future.

Conclusion

While the special election propositions have been branded by supporters as "budget reform" measures, the truth is that they are nothing of the sort. None of the propositions would make any meaningful structural reforms to the state's broken government and budgeting process. Legislators and the governor should not be rewarded with a taxpayer-funded bailout for their fiscally irresponsible spending decisions. By passing Proposition 1F and rejecting Propositions 1A, 1B, 1C, 1D, and 1E, voters would send Sacramento a message that they are tired of its fiscal recklessness and false solutions.

California will never resolve its structural budget problems until it reins in its out-of-control spending, improves its regulatory and business climate, and significantly alters its budgeting process by adopting a performance-based budgeting system and by using the windfalls of prosperous times to buffer the financial shortages of low economies. Through its many failed attempts over the years, the state has proven that it can neither tax nor borrow its way to prosperity. It has only further impoverished future generations in the process. Sadly, the propositions under consideration in the May 19 special election represent more of the same futile "solutions." It is time to try something new. It is time for real reform.

About the Author

Adam B. Summers is a policy analyst at Reason Foundation. He has written extensively on privatization, government reform, law and economics, public pension reform, occupational licensing and various other political and economic topics. Mr. Summers's articles have been published by the *Los Angeles Times*, *San Francisco Chronicle*, *San Diego Union-Tribune*, *Orange County Register*, *Los Angeles Daily News*, *Baltimore Sun*, *Los Angeles Business Journal* and many others. Summers holds an M.A. in Economics from George Mason University and earned his Bachelor of Arts degree in Economics and Political Science from the University of California, Los Angeles.

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