

Fiscal Implications of the Passage or Failure of the May 19, 2009 Referendums
 (Analysis of each Proposition is provided by School Services of California)

Six propositions have qualified for the May 19, 2009, statewide special election ballot. All propositions will have an impact on the State Budget in some way, but the first three propositions are of particular importance to K-14 education because they directly affect funding for those segments. Summarized below are the implications to education should these propositions fail or pass.

Proposition #	Description	Fiscal Impact	Consequence of Failure
1A	Caps state spending based on the ten-year trend in state revenues; increases "rainy day" fund and limits how that money is spent; extends temporary tax increases for 1-2 years. This is linked to 1B; if Proposition 1B passes, a portion of the fund would be transferred to fund payments to K-14 education	Higher state tax revenues of about \$16 billion from 2010-11 through 2012 or 2013; increased amounts of money in the state's "rainy day" reserve over time; potentially less ups and downs in state spending	Loss of about \$16 billion from 2010-11 through 2012 or 2013 if tax increases are not extended; state would not divert 1.5% of annual General Fund (GF) revenues beginning in 2011-12 to make supplemental payments for education
1B	Resolves controversy over payment of Proposition 98 "maintenance factor" for fiscal years 2009-10 & 2010-11 by providing \$9.3 billion in supplemental education payments over 5-6 years, beginning in 2011-12, in lieu of maintenance factor payments. This is contingent upon passage of Proposition 1A	Could save the state money by delaying maintenance factor payments	If voters reject Proposition 1A or 1B, there will be no obligation to make the \$9.3 billion in supplemental payments; but refusal to pay would likely be litigated
1C	Modernizes State Lottery to increase ticket sales; allows state to borrow \$5 billion in	Allows \$5 billion of borrowing from future Lottery profits; receipt of this funding is	If voters reject 1C, there will be a \$5 billion hole in the Budget, and the Legislature and the

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	fiscal year 2009-10 from future Lottery proceeds (securitize Lottery), to be paid back from lottery profits now going to education; increases GF payments to education to replace lost Lottery payments	assumed in 2009-10 Budget. There would be annual debt-service payments of \$350 million-\$450 million for 20-30 years from the initial \$5 billion in borrowing; any remaining Lottery profits would benefit GF, but would probably be insufficient to cover higher GF payments for education. The initiative also allows for additional future borrowing against future Lottery profits.	Governor will probably have to agree to billions of dollars of additional spending cuts, tax increases, and/or other solutions
1D	Temporarily redirects portion of Proposition 10 (First 5 program) funds to offset GF support of health and human services programs for children up to age five; permanently changes state and local First 5 commission operations	Up to \$608 million in 2009-10 from one time redirection of reserves and annual payment; \$268 million annually from 2010-11 through 2013-14	Loss of \$608 million in 2009-10 and \$268 million annually from 2010-11 through 2013-14 that would be used to supplant GF expenditures
1E	Temporarily redirects some Proposition 63 mental health funds to an existing state program in place of state GF support	\$226.7 million in 2009-10; \$226.7 million-\$234 million in 2010-11	Loss of state GF savings of about \$230 million annually for two fiscal years
1F	Prevents approval of salary increases for elected state officials when the state GF is expected to end the year with a deficit	Minor savings in years when GF is expected to end the year with a deficit	Loss of minor cost savings in deficit years

In summary, Prop 1A and Prop 1C provides the funding stream and mechanism to Prop 1B. Should Prop 1B pass and the unpopular Prop 1A and 1C fail, Prop 1B would remain

in limbo. The current level of cut is based upon the State deficit of \$41.6B. If Prop 1A and 1C fail, there is a likelihood that the State's deficit will continue to grow, which will then necessitate the State to implement more cuts that will go deeper than what districts have already made in the current year and have planned to make in 2009-10. Therefore, it is very critical for Prop 1A, 1B and 1C to all pass for the funding to be restored back to education, and the cuts to end.