



PROPOSITION 1A; *WHY IT WILL RESULT IN MORE SPENDING AND HIGHER TAXES...*

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WHAT PROPOSITION 1A DOES:

- Mandates creation of "Rainy Day Fund" to a maximum of 12.5% of General-fund
- Extends \$16 Billion in Tax Increases for Two Additional Years...
 - Excess revenues are shifted into budget sustainability fund (BSF)
- Limits General-fund spending for a given fiscal year to the revenue projection for that year plus population growth and inflation

Figure 7

Tax Increases Would Be Extended by Passage of Proposition 1A

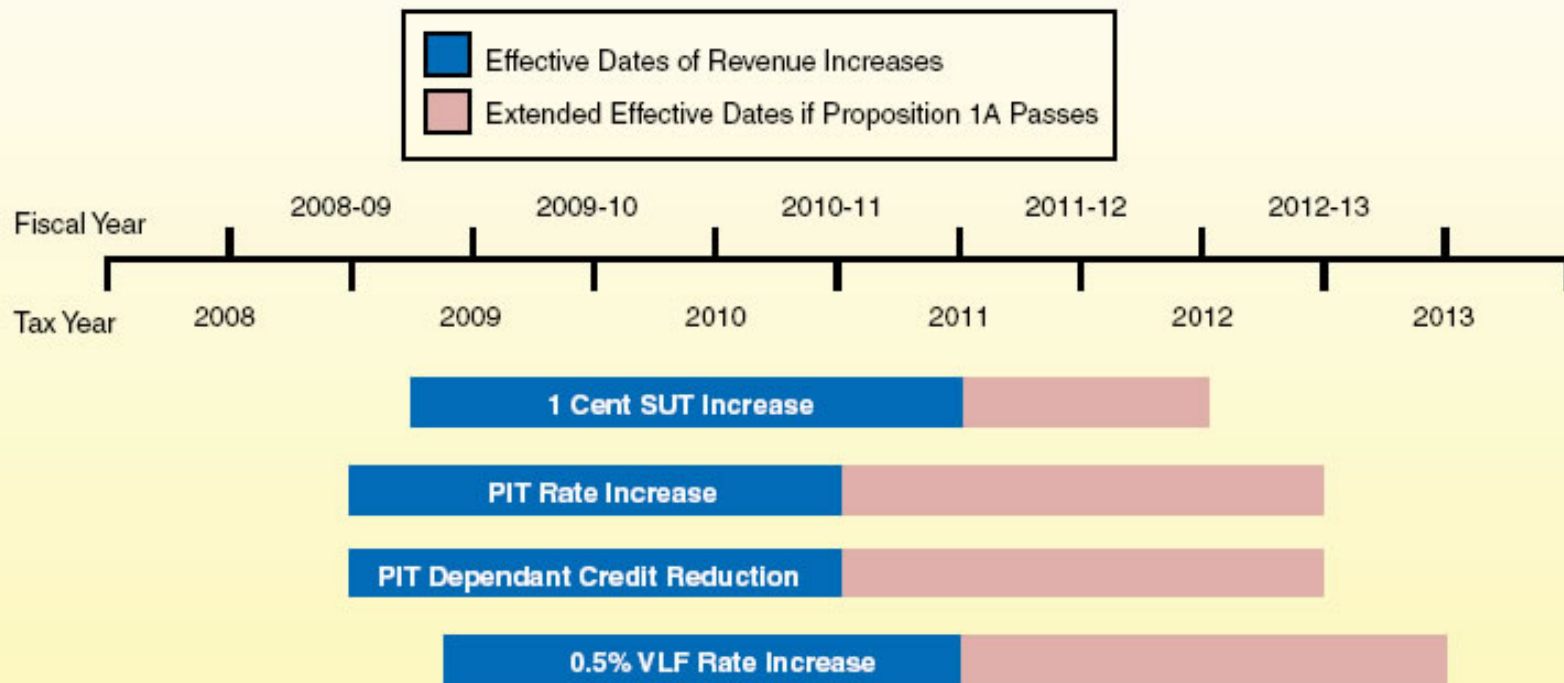
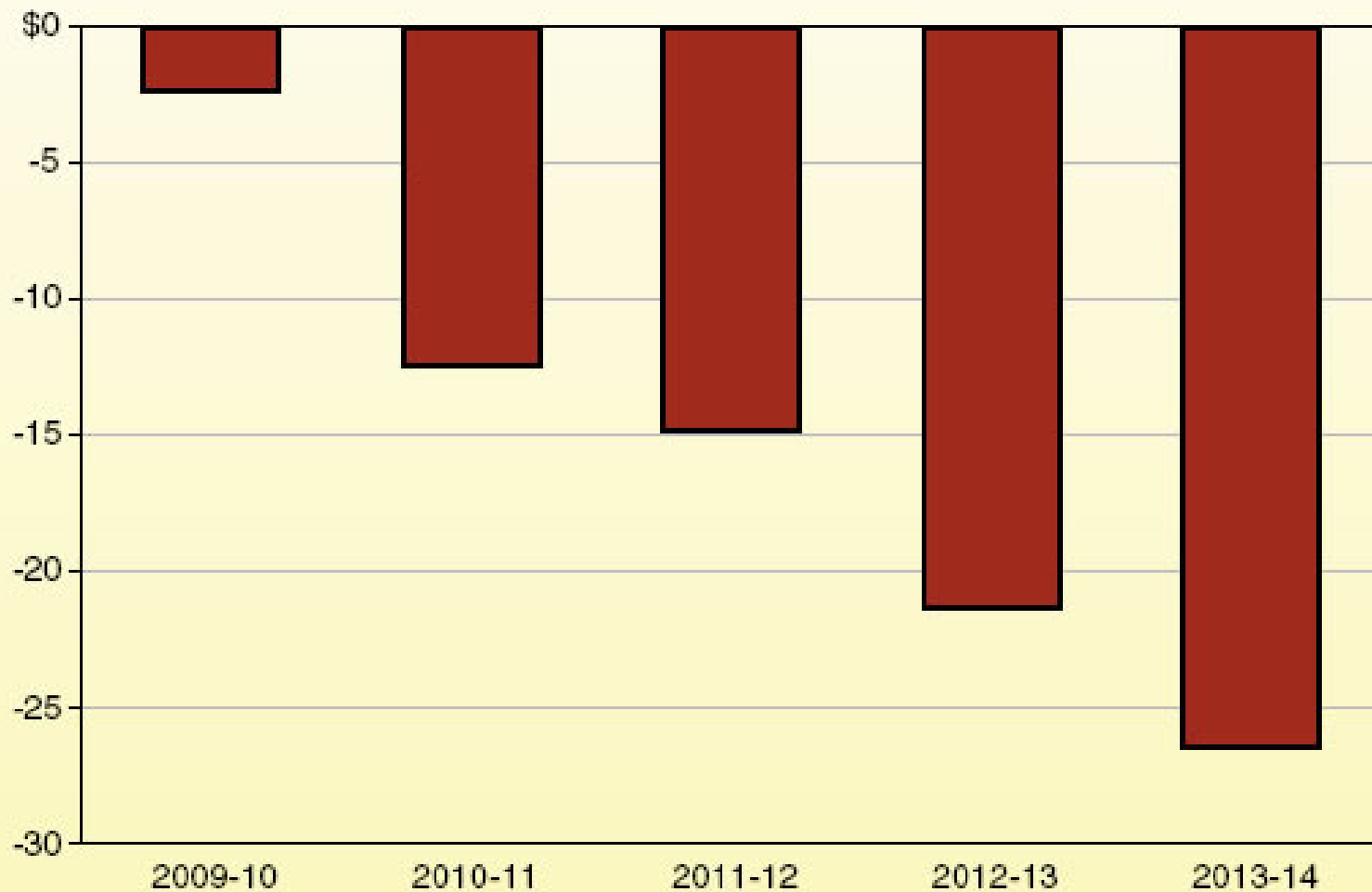


Figure 12

Operating Shortfalls Projected to Grow Dramatically Throughout Forecast Period

General Fund (In Billions)



IS PROPOSITION 1A AN EFFECTIVE SPENDING CONSTRAINT?

- Would allow Governor to Suspend or Reduce Transfers to BSF by Executive Order...
 - With no limit on that power!
 - Experts believe Executive Orders will become the norm rather than the exception.

PROPOSITION 1A MAY ACTUALLY INCREASE STATE SPENDING:

- Proposition 1A allows the (assumed) revenues from any tax increase to be included in the revenue projection for the current fiscal year
- Thus increasing allowable spending
 - Is this a real spending limit?

"Prop 1A is nothing more than a massive tax increase masked as a phony spending limit."

- Americans for Tax Reform

PROPOSITION 1A WILL MAKE TAX REDUCTIONS LESS LIKELY:

- A reduction in tax rates would yield an assumed reduction in revenues for the current fiscal year
- Favorable future economic effects from tax cuts would be excluded from the revenue projection methodology for ten years

"Prop 1A is a "giant tax increase disguised as a "Spending Cap" and "Budget Reform."

- Howard Jarvis Taxpayers Assn

DOES PROPOSITION 1A REALLY LIMIT FUTURE SPENDING TO POPULATION GROWTH PLUS INFLATION?

- Inflation and population data required to make determinations for the current and/or next fiscal year are not going to be available, according to Ben Zycher, *senior fellow with the Pacific Research Institute*
- Zycher believes “inflation and population” constraint will be subject to political manipulation...
- Prop 1A will operate as a spending floor, from which allowable spending might increase if taxes are raised

"If Prop. 1A passes, Californians may be lulled into a false sense of security, delaying the day we might adopt a true and effective spending cap."

- National Tax Limitation Committee

WHAT ARE SOME OTHER PROBLEMS WITH PROPOSITION 1A?

- Tax increases, recently enacted by the legislature, will be extended for additional periods of one to three years, depending on the tax
- Tax increases are unlikely to prove effective as a tool with which to impose fiscal discipline in the absence of a serious limit on spending
- Tax increases just passed will not prove helpful in terms of rescuing the state from the current economic downturn
- Lengthening the period of higher taxes would be economically destructive, thereby reducing revenues in the future

WHAT IS THE WORST PART OF PROPOSITION 1A?

- A blatantly dishonest campaign
- Both sides of the ballot argument were written by proponents!
- Tax extension provisions are not mentioned at all in ballot argument
- Will introduce a bias in favor of tax increases...the last thing California needs

IS THERE A BETTER SOLUTION?

- A spending limit should be simple
 - And difficult to circumvent
- Spending reforms should provide public officials with incentives to adopt policies yielding economic growth
 - 1A ignores negative and positive impacts from changes in tax policy
- Limiting spending to a specific percentage of state gross domestic output would achieve all of those goals
 - Similar to the spending limit proposed by Governor Reagan in 1973 (Proposition 1)