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March 24, 2011

Initiative Coordinator
Office of the Attorney General
State of California
PO Box 994255
Sacramento, CA 94244-25550

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INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Re: Request for Title and Summary for Proposed Initiative

Dear Ms. Paris:

Pursuant to Article II, Section 10(d) of the California Constitution, I am submitting the attached proposed statewide ballot measure ("California Deficit Prevention Act") to your office and request that you prepare a circulating title and summary of the measure as provided by law. I have also included with this letter the required signed statement pursuant to California Elections Code sections 9001 and 9608, and a check in the amount of \$200. My address as registered to vote is shown on Attachment 'A' to this letter.

Thank you for your time and attention to this important matter. Should you have any questions or require additional information, please contact myself at the address above or our legal counsel, Thomas W. Hiltachk, 455 Capitol Mall, Suite 600, Sacramento, CA 95814, (916) 442-7757.

Very Truly Yours,

Jon Coupal

INITIATIVE MEASURE TO BE SUBMITTED DIRECTLY TO VOTERS

SECTION 1 Title

This measure shall be known and may be cited as the "California Deficit Prevention Act."

SECTION 2 Findings and Declarations of Purpose

A. The State of California and its political subdivisions continue to suffer chronic budget deficits. The existing state and local appropriation limits have failed to prevent this from occurring.

B. These deficits are the result of politicians failing to manage responsibly state finances, failing to enact budgets limited to available revenues and failing to put aside a portion of the surpluses during good years to ensure stable government resources in the lean years.

C. State spending has significantly outpaced the growth in state population and inflation even in years when revenues were not available to support the increased spending.

D. To sustain out-of-control spending, politicians pursued massive borrowing, the costs of which will be borne by future generations, raided revenues from local governments, which have had their own fiscal mismanagement, and enacted new fees and "temporary" taxes.

E. The California Deficit Prevention Act will force rational fiscal management on Sacramento politicians by limiting the growth in State spending to the combined growth of population and inflation. Similarly, local governments will be prohibited from spending beyond their available revenues.

SECTION 3 Article XIII B of the California Constitution is amended to read:

SEC. 1 As used in this article, the following terms have the following meanings:

(a) "Emergency" means the existence as declared by the Governor, of conditions of disaster or of extreme peril to the safety of persons and property within the State, or parts thereof, caused by an attack or probable or imminent attack by an enemy of the United States, epidemic, fire, flood, storm, civil disorder, earthquake, tsunami or volcanic eruption. "Emergency" does not include revenue shortfalls, excessive spending, or similar conditions limiting the ability to fund government operations.

(b) Except as specifically excluded in this Article, "General Fund revenues and special fund revenues" means all taxes as defined in Article XIII A, subsection 3(b), any other charges or exactions imposed by the State, all other sources of revenue which were considered "General Fund" or "special fund" sources of revenue for the 2010-11 fiscal year; and any funds transferred from the Sales Tax Rebate Account as specified in section 3(d) of this Article. "General Fund revenues and special fund revenues" does not include revenues to Nongovernmental Cost Funds,

including federal funds, trust and agency funds, enterprise funds or bond funds. It is the intent of this subdivision to ensure that all state revenues received in any fiscal year and not specifically excluded by this article, whether or not characterized by any state law as General Fund revenues or special fund revenues, are subject to the expenditure limit prescribed by this article.

(c) "Percentage change in the cost of living" means the percentage change from April 1 of the prior year to March 31 of the current year in the California Consumer Price Index for all items, as determined by the Department of Industrial Relations or its successor, but not to exceed the percentage change in California per capita personal income for the prior calendar year. The Department of Finance or its successor agency shall determine the change in per capita personal income based upon the California personal income statistics produced by the Bureau of Economic Analysis in the United States Department of Commerce. For the purposes of this calculation, "current year" means the calendar year in which the fiscal year commences.

(d) "Allowable expenditures" means the maximum amount of total expenditures permitted for a fiscal year as provided for in this Article.

(e) "State Population" shall be determined by the Department of Finance, or successor agency, provided that such determinations 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.

SEC 2. (a)(1) The total expenditures made for the 2012-13 fiscal year, or any subsequent fiscal year, from the General Fund revenues and special funds revenues, in the aggregate, shall not increase from the amount of those total expenditures for the prior fiscal year as adjusted pursuant to paragraph (2) for changes in state population and cost of living.

(2) The maximum amount of total expenditures allowable for the current fiscal year shall be computed by multiplying the prior year total expenditures by the sum of 1 plus the percentage change in state population, and then multiplying that product by the sum of 1 plus the percentage change in the cost of living.

(3) For the purposes of establishing the expenditure limit for the 2012-13 fiscal year, the total amount for the prior year expenditures shall be deemed to be equal to the amount of expenditures for the 2010-11 fiscal year from General Fund revenues and special fund revenues, as determined by the Director of the Department of Finances, or the Director of its successor agency, as adjusted pursuant to paragraph (2) for two years of changes in state population and cost-of-living.

(4) For the purposes of establishing the expenditure limit for the 2012-13 fiscal year and each subsequent fiscal year, the Director of the Department of Finance or the Director of its successor agency, shall certify the total amount of the prior-year expenditures, which in no event shall be an amount greater than the total amount of allowable expenditures for that year under this Article.

(b) The expenditure limit imposed by this Article may be exceeded for a fiscal year in an emergency as defined in Section 1(a) of this Article. Any expenditure for an emergency declared by the Governor shall first be paid from any funds accumulated in the Special Reserve Account created pursuant to Section 3(a) of this Article. Any expenditure exceeding the limit imposed by this Article for a declared emergency as provided for in this section shall be for that purpose only and shall be directly related to, and proportionate to the costs arising from the emergency. No funds expended pursuant to this subsection shall supplant or replace monies already appropriated to any state agency. Expenditures in excess of the limit pursuant to this section shall not become part of the expenditure base for purposes of determining the amount of allowable expenditures for the next fiscal year. Any bill addressing the emergency declared pursuant to this section shall contain a statement to that effect.

(c) The total amount of expenditures made in any fiscal year does not include any funds that are transferred from the General Fund to the Budget Stabilization Account as provided in Article XVI, Section 20. The total amount of expenditures made in any fiscal year includes any expenditure transfer of funds from the Budget Stabilization Account subsequent to their deposit into that account, unless such expenditure or transfer is for the purposes of the retirement of bonds as describe by Section 20 of Article XVI.

(d) The Director of the Department of Finance, or the Director of its successor agent, shall, on a quarterly basis, report to the Governor and the Members of the Budget Committees in each house, on the state's compliance with the expenditure limit imposed by this Article for the current fiscal year. The report shall include updated estimates of revenues and expenditures and the expenditure limit for the current fiscal year. If the Department estimates current fiscal year total expenditures may exceed the limit imposed by this Article, the report shall include recommendations for corrective action.

(e) If the Governor has not declared a fiscal emergency during a fiscal year pursuant to Article IV, Section 10(f)(1), and after the conclusion of that fiscal year it is determined by the Director of Department of Finance, or the Director of its successor agency that actual expenditures for that fiscal year have exceeded the maximum amount allowable for that year, then the maximum amount of allowable expenditures for the fiscal year following the fiscal year in which such determination is made shall be reduced by the amount of the excess. In determining the maximum allowable amount of total expenditures for the fiscal year next succeeding the fiscal year in which such a reduction is made, the amount of the reduction shall be added to the amount of prior-year expenditures certified pursuant to paragraphs 3 and 4 of this section.

(f) In order to ensure the integrity of the expenditure limit imposed by this Article, the state is hereby prohibited from making any alterations in its existing accounting practices that are not in compliance with Generally Accepted Accounting Principles as promulgated now or in the future by the Governmental Accounting Standards Board, or its successor agency.

SEC. 3 If total General Fund revenue and special fund revenues exceed the amount which may be expended in the current fiscal year due to the expenditure limit imposed by this article, the amount of such excess shall be proportionately attributed to the General Fund and

each Special Fund. The amount of such excess attributed to each Special Fund shall be held as a reserve in that Special Fund for expenditure in a subsequent fiscal year. The amount of such excess attributed to the General Fund shall be allocated from the General Fund as follows:

(a)(1) Twenty-Five percent to the Special Reserve Account, which is hereby created in the General Fund of the State, to the extent that this account contains an amount less than five percent of the total amount of allowable expenditures for the current fiscal year. Any funds that may not be allocated to the Special Reserve Account due to the five percent limitation shall be allocated pursuant to subdivision (b).

(2) Monies in the Special Reserve Account may be expended in any fiscal year in an amount equal to the amount by which revenues reported by the Department of Finance, or its successor agency, for the fiscal year, as supplemented by any moneys in the Budget Stabilization Account that are transferred to the General Fund pursuant to Section 20 of Article XVI, fall below the expenditure limit established by this Article for the fiscal year.

(3) Notwithstanding the limitation set forth in paragraph (2), funds in the Special Reserve Account may be expended for the purposes of an emergency declared by the Governor as provided for in Section 1(a) of this Article, upon appropriation by the Legislature by a two-thirds vote of the membership of each house.

(4) Any funds expended from the Special Reserve Account pursuant to paragraph (2), but no funds expended from that account for the purposes of paragraph (3) in excess of the limitation set forth in paragraph (2), are part of the expenditure base for the purposes of determining the amount of allowable expenditures pursuant to Section 2 for subsequent fiscal years.

(5) Subject to the five-percent maximum amount specified in paragraph (1), any unexpended balance in the Special Reserve Account, including interest earnings, shall carry over from one year to the next.

(b) Fifty percent to be allocated in the budget act among the following: (1) to any outstanding maintenance factor pursuant to Article XVI, Section 8 of this Constitution in existence as of June 30, 2011, until allocated in full; and (2) payment of voter approved bonded indebtedness.

(c) Twenty-five percent to the School, Roads and Highways Construction Fund, which is hereby created in the Treasury as a trust fund, which shall be available for allocation by the State Allocation Board to local agencies and school districts for road and highway construction projects and for school construction and modernization projects, upon appropriation by the Legislature. Any funds allocated to school districts pursuant to this provision are not subject to Article XVI, Section 8.

(d) Revenue that exceeds the amount that may be deposited to the accounts specified in subsections (a), (b), or (c) shall not be considered "General Fund revenues" for purposes of Article XVI, Section 8. Any revenue that exceeds the amount that may be deposited into the accounts specified in subsections (a), (b), or (c) shall be allocated to the Sales Tax Rebate

Account, which is hereby created in the Treasury as a trust fund, which shall be used for temporary state sales tax rate reduction. Any monies allocated to the Sales Tax Rebate Account shall remain in the Fund, along with any interest earnings. At the conclusion of every fiscal year, the Department of Finance, or its successor agency, shall transmit to the Controller its estimate of the amount of revenue that would be produced by a sales and use tax rate of 0.25 percent over the next succeeding twelve month period. Whenever the amount of money accumulated in the Sales Tax Rebate Account reaches the amount specified by the Department of Finance, or its successor agency, the taxpayers shall be entitled to a rebate provided as a reduction in the sales and use tax rate by 0.25 percent for a period of 12 months. If the amount available in the Sales Tax Rebate Account is sufficient to warrant multiple rebates, the taxpayers shall be entitled to such additional rebates in such increments of .25 percent as are warranted by the balance in the Sales Tax Rebate Account. The State Controller shall notify the State Board of Equalization when accumulated monies in the Sales Tax Rebate Account exceed the amount specified by the Department of Finance, or its successor agency, as required pursuant to this section. Within 120 days from being notified by the State Controller of monies in the Sales Tax Rebate Account in excess of the amount specified by the Department of Finance pursuant to this section, the State Board of Equalization, or its successor agency responsible for administering the Sales and Use Tax Law, shall implement the sales and use tax rate reduction to which taxpayers are entitled pursuant to this section. The State Controller shall transfer monies from the Sales Tax Rebate Account to the General Fund and affected special funds to offset the actual revenue reductions to state funds affected by the rate reduction required by this section. Any funds so transferred are "General Fund and special fund revenues" for purposes of this Article, and are "General Fund Revenues" for purposes of Article XVI, Section 8.

SEC. 4 The Legislature may, by roll-call vote entered in the journal, two-thirds of the membership in each house concurring, submit to the people, at the first statewide election occurring at least 90 days after the adoption of the proposal, a measure requesting voter approval of a temporary increase in the expenditure limit. Any such measure proposing a temporary increase in the limit imposed pursuant to this Article shall propose a specific dollar amount for the temporary increase, and specify a period not to exceed four fiscal years during which the increase shall be in effect. If the measure is approved by a majority of the voters, the temporary increase shall be in effect for the period specified in the measure. At the end of the period specified, the expenditure limit shall be reestablished for the next fiscal year to equal the amount it would have been had no temporary increase been approved.

SEC. 5 (a) As used in Section 7.5 of Article IV, "the percentage increase in the appropriations limit for the State established pursuant to Article XIII B" means the percentage increase in the cost of living and the percentage increase in the State's population as calculated pursuant to this Article.

(b) As used in Section 8 of Article XVI, "change in the cost of living pursuant to paragraph (1) of subdivision (e) of Section 8 of Article XIII B" means the percentage change in California per capita personal income from the prior fiscal year identified for purposes of Section 1.

SEC. 6 (a) Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the State shall provide a subvention of funds to reimburse that local government for the costs of the program or increased level of service, except that the Legislature may, but need not, provide a subvention of funds for the following mandates:

(1) Legislative mandates requested by the local agency affected.

(2) Legislation defining a new crime or changing an existing definition of a crime.

(3) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing legislation enacted prior to January 1, 1975.

(b) (1) Except as provided in paragraph (2), for the 2011-12 fiscal year and every subsequent fiscal year, for a mandate for which the costs of a local government claimant have been determined in a preceding fiscal year to be payable by the State pursuant to law, the Legislature shall either appropriate, in the annual Budget Act, the full payable amount that has not been previously paid, or suspend the operation of the mandate for the fiscal year for which the annual Budget Act is applicable in a manner prescribed by law.

(2) Payable claims for costs incurred prior to the 2011-12 fiscal year that have not been paid prior to the 2011-12 fiscal year may be paid over a term of years, as prescribed by law.

(3) Ad valorem property tax revenues shall not be used to reimburse a local government for the costs of a new program or higher level of service.

(4) This subdivision applies to a mandate only as it affects a city, county, city and county, or special district.

(c) A mandated new program or higher level of service includes a transfer by the Legislature from the State to cities, counties, cities and counties, or special districts of complete or partial financial responsibility for a required program for which the State previously had complete or partial financial responsibility.

SEC. 7 (a) Whenever, based on the most recent Department of Finance estimates, or its successor agency, and based on laws then in effect, the estimated total amount of debt service for the current fiscal year or any of the succeeding four fiscal years on non-self-liquidating general obligation bonds and General Fund-supported lease revenue bonds exceeds 6 percent of the estimated General Fund revenues for that fiscal year, exclusive of transfers from other funds, during that fiscal year the Treasurer may not sell any additional non-self-liquidating general obligation bonds or General Fund-supported lease revenue bonds.

(b) If that percentage is 6 percent or less, the Treasurer may sell those bonds to the extent that, based on the most recent Department of Finance estimates, or its successor agency, and based on laws then in effect, the additional debt service will not cause the percentage to exceed 6 percent for the current fiscal year or any of the succeeding four fiscal years.

(c) For the purposes of this section and Section 12 of Article IV, the Department of Finance, or its successor agency, at the time of publication of the Governor's Budget in January, at the time of publication of the May Revision, and after the enactment of the Budget Act, shall publish estimates, for the current fiscal year and each of the succeeding four fiscal years of debt service and General Fund revenues, excluding transfers, based on the law in effect at the time each estimate is made.

(d) For purposes of this section, "debt service" does not include any payments associated with redeeming the bonds described by subdivision (a) of Section 1.3 of Article XVI.

SEC. 8 Notwithstanding any other provision of law, including this Constitution, any taxpayer shall have standing to bring a legal action against the State for violating any provision of this article. The action may seek declaratory relief, injunctive relief, a writ of mandate, or any other relief that a court may deem appropriate. In any such action, the state shall have the burden of demonstrating compliance with this Article. Actions brought pursuant to this section shall have calendar preference over all other actions.

~~Sec. 1. The total annual appropriations subject to limitation of the state and of each local government shall not exceed the appropriations limit of the entity of government for the prior year adjusted for the change in the cost of living and the change in population, except as otherwise provided in this article.~~

~~Sec. 1.5. The annual calculation of the appropriations limit under this article for each entity of local government shall be reviewed as part of an annual financial audit.~~

~~Sec. 2. (a)(1) Fifty percent of all revenues received by the state in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the state in compliance with this article during that fiscal year and the fiscal year immediately following it shall be transferred and allocated, from a fund established for that purpose, pursuant to Section 8.5 of Article XVI.~~

~~(2) Fifty percent of all revenues received by the state in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the state in compliance with this article during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years~~

~~(b) All revenues received by an entity of government, other than the state, in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the entity in compliance with this article during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.~~

~~Sec. 3. The appropriations limit for any fiscal year pursuant to Sec. 1 shall be adjusted as follows:~~

(a) In the event that the financial responsibility of providing services is transferred, in whole or in part, whether by annexation, incorporation or otherwise, from one entity of government to another, then for the year in which such transfer becomes effective the appropriations limit of the transferee entity shall be increased by such reasonable amount as the said entities shall mutually agree and the appropriations limit of the transferor entity shall be decreased by the same amount.

(b) In the event that the financial responsibility of providing services is transferred, in whole or in part, from an entity of government to a private entity, or the financial source for the provision of services is transferred, in whole or in part, from other revenues of an entity of government, to regulatory licenses, user charges or user fees, then for the year of such transfer the appropriations limit of such entity of government shall be decreased accordingly.

(c)(1) In the event an emergency is declared by the legislative body of an entity of government, the appropriations limit of the affected entity of government may be exceeded provided that the appropriations limits in the following three years are reduced accordingly to prevent an aggregate increase in appropriations resulting from the emergency.

(2) In the event an emergency is declared by the Governor, appropriations approved by a two-thirds vote of the legislative body of an affected entity of government to an emergency account for expenditures relating to that emergency shall not constitute appropriations subject to limitation. As used in this paragraph, "emergency" means the existence, as declared by the Governor, of conditions of disaster or of extreme peril to the safety of persons and property within the state, or parts thereof, caused by such conditions as attack or probable or imminent attack by an enemy of the United States, fire, flood, drought, storm, civil disorder, earthquake, or volcanic eruption.

Sec. 4. The appropriations limit imposed on any new or existing entity of government by this Article may be established or changed by the electors of such entity, subject to and in conformity with constitutional and statutory voting requirements. The duration of any such change shall be as determined by said electors, but shall in no event exceed four years from the most recent vote of said electors creating or continuing such change.

Sec. 5. Each entity of government may establish such contingency, emergency, unemployment, reserve, retirement, sinking fund, trust, or similar funds as it shall deem reasonable and proper. Contributions to any such fund, to the extent that such contributions are derived from the proceeds of taxes, shall for purposes of this Article constitute appropriations subject to limitation in the year of contribution. Neither withdrawals from any such fund, nor expenditures of (or authorizations to expend) such withdrawals, nor transfers between or among such funds, shall for purposes of this Article constitute appropriations subject to limitation.

Sec. 5.5. The Legislature shall establish a prudent state reserve fund in such amount as it shall deem reasonable and necessary. Contributions to, and withdrawals from, the fund shall be subject to the provisions of Section 5 of this Article.

SEC. 6. (a) Whenever the Legislature or any state agency mandates a new program or higher level of service on any local government, the State shall provide a subvention of funds to reimburse that local government for the costs of the program or increased level of service, except that the Legislature may, but need not, provide a subvention of funds for the following mandates:

(1) Legislative mandates requested by the local agency affected.

(2) Legislation defining a new crime or changing an existing definition of a crime.

(3) Legislative mandates enacted prior to January 1, 1975, or executive orders or regulations initially implementing legislation enacted prior to January 1, 1975.

(b)(1) Except as provided in paragraph (2), for the 2005-06 fiscal year and every subsequent fiscal year, for a mandate for which the costs of a local government claimant have been determined in a preceding fiscal year to be payable by the State pursuant to law, the Legislature shall either appropriate, in the annual Budget Act, the full payable amount that has not been previously paid, or suspend the operation of the mandate for the fiscal year for which the annual Budget Act is applicable in a manner prescribed by law.

(2) Payable claims for costs incurred prior to the 2004-05 fiscal year that have not been paid prior to the 2005-06 fiscal year may be paid over a term of years, as prescribed by law.

(3) Ad valorem property tax revenues shall not be used to reimburse a local government for the costs of a new program or higher level of service.

(4) This subdivision applies to a mandate only as it affects a city, county, city and county, or special district.

(5) This subdivision shall not apply to a requirement to provide or recognize any procedural or substantive protection, right, benefit, or employment status of any local government employee or retiree, or of any local government employee organization, that arises from, affects, or directly relates to future, current, or past local government employment and that constitutes a mandate subject to this section.

(e) A mandated new program or higher level of service includes a transfer by the Legislature from the State to cities, counties, cities and counties, or special districts of complete or partial financial responsibility for a required program for which the State previously had complete or partial financial responsibility.

Sec. 7. Nothing in this Article shall be construed to impair the ability of the state or of any local government to meet its obligations with respect to existing or future bonded indebtedness.

Sec. 8. As used in this article and except as otherwise expressly provided herein:

(a) "Appropriations subject to limitation" of the state means any authorization to expend during a fiscal year the proceeds of taxes levied by or for the state, exclusive of state subventions for the

use and operation of local government (other than subventions made pursuant to Section 6 and further exclusive of refunds of taxes, benefit payments from retirement, unemployment insurance, and disability insurance funds.

(b) "Appropriations subject to limitation" of an entity of local government means any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of state subventions to that entity (other than subventions made pursuant to Section 6) exclusive of refunds of taxes.

(c) "Proceeds of taxes" shall include, but not be restricted to, all tax revenues and the proceeds to an entity of government, from (1) regulatory licenses, user charges, and user fees to the extent that those proceeds exceed the costs reasonably borne by that entity in providing the regulation, product, or service, and (2) the investment of tax revenues. With respect to any local government, "proceeds of taxes" shall include subventions received from the state, other than pursuant to Section 6, and, with respect to the state, proceeds of taxes shall exclude such subventions.

(d) "Local government" means any city, county, city and county, school district, special district, authority, or other political subdivision of or within the state.

(e)(1) "Change in the cost of living" for the state, a school district, or a community college district means the percentage change in California per capita personal income from the preceding year.

(2) "Change in the cost of living" for an entity of local government, other than a school district or a community college district, shall be either (A) the percentage change in California per capita personal income from the preceding year, or (B) the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction. Each entity of local government shall select its change in the cost of living pursuant to this paragraph annually by a recorded vote of the entity's governing body.

(f) "Change in population" of any entity of government, other than the state, a school district, or a community college district, shall be determined by a method prescribed by the Legislature.

"Change in population" of a school district or a community college district shall be the percentage change in the average daily attendance of the school district or community college district from the preceding fiscal year, as determined by a method prescribed by the Legislature.

"Change in population" of the state shall be determined by adding (1) the percentage change in the state's population multiplied by the percentage of the state's budget in the prior fiscal year that is expended for other than educational purposes for kindergarten and grades one to 12, inclusive, and the community colleges, and (2) the percentage change in the total statewide average daily attendance in kindergarten and grades one to 12, inclusive, and the community colleges, multiplied by the percentage of the state's budget in the prior fiscal year that is expended for educational purposes for kindergarten and grades one to 12, inclusive, and the community colleges.

Any determination of population pursuant to this subdivision, other than that measured by average daily attendance, shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce, or successor department.

(g) "Debt service" means appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund required in connection therewith, on indebtedness existing or legally authorized as of January 1, 1979, or on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for that purpose.

(h) The "appropriations limit" of each entity of government for each fiscal year is that amount which total annual appropriations subject to limitation may not exceed under Sections 1 and 3. However, the "appropriations limit" of each entity of government for fiscal year 1978-79 is the total of the appropriations subject to limitation of the entity for that fiscal year. For fiscal year 1978-79, state subventions to local governments, exclusive of federal grants, are deemed to have been derived from the proceeds of state taxes.

(i) Except as otherwise provided in Section 5, "appropriations subject to limitation" do not include local agency loan funds or indebtedness funds, investment (or authorizations to invest) funds of the state, or of an entity of local government in accounts at banks or savings and loan associations or in liquid securities.

Sec. 9. "Appropriations subject to limitation" for each entity of government do not include:

(a) Appropriations for debt service.

(b) Appropriations required to comply with mandates of the courts or the federal government which, without discretion, require an expenditure for additional services or which unavoidably make the provision of existing services more costly.

(c) Appropriations of any special district which existed on January 1, 1978, and which did not as of the 1977-78 fiscal year levy an ad valorem tax on property in excess of 12 1/2 cents per \$100 of assessed value; or the appropriations of any special district then existing or thereafter created by a vote of the people, which is totally funded by other than the proceeds of taxes.

(d) Appropriations for all qualified capital outlay projects, as defined by the Legislature.

(e) Appropriations of revenue which are derived from any of the following:

(1) That portion of the taxes imposed on motor vehicle fuels for use in motor vehicles upon public streets and highways at a rate of more than nine cents (\$0.09) per gallon.

(2) Sales and use taxes collected on that increment of the tax specified in paragraph (1).

~~(3) That portion of the weight fee imposed on commercial vehicles which exceeds the weight fee imposed on those vehicles on January 1, 1990.~~

~~Sec. 10. This Article shall be effective commencing with the first day of the fiscal year following its adoption.~~

~~Sec. 10.5. For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to this article, as amended by the measure adding this section, adjusted for the changes required by Section 3.~~

~~Sec. 11. If any appropriation category shall be added to or removed from appropriations subject to limitation, pursuant to final judgment of any court of competent jurisdiction and any appeal therefrom, the appropriations limit shall be adjusted accordingly. 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.~~

~~Sec. 12. "Appropriations subject to limitation" of each entity of government shall not include appropriations of revenue from the Cigarette and Tobacco Products Surtax Fund created by the Tobacco Tax and Health Protection Act of 1988. No adjustment in the appropriations limit of any entity of government shall be required pursuant to Section 3 as a result of revenue being deposited in or appropriated from the Cigarette and Tobacco Products Surtax Fund created by the Tobacco Tax and Health Protection Act of 1988.~~

~~SEC. 13. "Appropriations subject to limitation" of each entity of government shall not include appropriations of revenue from the California Children and Families First Trust Fund created by the California Children and Families First Act of 1998. No adjustment in the appropriations limit of any entity of government shall be required pursuant to Section 3 as a result of revenue being deposited in or appropriated from the California Children and Families First Trust Fund. The surtax created by the California Children and Families First Act of 1998 shall not be considered General Fund revenues for the purposes of Section 8 of Article XVI.~~

~~SECTION 4 Section 8.5 of Article XVI of the California Constitution is amended to read:~~

~~SECTION. 8.5. (a) In addition to the amount required to be applied for the support of school districts and community college districts pursuant to Section 8, the Controller shall during each fiscal year transfer and allocate all revenues available pursuant to paragraph 1 of subdivision (a) of Section 1 of Article XIII B to that portion of the State School Fund restricted for elementary and high school purposes, and to that portion of the State School Fund restricted for community college purposes, respectively, in proportion to the enrollment in school districts and community college districts respectively.~~

~~(1) With respect to funds allocated to that portion of the State School Fund restricted for elementary and high school purposes, no transfer or allocation of funds pursuant to this section shall be required at any time that the Director of Finance and the Superintendent of Public~~

~~Instruction mutually determine that current annual expenditures per student equal or exceed the average annual expenditure per student of the 10 states with the highest annual expenditures per student for elementary and high schools, and that average class size equals or is less than the average class size of the 10 states with the lowest class size for elementary and high schools.~~

~~(2) With respect to funds allocated to that portion of the State School Fund restricted for community college purposes, no transfer or allocation of funds pursuant to this section shall be required at any time that the Director of Finance and the Chancellor of the California Community Colleges mutually determine that current annual expenditures per student for community colleges in this State equal or exceed the average annual expenditure per student of the 10 states with the highest annual expenditures per student for community colleges.~~

~~(b) Notwithstanding the provisions of Article XIII 8, funds allocated pursuant to this section shall not constitute appropriations subject to limitation.~~

~~(c) From any funds transferred to the State School Fund pursuant to subdivision (a), the Controller shall each year allocate to each school district and community college district an equal amount per enrollment in school districts from the amount in that portion of the State School Fund restricted for elementary and high school purposes and an equal amount per enrollment in community college districts from that portion of the State School Fund restricted for community college purposes.~~

~~(d) All revenues allocated pursuant to subdivision (a) shall be expended solely for the purposes of instructional improvement and accountability as required by law.~~

~~(e) Any school district maintaining an elementary or secondary school shall develop and cause to be prepared an annual audit accounting for such funds and shall adopt a School Accountability Report Card for each school.~~

SECTION 5 Article XIII E of the California Constitution is added to read:

SEC 1. (a) The total amount of expenditures made for any fiscal year by a city, county, city and county, or a special district may not exceed the total amount of revenues received by that entity for that fiscal year from its authorized taxes, fees and other charges, state and federal funds, and other sources of local revenue, including reserve funds carried over *from* a prior year.

(b) For purposes of this section, authorized taxes include all tax revenues received by a local agency pursuant to law.

(c) For purposes of this section, "tax" shall have the meaning as prescribed in Article XIII C, Section 2 of the California Constitution.

SECTION 6 General Provisions

A. The California Deficit Prevention Act shall be liberally construed to effectuate its

purpose of ensuring that the state enacts responsible, balanced budgets that are sustainable over time within available resources.

B. If any provision of this Act, or part thereof, or the application of this Act to any person or circumstance is held invalid or unconstitutional, that invalidity shall not affect other provisions or applications of this measure that can be given effect without the invalid provision or application, and to this end the provisions of this measure are severable.

C. In the event that this measure and another measure or measures relating to limits on state or local expenditures shall appear on the same statewide election ballot, the provisions of the other measures shall be deemed to be in conflict with this measure. In the event that this measure shall receive a greater number of affirmative votes, the provisions of this measure shall prevail in their entirety, and the provisions of the other measure relating to the legislative votes required to increase taxes or enact fees or limit state or local expenditures shall be null and void.