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# INITIATIVE TO LIMIT EXCESSIVE GOVERNMENT SPENDING FACT SHEET

**The Government Spending Limit Act of 2012 was filed by the California Taxpayers Association, Howard Jarvis Taxpayers Association and Small Business Action Committee to force state government to live within its means.**

The initiative will keep the Legislature from approving excessive spending, will prioritize use of revenue in excess of the limit, and will allow government to grow no faster than the economy.

This limit on excessive government spending will ensure that as California's economy recovers and state tax revenue grows, the money no longer will be spent faster than it comes in. The limit is a common-sense way to bring discipline to the state government's use of the tax dollars sent to Sacramento by hard-working Californians.

<u>Why is this needed? Because history shows us that without a spending limit in place, the next state revenue surge will be committed to ongoing, unsustainable spending, and the state's structural budget imbalance will continue despite the growth in tax revenue</u>. As the *Orange County Register* wrote in an editorial supporting this initiative: "State spending increased by $39 billion since 2000. The state's debt hovers at nearly $200 billion. Unfunded government employee pension liability is estimated as high as $500 billion. The current budget, balanced last June with gimmicks and wishful thinking, is estimated to run as much as $13 billion in the red by July."

Since 1979, California has operated under a spending limit known as the "Gann Limit" (Article XIIIB of the California Constitution). Unfortunately, new laws and the passage of time have made the Gann Limit virtually inoperative, as the maximum spending allowed under the limit is well in excess of any proposed spending.

<u>This new initiative simply updates the Gann Limit in two ways, to make it work again</u>:

- **Updates the Base Year.** This proposal changes the base year from 1986-87 to 2010-11, the most recent fiscal year in which spending data is complete. This brings the Gann Limit back in sync with today's budget numbers.

- **Changes How Proceeds Above the Limit Are Treated.** When the state collects more tax money than it needs to keep programs in step with economic growth, the excess money will be used to pay off debt, to support schools and a “rainy day” fund, or will be returned to taxpayers.

  Under current law, amounts in excess of the limit are to be refunded 50 percent to schools and 50 percent to taxpayers. Under the Spending Limit Act of 2012: If debt service exceeds 5 percent of the limit, all funds in excess of the limit are to be used to pay down debt service; If debt service is less than 5 percent of the limit, 50 percent of the excess between $0 and $2 billion will go to schools (but will not be added to the Proposition 98 base) and 50 percent will go to a prudent reserve; If the excess is more than $2 billion, it all will be returned to taxpayers by a reduction of tax rates or fees.

  The description of this provision is long, but the issue is not complicated. In 1987, the Gann Limit resulted in the state refunding money to taxpayers. While the tax rebate was a rare and welcome action, the rebate process itself was flawed, and this initiative uses that experience to address problems that were experienced by taxpayers.

<u>The proposal also gives taxpayers additional protection by clarifying the legislative vote requirement for taxes</u>. Proposition 26, approved by voters in 2010 to stop hidden taxes, states that legislation that results in a tax increase requires a two-thirds vote of the Legislature. The word "results" means a two-thirds vote should be required for bills that *directly* increase taxes, and for those that result in a tax increase by *authorizing* such impositions. This initiative makes this crystal clear.

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**Additional Resources**

The full text of the initiative is available at [http://ag.ca.gov/cms_attachments/initiatives/pdfs/i1037_11-0092_a1s_(spending_cap).pdf](http://ag.ca.gov/cms_attachments/initiatives/pdfs/i1037_11-0092_a1s_(spending_cap).pdf).