



CITY OF BEVERLY HILLS STAFF REPORT

Meeting Date: October 10, 2012

To: Honorable Mayor & City Council

From: Cheryl Friedling, Deputy City Manager
Aaron Kunz, Deputy Director of Transportation

Subject: Request by the Legislative Committee for an Update and Discussion by the City Council – Review of Four Legislative Items

Attachments:

1. Legislative Issues Summary
2. Press Release – Congressman Howard Berman - H.R. 2677
3. *Los Angeles Times* Article – L.A Basin Residents Complain About Helicopter Noise at Hearing
4. Measure J Proposed Accelerated Project List
5. City of Culver City Correspondence to Governor Brown
6. *Los Angeles Times* Article – Inglewood Oil Field Fracking Study Finds No Harm From the Method
7. Proposition 30 Fact Sheet

INTRODUCTION

The City Council Legislative Committee (Mayor Brien and Vice Mayor Mirisch) met on October 9, 2012 to review several legislative issues. At the conclusion of the meeting, the Committee requested that the City Council receive information and consider these items.

DISCUSSION

The Legislative Committee did not take a position on these items, and instead referred the following four items to the full City Council:

1. HR 2677 – Los Angeles Residential Helicopter Noise Relief Act of 2011
2. Hydraulic fracturing ('fracking') – Request by Culver City and Westside Cities Council of Government to request a State moratorium (or ban) until further research can be conducted and regulations can be developed.
3. Measure J – Ballot measure to extend half-cent County sales tax for transit projects.

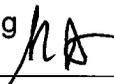
4. Proposition 30 – State ballot initiative to approve a temporary tax increase to fund education and public safety.

FISCAL IMPACT

Unknown at this time

RECOMMENDATION

Staff seeks City Council direction regarding this initiative.

Cheryl Friedling 

Approved by

Aaron Kunz 

Approved By

Attachment 1

Legislative Issues Summary

1.) HR 2677 – Los Angeles Residential Helicopter Noise Relief Act of 2011

Representative Howard Berman has sponsored legislation that would direct the Federal Aviation Administration (FAA) to establish flight paths for helicopters and set minimum altitudes at which they can operate over certain areas of the country. This bill was introduced at the request of homeowners in the San Fernando Valley, who have experienced disruptive low-flying helicopter traffic which jeopardizes residential quality of life. The Los Angeles City Council has voted to endorse this measure.

Bill language would allow the FAA to exempt certain emergency, law enforcement and military helicopter operations from the regulations it develops for civilian aircraft.

The Beverly Hills Police Department indicates that complaints regarding helicopter flights are extremely rare; the majority of complaints reference law enforcement activities, news media and life flight from Cedars Sinai Medical Center or UCLA. If the call is unrelated to law enforcement, the callers are referred to the FAA, as the Police Department has no jurisdiction to take enforcement action. The FAA indicates that it does not track or log these calls since there is no FAA violation.

2.) Measure J

In 2008 more than 67% of Los Angeles County voters approved Measure R, a one-half cent sales tax, to advance countywide transportation projects. Measure R had a “sunset” period of 30 years and expires in 2039.

The November 6, 2012 ballot includes Measure J, a ballot measure sponsored by the Los Angeles County Metropolitan Transportation Authority (Metro), which extends the one-half cent sales tax by 30 years to 2069. Enabling legislation (AB 1446) passed in the State Legislature and received approval from the Los Angeles County Board of Supervisors for placement on the November, 2012 electoral ballot. The intent of the Measure J is to allow Metro to accelerate Measure R projects (including the Westside Subway Extension) by bonding against monies forecasted to be generated from the one-half cent sales tax.

3.) Hydraulic Fracturing (‘fracking)

The City of Culver City and the Westside Cities Council of Governments has requested that local communities call on State lawmakers and regulatory agencies to extend a ban (or moratorium) on fracking, a technique that fractures rock formations to release trapped oil and natural gas. The process involves a high-pressure injection of water, sand and chemical additives into a drill site’s wellbore. Fracking has come under scrutiny amid allegations that it increases seismic activity and that it contaminates water supplies.

4.) Proposition 30 Constitutional Amendment

This State ballot initiative would enact a temporary tax increase to fund education and public safety by providing additional state tax revenues (approximately \$6 billion annually through 2016-17) to fund state education, including K-12, community colleges and public universities. The measure would guarantee that local governments receive tax revenues annually to fund public safety services transferred to cities by the state.

Attachment 2



For Immediate Release
July 28, 2011

Congressman Howard Berman Heeds Calls From Valley Residents, Introduces Bill to Curb Helicopter Related Noise and Safety Concerns

Washington, D.C. - Today, Congressman Howard L. Berman introduced legislation to provide Los Angeles County residents relief from the ear-shattering noise and safety concerns caused by low-flying helicopters above residential neighborhoods. The Los Angeles Residential Helicopter Noise Relief Act of 2011, H.R. 2677, would force the Federal Aviation Administration (FAA) to restrict helicopter flight paths and set minimum altitudes within 12 months.

“Residents deserve relief from the thunderous clacking of helicopter blades hovering directly over their homes, and instead all they’ve been getting is the runaround from government agencies,” said Congressman Berman. “The buck stops here because it is simply unacceptable for residents to be forced to contend with these brazen helicopter operators on their own. This bill requires the regulations that will give residents the relief and increased safety they are so desperately looking for.”

“Helicopters are hovering right above our homes at all hours of the morning and night. It’s the wild, wild West up there and until now nobody has been taking control,” noted Richard Close, President of the Sherman Oaks Homeowners Association. “Our community appreciates Congressman Berman’s willingness to work with us and tackle this issue head on. This is about our quality of life and the safety and privacy of residents across the Valley. Finally, someone is listening and something is being done.”

Currently, residents across Los Angeles are battling intrusive and disruptive low-flying helicopter traffic above their neighborhoods. San Fernando Valley residents suffer more than most from the foundation-rattling flyovers due to the heavy helicopter traffic in and out of the Van Nuys Airport. When residents have attempted to address this disturbance they’ve reached a dead end, unable to find a way to require helicopter operators to change their behavior.

The FAA has refused to regulate helicopter flights above Los Angeles. This failure to act is what allows helicopter operators to fly in a manner that creates excessive noise pollution and jeopardizes the safety and privacy of residents in their homes. Additionally, this refusal by the FAA to set regulations above Los Angeles has left residents without any means to seek and secure relief from the problem.

Congressman Berman’s bill solves this problem by requiring the FAA to exercise its

explicit legal authority to regulate helicopter operations above Los Angeles within 12 months of being signed into law. Specifically, the bill calls for the Administrator of the FAA to set guidelines on flight paths and minimum altitudes for helicopter operators in residential areas of Los Angeles County. Exemptions would be allowed for law enforcement, emergency responders, and the US military.

Earlier this year, Senator Charles E. Schumer of New York successfully included an amendment to the FAA Reauthorization Bill, which passed the Senate, requiring similar regulations to helicopter operations above Long Island. This legislative precedent lays the groundwork to require regulations be put in place to curb aggressive helicopter operations above residential areas in Los Angeles.

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Attachment 3

latimes.com/news/local/la-me-chopper-noise-20120808,0,6731816.story

latimes.com

L.A. Basin residents complain about helicopter noise at hearing

Rep. Howard Berman and two FAA officials listen to complaints from several hundred people, including customers and officials from the Hollywood Bowl.

By Dan Weikel, Los Angeles Times

10:21 PM PDT, August 7, 2012

Zev Yaroslavsky was listening to a Beethoven concerto at the Hollywood Bowl last week when the thunder of a passing helicopter muffled a beautiful violin solo.

"This was an outrage," the Los Angeles County supervisor testified Monday night before a panel of top federal aviation officials. "The Hollywood Bowl is a national treasure. These helicopters are dangerous and disruptive. We don't have years to wait for a solution."

Yaroslavsky was one of several hundred residents from throughout Los Angeles County who attended the public hearing in Sherman Oaks and demanded that Congress and the Federal Aviation Administration do something about the annoying helicopter flights over their neighborhoods.

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For more than two hours, residents from the Palos Verdes Peninsula, Brentwood, the San Fernando Valley and other area communities complained to Rep. Howard L. Berman (D-Valley Village) and two top-ranking FAA officials, including William C. Withycombe, the regional administrator for four western states, including California.

One after another they testified about the window-rattling din of rotor blades that made it difficult to talk on the telephone or have a normal conversation.

The president of the Torrance Riviera Homeowners Assn. said there have been as many as 50 flights a day over the community, which is near Torrance Airport and Robinson Helicopter Co., one of the largest producers of helicopters in the world.

People from Los Angeles neighborhoods that have landmarks or celebrity residents testified that they are under constant assault by choppers carrying sightseers, paparazzi and even real estate agents.

Still others questioned the dispatching of noisy, low-flying police helicopters for routine calls, and residents who live near popular flight paths were just as concerned about the volume.

"They come in low and fast over the Sepulveda Pass to go to Van Nuys Airport," said Wayne Williams,

a member of the airport's citizens advisory council. "I've had enough and so have a lot of other people. These helicopters need to be made quieter or they need to be removed."

Leni Boorstin, director of community and government affairs for the L.A. Philharmonic Assn., testified that the Hollywood Bowl averages five helicopter overflights an evening and has had as many as nine despite past warnings to pilots.

The problem, Boorstin said, is becoming an impediment to broadcasting concerts and, more important, attracting top conductors to the popular venue.

At Berman's request, the FAA held the hearing to help determine the extent of the noise problem, where it is the loudest, which operators are the worst offenders, what safety issues do the flights raise, and what can be done to reduce the noise and risk.

Federal regulators, who also want to meet with helicopter operators in the months ahead, hope the discussion will contribute to a report due within a year that could form the basis for regulatory action.

"My promise to you is that we will follow up on this," Withycombe told the audience. "I can't promise I will solve this overnight. But I will try to solve as many of the problems as I can."

Though he has received constant complaints about helicopters, Berman said, he did not seek a formal hearing until after an onslaught of gripes related to Carmageddon — the weekend closure of the 405 Freeway last July to tear down a section of the Mulholland Bridge. During the work, helicopters carrying media, tourists and other curiosity seekers hovered for hours over and near the site.

Last year, Berman introduced in Congress the Los Angeles Helicopter Relief Act, which has a companion bill written by Sen. Dianne Feinstein (D-Calif.). There has been little action on the measures, which call on the FAA to develop altitude and flight path requirements for helicopters in Los Angeles County with possible exceptions for public safety, emergency and military flights.

Compared to airplanes, helicopters have fewer restrictions. While planes must fly at an altitude of 1,000 feet above heavily populated areas and 500 feet over less congested areas, helicopter pilots usually do not have to comply with the minimum requirements if they don't endanger lives or property.

Helicopter pilots and operators agree there are things that can be done. The industry has already promulgated a number of voluntary programs with recommendations for pilots.

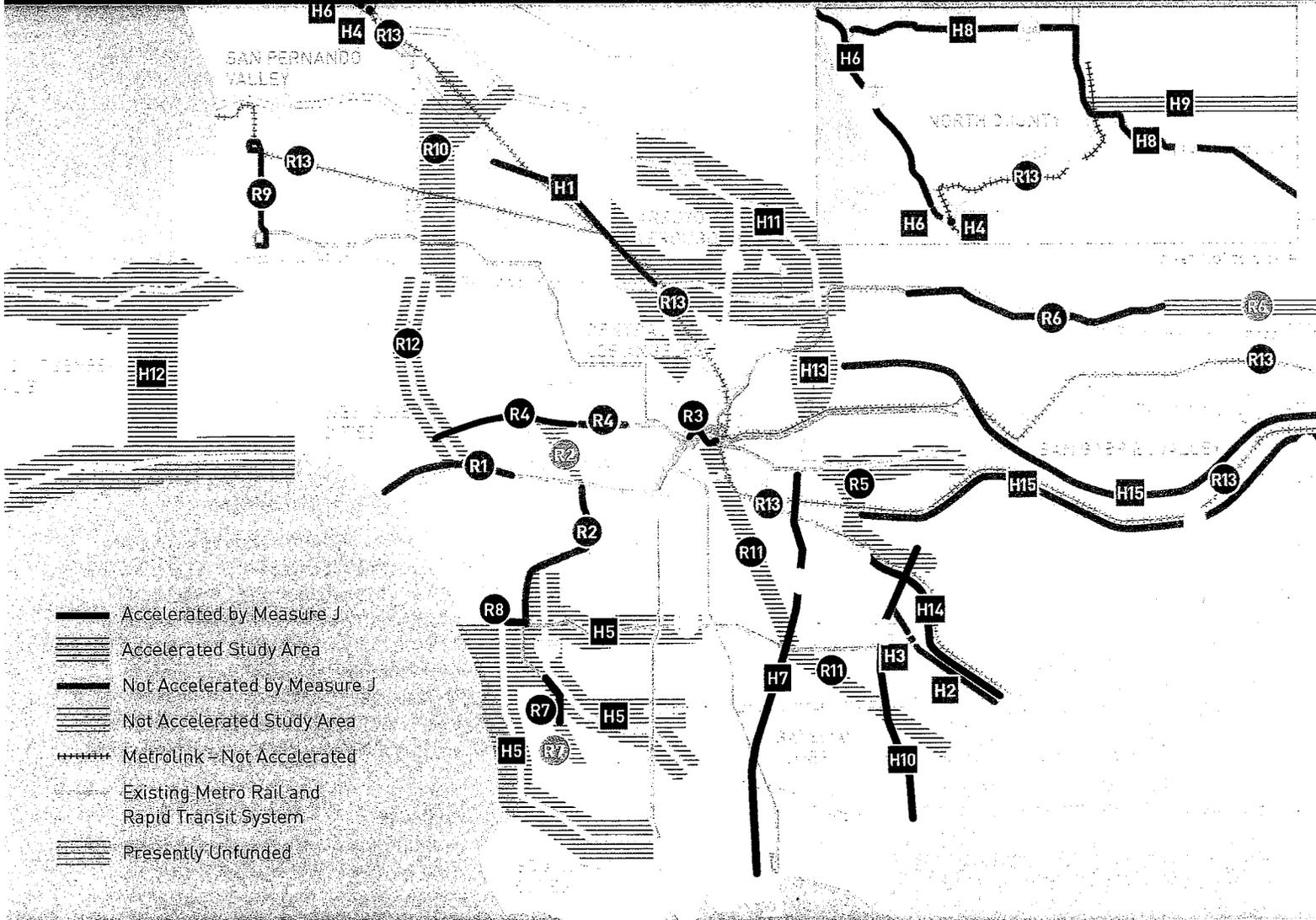
"I am sensitive to the noise issue," said Larry Welk, president of the Professional Helicopter Pilots Assn. "But I don't want to see knee-jerk legislation or arbitrary legislation. Unintended consequences are my biggest fear."

dan.weikel@latimes.com

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Attachment 4

Transit and Highway Projects to be Accelerated by Measure J



Project Names

Rail and Rapid Transit Expansion

- R1** Exposition Boulevard Light Rail Transit
- R2** Crenshaw Transit Corridor
- R3** Regional Connector: Links Local Rail Lines
- R4** Westside Subway Extension (to be opened in segments)
- R5** Gold Line Eastside Extension* (one of two routes TBD)
- R6** Gold Line Foothill Light Rail Transit Extension
- R7** Green Line Extension: Redondo Beach Station to South Bay Corridor
- R8** Green Line Extension to Los Angeles International Airport*
- R9** San Fernando Valley North-South Rapidways: Canoga Corridor (Metro Orange Line Extension Completed 2012)
- R10** San Fernando Valley East North-South Rapidways*
- R11** West Santa Ana Branch Corridor*
- R12** San Fernando Valley I-405 Transit Corridor Connection*
- R13** Metrolink Capital Improvement Projects (Los Angeles County)

Highway Improvements

- H1** I-5 Capacity Enhancement: SR-134 to SR-170
- H2** I-5 Capacity Enhancement: I-605 to Orange County Line
- H3** I-5/Carmenita Rd Interchange Improvement
- H4** I-5/SR-14 Capacity Enhancement
- H5** I-405, I-110, I-105 and SR-91 Ramp and Interchange Improvements: South Bay*
- H6** I-5 North Capacity Enhancements: SR-14 to Kern County Line (Truck Lanes) (Phase 1)
- H6** I-5 North Capacity Enhancements: SR-14 to Kern County Line (Phase 2)*
- H7** I-710 South and/or Early Action Projects*
- H8** SR-138 Capacity Enhancements*
- H9** High Desert Corridor (environmental)*
- H10** I-605 Corridor "Hot Spot" Interchanges*
- H11** Highway Operational Improvements in Arroyo Verdugo Subregion*
- H12** Highway Operational Improvements in Las Virgenes/Malibu Subregion*
- H13** SR-710 North Gap Closure*
- H14** Burlington Northern Santa Fe Grade Separations in Gateway Cities*
- H15** Alameda Corridor East Grade Separations Phase II*
- County-wide Soundwall Construction

* Specific routing and funding to be determined through the environmental process and Metro's Long Range Transportation Plan

Attachment 5



CITY OF CULVER CITY

9770 CULVER BOULEVARD
CULVER CITY, CALIFORNIA 90232-0507
CITY HALL Tel. (310) 253-6000
FAX (310) 253-6010

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VICE MAYOR
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July 11, 2012

The Honorable Jerry Brown
Governor, State of California
State Capitol Building, First Floor
Sacramento, CA 95814

Subject: City of Culver City Resolution No. 2012-R057 – Fracking

Dear Governor Brown:

On July 2, 2012, the City Council of the City of Culver City adopted Resolution 2012-R057, whereby the City of Culver City urges the State of California and the California State Department of Conservation, Division of Oil, Gas & Geothermal Resources (DOGGR), to immediately place a ban on hydraulic fracturing and on the disposal of fracking wastewater by injection wells until DOGGR takes all necessary and appropriate actions to adopt, implement and enforce comprehensive regulations concerning the practice of fracking that will ensure that public health and safety and the environment will be adequately protected.

Enclosed herein, please find a copy of Resolution 2012-R057 for your use.

If you have any questions or if you require anything further, please contact me at (310) 993-1689.

Sincerely,

Andrew Weissman
Mayor

Enclosure

cc: The Honorable Members of the City Council
John M. Nachbar, City Manager

Attachment 6

latimes.com/news/local/la-me-fracking-baldwin-hills-20121010,0,5707434.story

latimes.com

Inglewood Oil Field fracking study finds no harm from the method

Yearlong study, conducted by firms chosen by the oil field owner and L.A. County, was meant to address fears about potential groundwater contamination, air pollution and increased seismic activity.

By Ruben Vives, Los Angeles Times

5:30 AM PDT, October 10, 2012

A long-awaited study released Wednesday says the controversial oil extraction method known as hydraulic fracturing, or fracking, would not harm the environment if used at the Inglewood Oil Field in the Baldwin Hills area.

The yearlong study included several issues raised by residents living around the field, such as the potential risks for groundwater contamination, air pollution and increased seismic activity.

For months, water wells on the 1,200-acre field were monitored. Data from ground and air monitors were collected and analyzed, but no effects were recorded before or after the technique was used, the study says.

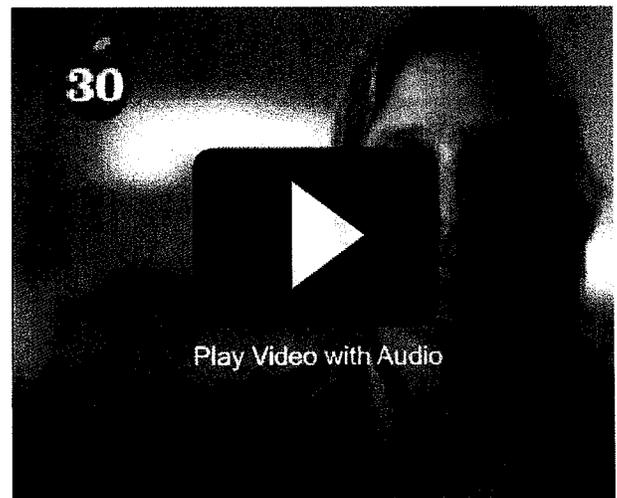
"There were eight contributing studies addressing such things as vibrations at the surface, microseismic activity at depth, noise, ground movement measurements, subsidence, groundwater quality, methane in both soil and groundwater," said Dan Tormey, technical director and principal at Cardno Entrix, the environmental consulting firm that conducted the study. "Each was a study that contributed to the [overall] hydraulic fracturing study."

Plains Exploration and Production Co., the owner and operator of the oil field, paid for the review as part of a settlement agreement with Culver City and environmental and community groups. The report was reviewed by two independent firms selected by the company and Los Angeles County.

The 206-page study is the first of its kind in the state. It comes at a time when environmental and community groups are urging lawmakers to ban fracking, a technique that fractures rock formations to release trapped oil and natural gas. The process involves a high-pressure injection of water, sand and chemical additives into the drill site's wellbore.

Fracking has come under scrutiny in other parts of the country amid allegations that it increases seismic activity and contaminates water supplies.

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Situated two miles south of the 10 Freeway, the field is surrounded by Culver City, Baldwin Hills and Inglewood — making it the largest urban oil field in the country. Plains Exploration is hoping to tap into the oil reserves in the field's shale formations that were identified in 2003.

But people living around the field oppose the idea. Residents say their properties have been damaged by mysterious land shifts, which has increased their fears about fracking.

Some homeowners suspect the movements may be related to Plains Exploration's drilling operations. But the actual cause is unclear; the area sits atop the Newport-Inglewood Fault.

Gary Gless, resident and co-founder of Citizens Coalition for a Safe Community, said he wasn't surprised that the study's findings favored the company.

"We have to look at who the peer reviewers are and have other experts critique it," he said.

ruben.vives@latimes.com

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Attachment 7

**TEMPORARY TAXES TO FUND EDUCATION.
GUARANTEED LOCAL PUBLIC SAFETY FUNDING.
INITIATIVE CONSTITUTIONAL AMENDMENT.**

OFFICIAL TITLE AND SUMMARY

PREPARED BY THE ATTORNEY GENERAL

**TEMPORARY TAXES TO FUND EDUCATION. GUARANTEED LOCAL PUBLIC SAFETY FUNDING.
INITIATIVE CONSTITUTIONAL AMENDMENT.**

- Increases personal income tax on annual earnings over \$250,000 for seven years.
- Increases sales and use tax by ¼ cent for four years.
- Allocates temporary tax revenues 89% to K–12 schools and 11% to community colleges.
- Bars use of funds for administrative costs, but provides local school governing boards discretion to decide, in open meetings and subject to annual audit, how funds are to be spent.
- Guarantees funding for public safety services realigned from state to local governments.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Additional state tax revenues of about \$6 billion annually from 2012–13 through 2016–17. Smaller amounts of additional revenue would be available in 2011–12, 2017–18, and 2018–19.
- These additional revenues would be available to fund programs in the state budget. Spending reductions of about \$6 billion in 2012–13, mainly to education programs, would not take effect.

ANALYSIS BY THE LEGISLATIVE ANALYST

OVERVIEW

This measure temporarily increases the state sales tax rate for all taxpayers and the personal income tax (PIT) rates for upper-income taxpayers. These temporary tax increases provide additional revenues to pay for programs funded in the state budget. The state's 2012–13 budget plan—approved by the Legislature and the Governor in June 2012—assumes

passage of this measure. The budget, however, also includes a backup plan that requires spending reductions (known as “trigger cuts”) in the event that voters reject this measure. This measure also places into the State Constitution certain requirements related to the recent transfer of some state program responsibilities to local governments. Figure 1 summarizes the main provisions of this proposition, which are discussed in more detail below.

Figure 1

Overview of Proposition 30

State Taxes and Revenues

- Increases sales tax rate by one-quarter cent for every dollar for four years.
- Increases personal income tax rates on upper-income taxpayers for seven years.
- Raises about \$6 billion in additional annual state revenues from 2012–13 through 2016–17, with smaller amounts in 2011–12, 2017–18, and 2018–19.

State Spending

- If approved by voters, additional revenues available to help balance state budget through 2018–19.
- If rejected by voters, 2012–13 budget reduced by \$6 billion. State revenues lower through 2018–19.

Local Government Programs

- Guarantees local governments receive tax revenues annually to fund program responsibilities transferred to them by the state in 2011.

STATE TAXES AND REVENUES

Background

The General Fund is the state’s main operating account. In the 2010–11 fiscal year (which ran from July 1, 2010 to June 30, 2011), the General Fund’s total revenues were \$93 billion. The General Fund’s three largest revenue sources are the PIT, the sales tax, and the corporate income tax.

Sales Tax. Sales tax rates in California differ by locality. Currently, the average sales tax rate is just over 8 percent. A portion of sales tax revenues goes to the state, while the rest is allocated to local governments. The state General Fund received \$27 billion of sales tax revenues during the 2010–11 fiscal year.

Personal Income Tax. The PIT is a tax on wage, business, investment, and other income of individuals and families. State PIT rates range from 1 percent to 9.3 percent on the portions of a taxpayer’s income in each of several income brackets. (These are referred to as marginal tax rates.) Higher marginal tax rates are charged as income increases. The tax revenue generated from this tax—totaling \$49.4 billion during the 2010–11 fiscal year—is deposited into the state’s General Fund. In addition, an extra 1 percent tax applies to annual income over \$1 million (with the associated revenue dedicated to mental health services).

Proposal

Increases Sales Tax Rate From 2013 Through 2016.

This measure temporarily increases the statewide sales tax rate by one-quarter cent for every dollar of goods purchased. This higher tax rate would be in effect for four years—from January 1, 2013 through the end of 2016.

Increases Personal Income Tax Rates From 2012 Through 2018. As shown in Figure 2, this measure increases the existing 9.3 percent PIT rates on higher incomes. The additional marginal tax rates would increase as taxable income increases. For joint filers, for example, an additional 1 percent marginal tax rate would be imposed on income between \$500,000 and \$600,000 per year, increasing the total rate to 10.3 percent. Similarly, an additional 2 percent marginal tax rate would be imposed on income between \$600,000 and \$1 million, and an additional 3 percent marginal tax rate would be imposed on income above \$1 million, increasing the total rates on these income brackets to 11.3 percent and 12.3 percent, respectively. These new tax rates would affect about 1 percent of California PIT filers. (These taxpayers currently pay about 40 percent of state personal income taxes.) The tax rates would be in effect for seven years—

Figure 2
Current and Proposed Personal Income Tax Rates Under Proposition 30

Single Filer's Taxable Income ^a	Joint Filers' Taxable Income ^a	Head-of-Household Filer's Taxable Income ^a	Current Marginal Tax Rate ^b	Proposed Additional Marginal Tax Rate ^b
\$0–\$7,316	\$0–\$14,632	\$0–\$14,642	1.0%	—
7,316–17,346	14,632–34,692	14,642–34,692	2.0	—
17,346–27,377	34,692–54,754	34,692–44,721	4.0	—
27,377–38,004	54,754–76,008	44,721–55,348	6.0	—
38,004–48,029	76,008–96,058	55,348–65,376	8.0	—
48,029–250,000	96,058–500,000	65,376–340,000	9.3	—
250,000–300,000	500,000–600,000	340,000–408,000	9.3	1.0%
300,000–500,000	600,000–1,000,000	408,000–680,000	9.3	2.0
Over 500,000	Over 1,000,000	Over 680,000	9.3	3.0

^a Income brackets shown were in effect for 2011 and will be adjusted for inflation in future years. Single filers also include married individuals and registered domestic partners (RDPs) who file taxes separately. Joint filers include married and RDP couples who file jointly, as well as qualified widows or widowers with a dependent child.

^b Marginal tax rates apply to taxable income in each tax bracket listed. The proposed additional tax rates would take effect beginning in 2012 and end in 2018. Current tax rates listed exclude the mental health tax rate of 1 percent for taxable income in excess of \$1 million.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

starting in the 2012 tax year and ending at the conclusion of the 2018 tax year. (Because the rate increase would apply as of January 1, 2012, affected taxpayers likely would have to make larger payments in the coming months to account for the full-year effect of the rate increase.) The additional 1 percent rate for mental health services would still apply to income in excess of \$1 million. Proposition 30's rate changes, therefore, would increase these taxpayers' marginal PIT rate from 10.3 percent to 13.3 percent. Proposition 38 on this ballot would also increase PIT rates. The nearby box describes what would happen if both measures are approved.

What Happens if Voters Approve Both Proposition 30 and Proposition 38?

State Constitution Specifies What Happens if Two Measures Conflict. If provisions of two measures approved on the same statewide ballot conflict, the Constitution specifies that the provisions of the measure receiving more "yes" votes prevail. Proposition 30 and Proposition 38 on this statewide ballot both increase personal income tax (PIT) rates and, as such, could be viewed as conflicting.

Measures State That Only One Set of Tax Increases Goes Into Effect. Proposition 30 and Proposition 38 both contain sections intended to clarify which provisions are to become effective if both measures pass:

- **If Proposition 30 Receives More Yes Votes.** Proposition 30 contains a section indicating that its provisions would prevail in their entirety and none of the provisions of any other measure increasing PIT rates—in this case Proposition 38—would go into effect.
- **If Proposition 38 Receives More Yes Votes.** Proposition 38 contains a section indicating that its provisions would prevail and the tax rate provisions of any other measure affecting sales or PIT rates—in this case Proposition 30—would not go into effect. Under this scenario, the spending reductions known as the "trigger cuts" would take effect as a result of Proposition 30's tax increases not going into effect.

Fiscal Effect

Additional State Revenues Through 2018–19. Over the five fiscal years in which both the sales tax and PIT increases would be in effect (2012–13 through 2016–17), the average annual state revenue gain resulting from this measure's tax increases is estimated at around \$6 billion. Smaller revenue increases are likely in 2011–12, 2017–18, and 2018–19 due to the phasing in and phasing out of the higher tax rates.

Revenues Could Change Significantly From Year to Year. The revenues raised by this measure could be subject to multibillion-dollar swings—either above or below the revenues projected above. This is because the vast majority of the additional revenue from this measure would come from the PIT rate increases on upper-income taxpayers. Most income reported by upper-income taxpayers is related in some way to their investments and businesses, rather than wages and salaries. While wages and salaries for upper-income taxpayers fluctuate to some extent, their investment income may change significantly from one year to the next depending upon the performance of the stock market, housing prices, and the economy. For example, the current mental health tax on income over \$1 million generated about \$730 million in 2009–10 but raised more than twice that amount in previous years. Due to these swings in the income of these taxpayers and the uncertainty of their responses to the rate increases, the revenues raised by this measure are difficult to estimate.

STATE SPENDING

Background

State General Fund Supports Many Public Programs. Revenues deposited into the General Fund support a variety of programs—including public schools, public universities, health programs, social services, and prisons. School spending is the largest part of the state budget. Earlier propositions passed by state voters require the state to provide a minimum annual amount—commonly called the Proposition 98 minimum guarantee—for schools (kindergarten through high school) and community colleges (together referred to as K–14 education). The minimum guarantee is funded through a combination of state General Fund and local property tax revenues. In many years, the calculation of the minimum guarantee is highly sensitive to changes in state General Fund revenues. In years when General Fund revenues grow by a large amount, the guarantee is likely to increase by a large amount. A large share of the state and local funding that is allocated to schools and community colleges is "unrestricted," meaning that they may use the funds for any educational purpose.

Proposal

New Tax Revenues Available to Fund Schools and Help Balance the Budget. The revenue generated by the measure's temporary tax increases would be included in the calculations of the Proposition 98 minimum guarantee—raising the guarantee by billions of dollars each year. A portion of the new revenues therefore would be used to support higher school funding, with the remainder helping

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

to balance the state budget. From an accounting perspective, the new revenues would be deposited into a newly created state account called the Education Protection Account (EPA). Of the funds in the account, 89 percent would be provided to schools and 11 percent to community colleges. Schools and community colleges could use these funds for any educational purpose. The funds would be distributed the same way as existing unrestricted per-student funding, except that no school district would receive less than \$200 in EPA funds per student and no community college district would receive less than \$100 in EPA funds per full-time student.

Fiscal Effect if Measure Is Approved

2012–13 Budget Plan Relies on Voter Approval of This Measure. The Legislature and the Governor adopted a budget plan in June to address a substantial projected budget deficit for the 2012–13 fiscal year as well as projected budget deficits in future years. The 2012–13 budget plan (1) assumes that voters approve this measure and (2) spends the resulting revenues on various state programs. A large share of the revenues generated by this measure is spent on schools and community colleges. This helps explain the large increase in funding for schools and community colleges in 2012–13—a \$6.6 billion increase (14 percent) over 2011–12. Almost all of this increase is used to pay K–14 expenses from the previous year and

reduce delays in some state K–14 payments. Given the large projected budget deficit, the budget plan also includes actions to constrain spending in some health and social services programs, decrease state employee compensation, use one-time funds, and borrow from other state accounts.

Effect on Budgets Through 2018–19. This measure’s additional tax revenues would be available to help balance the state budget through 2018–19. The additional revenues from this measure provide several billion dollars annually through 2018–19 that would be available for a wide range of purposes—including funding existing state programs, ending K–14 education payment delays, and paying other state debts. Future actions of the Legislature and the Governor would determine the use of these funds. At the same time, due to swings in the income of upper-income taxpayers, potential state revenue fluctuations under this measure could complicate state budgeting in some years. After the proposed tax increases expire, the loss of the associated tax revenues could create additional budget pressure in subsequent years.

Fiscal Effect if Measure Is Rejected

Backup Budget Plan Reduces Spending if Voters Reject This Measure. If this measure fails, the state would not receive the additional revenues generated by the proposition’s tax increases. In this situation, the 2012–13 budget plan requires that its spending be reduced by \$6 billion. These trigger cuts, as currently scheduled in state law, are shown in Figure 3. Almost all the reductions are to education programs—\$5.4 billion to K–14 education and \$500 million to public universities. Of the K–14 reductions, roughly \$3 billion is a cut in unrestricted funding. Schools and community colleges could respond to this cut in various ways, including drawing down reserves, shortening the instructional year for schools, and reducing enrollment for community colleges. The remaining \$2.4 billion reduction would increase the amount of late payments to schools and community colleges back to the 2011–12 level. This could affect the cash needs of schools and community colleges late in the fiscal year, potentially resulting in greater short-term borrowing.

Effect on Budgets Through 2018–19. If this measure is rejected by voters, state revenues would be billions of dollars lower each year through 2018–19 than if the measure were approved. Future actions of the Legislature and the Governor would determine how to balance the state budget at this lower level of revenues. Future state budgets could be balanced through cuts to schools or other programs, new revenues, and one-time actions.

Figure 3
2012–13 Spending Reductions if Voters Reject Proposition 30
(In Millions)

Schools and community colleges	\$5,354
University of California	250
California State University	250
Department of Developmental Services	50
City police department grants	20
CalFire	10
DWR flood control programs	7
Local water safety patrol grants	5
Department of Fish and Game	4
Department of Parks and Recreation	2
DOJ law enforcement programs	1
Total	\$5,951

DWR = Department of Water Resources; DOJ = Department of Justice.

LOCAL GOVERNMENT PROGRAMS

Background

In 2011, the state transferred the responsibility for administering and funding several programs to local governments (primarily counties). The transferred program responsibilities include incarcerating certain adult offenders, supervising parolees, and providing substance abuse treatment services. To pay for these new obligations, the Legislature passed a law transferring about \$6 billion of state tax revenues to local governments annually. Most of these funds come from a shift of a portion of the sales tax from the state to local governments.

Proposal

This measure places into the Constitution certain provisions related to the 2011 transfer of state program responsibilities.

Guarantees Ongoing Revenues to Local Governments.

This measure requires the state to continue providing the tax revenues redirected in 2011 (or equivalent funds) to local governments to pay for the transferred program responsibilities. The measure also permanently excludes the sales tax revenues redirected to local governments from the calculation of the minimum funding guarantee for schools and community colleges.

Restricts State Authority to Expand Program Requirements. Local governments would not be required to implement any future state laws that increase local costs to administer the program responsibilities transferred in 2011, unless the state provided additional money to pay for the increased costs.

Requires State to Share Some Unanticipated Program Costs. The measure requires the state to pay part of any new local costs that result from certain court actions and changes in federal statutes or regulations related to the transferred program responsibilities.

Eliminates Potential Mandate Funding Liability. Under the Constitution, the state must reimburse local governments when it imposes new responsibilities or “mandates” upon them. Under current law, the state could be required to provide local governments with additional funding (mandate reimbursements) to pay for some of the transferred program responsibilities. This measure specifies that the state would not be required to provide such mandate reimbursements.

Ends State Reimbursement of Open Meeting Act Costs. The Ralph M. Brown Act requires that all meetings of local legislative bodies be open and public. In the past, the state has reimbursed local governments for costs resulting from certain provisions of the Brown Act (such as the requirement to prepare and post agendas for public meetings). This measure specifies that the state would not be responsible for paying local agencies for the costs of following the open meeting procedures in the Brown Act.

Fiscal Effects

State Government. State costs could be higher for the transferred programs than they otherwise would have been because this measure (1) guarantees that the state will continue providing funds to local governments to pay for them, (2) requires the state to share part of the costs associated with future federal law changes and court cases, and (3) authorizes local governments to refuse to implement new state laws and regulations that increase their costs unless the state provides additional funds. These potential costs would be offset in part by the measure's provisions eliminating any potential state mandate liability from the 2011 program transfer and Brown Act procedures. The net fiscal effect of these provisions is not possible to determine and would depend on future actions by elected officials and the courts.

Local Government. The factors discussed above would have the opposite fiscal effect on local governments. That is, local government revenues could be higher than they otherwise would have been because the state would be required to (1) continue providing funds to local governments to pay for the program responsibilities transferred in 2011 and (2) pay all or part of the costs associated with future federal and state law changes and court cases. These increased local revenues would be offset in part by the measure's provisions eliminating local government authority to receive mandate reimbursements

for the 2011 program shift and Brown Act procedures. The net fiscal effect of these provisions is not possible to determine and would depend on future actions by elected officials and the courts.

SUMMARY

If voters approve this measure, the state sales tax rate would increase for four years and PIT rates would increase for seven years, generating an estimated \$6 billion annually in additional state revenues, on average, between 2012–13 and 2016–17. (Smaller revenue increases are likely for the 2011–12, 2017–18, and 2018–19 fiscal years.) These revenues would be used to help fund the state's 2012–13 budget plan and would be available to help balance the budget over the next seven years. The measure also would guarantee that local governments continue to annually receive the share of state tax revenues transferred in 2011 to pay for the shift of some state program responsibilities to local governments.

If voters reject this measure, state sales tax and PIT rates would not increase. Because funds from these tax increases would not be available to help fund the state's 2012–13 budget plan, state spending in 2012–13 would be reduced by about \$6 billion, with almost all the reductions related to education. In future years, state revenues would be billions of dollars lower than if the measure were approved.