MEMORANDUM

Date: March 12, 2009
To: Commissioners
From: Staff, Commission on the 21st Century Economy
Re: Long-Term Deficit Borrowing To Cover Budget Deficits

The memorandum is in response to questions raised by the Commission regarding the possibility of issuing long-term debt to deal with unanticipated revenue shortfalls. The information provided is limited to legal implications and does not address financial, fiscal or credit issues raised by such a policy. Article XVI, §1.3, subd. (c) of the Constitution of the State of California expressly prohibits such borrowing and restricts the issuance of general obligation bonds, revenue bonds, and certain other forms of long-term borrowing to cover budget deficits. Additionally, Article IV, §12, subd. (f) requires the Legislature to propose and the Governor to sign into law a balanced budget. The estimated revenues for the fiscal year must meet or exceed estimated expenditures in that year.

Article XVI, §1.3, subd. (c) and Article IV, §12, subd. (f) of the Constitution of the State of California were amended as a result of the passage of Proposition 58 by the voters in the March 2, 2004 election. A change would require a Constitutional Amendment, either through a two-thirds vote of both houses of the Legislature and approval by a majority of the voters, or through an initiative by the people.

Article XVI, §1.3, subd. (c) of the Constitution of the State of California is provided below.

(c) Subsequent to the issuance of any state bonds described in subdivision (a), the State may not obtain moneys to fund a year-end state budget deficit, as may be defined by statute, pursuant to any of the following: (1) indebtedness incurred pursuant to Section 1 of this article, (2) a debt obligation under which funds to repay that obligation are derived solely from a designated source of revenue, or (3) a bond or similar instrument for the borrowing of moneys for which there is no legal obligation of repayment. This subdivision does not apply to funding obtained through a short-term obligation incurred in anticipation of the receipt of tax proceeds or other revenues that may be applied to the payment of that obligation, for the purposes and not exceeding the amounts of existing appropriations to which the resulting proceeds are to be applied. For purposes of this subdivision, "year-end state budget deficit" does not include an obligation within the accumulated state budget deficit as defined by subdivision (b).
Article IV, §12, subd. (f) of the Constitution of the State of California is provided below.

(f) For the 2004-05 fiscal year, or any subsequent fiscal year, the Legislature may not send to the Governor for consideration, nor may the Governor sign into law, a budget bill that would appropriate from the General Fund, for that fiscal year, a total amount that, when combined with all appropriations from the General Fund for that fiscal year made as of the date of the budget bill’s passage, and the amount of any General Fund moneys transferred to the Budget Stabilization Account for that fiscal year pursuant to Section 20 of Article XVI, exceeds General Fund revenues for that fiscal year estimated as of the date of the budget bill’s passage. That estimate of General Fund revenues shall be set forth in the budget bill passed by the Legislature.