CALIFORNIA
▪ BUDGET PROJECT ▪

Budget Brief

September 2004

WHAT WOULD PROPOSITION 1A MEAN FOR STATE AND LOCAL GOVERNMENT FINANCE?

Proposition 1A, a constitutional amendment placed on the ballot by the Legislature as part of the 2004-05 budget agreement, would fundamentally change the fiscal relationship between the state and local governments. Proposition 1A limits the state's ability to reallocate local revenues in order to achieve state policy goals and requires the state to reimburse local governments for mandated programs and services on a timely basis. Proposition 1A is supported by the League of California Cities, the California State Association of Counties, the California Special Districts Association, and Governor Schwarzenegger.

WHAT WOULD PROPOSITION 1A DO?

In brief, Proposition 1A would amend the state Constitution to:

- Allocate revenues from the current Vehicle License Fee (VLF) rate and require the state to reimburse counties and cities for losses due to any future VLF rate decrease;
- Prohibit the Legislature from reducing the share of property tax revenues allocated to counties, cities, and special districts, as a whole, below the level required on November 3, 2004;
- Allow, under limited circumstances, the Legislature to temporarily reallocate property tax revenues to the benefit of the state;
- Prohibit the state, with very limited exceptions, from changing local sales tax rates or allocations;
- Allow the Legislature to authorize local jurisdictions to voluntarily swap property and sales tax revenues; and
- Suspend state-imposed requirements ("mandates") on counties, cities, and special districts in any year in which the state does not fully reimburse local governments for the costs of fulfilling the requirements.

Proposition 1A's limitations on the Legislature's authority to reallocate local sales and property tax revenues would apply to counties, cities, and special districts, but not redevelopment agencies. Since Proposition 1A amends the state Constitution, any subsequent change would require voter approval.

Proposition 1A would significantly change the fiscal relationship between the state and local governments. This analysis attempts to answer a number of questions raised by this ballot measure including:

921 11th St., Ste. 502 ● Sacramento, CA 95814
(916) 444-0500 ● FAX (916) 444-0172

- Who should pay for the revenues lost due to Proposition 13 of 1978 and the Vehicle License Fee reductions of the late 1990s?
- How will Proposition 1A affect the state's ability to address future budget crises?
- What would Proposition 1A mean for efforts to address local fiscal incentives?
- How would Proposition 1A affect state funding for locally administered services?
- How would Proposition 1A affect state mandates?
- What would Proposition 1A mean for school finance?

BACKGROUND

The Roots of the Fiscal Relationship Between the State and Local Governments

In 1978, voters approved Proposition 13, which reduced local property tax revenues by more than half by capping rates at one percent and rolling back property values for tax purposes to 1975-76 levels. Proposition 13 also gave the Legislature responsibility for allocating the remaining proceeds of the property tax within the county where the tax is collected. Prior to the passage of Proposition 13, local governments had the power to set and impose a property tax rate and property owners paid a total rate equaling the sum of the rates of each jurisdiction where the property was located.

After the enactment of Proposition 13, the state stepped in and assumed a larger share of responsibility for financing K–12 education. In what became known as the AB 8 bailout, the state shifted property taxes from schools to cities, counties, and special districts in order to cushion the blow to these jurisdictions from the loss of property tax revenues due to Proposition 13. The state, in turn, assumed a larger share of the cost of school finance.

Since 1978, a series of voter-approved initiatives have further defined and confined the fiscal relationships among the state, K–14 education, and local governments (Appendix A). Proposition 98 of 1988, for example, established a guaranteed funding level for K–14 education from combined state and local sources. Proposition 4 of 1979 required the state to reimburse local governments for new or higher levels of service required by state action, and Proposition 218 of 1996 required local governments to seek voter approval for any tax increase, among other changes. Cumulatively, these measures have limited the Legislature's flexibility in making spending decisions.

The structure for allocating local property tax revenues remained constant until the budget crisis of the early 1990s. In 1992 and again in 1993, the state shifted property tax dollars from cities, counties, and special districts to K–14 education in order to reduce the state's share of costs for fulfilling the Proposition 98 guarantee. Proposition 172 of 1993 partially backfilled counties and cities for lost property tax revenues with the proceeds of a ½-cent sales tax rate.

After the property tax shifts of the early 1990s, cities and schools had approximately the same share of property tax revenues as they received prior to the passage of Proposition 13. Counties received a smaller share and "other districts" received a larger share of the property tax dollar.[1]

In 1998, the Legislature reduced the VLF rate, which had been 2.0 percent since 1948.[2] Since proceeds of the VLF went to counties and cities, the Legislature agreed to backfill jurisdictions for their revenue loss. The 1998 measure phased in a reduction in the VLF rate using a series of triggers tied to state revenue levels.[3] When revenues increased substantially during the late 1990s, subsequent legislation made the 0.65 percent rate permanent, but retained a trigger that increased the VLF rate in the event the state lacked sufficient revenues to backfill counties and cities. The VLF rate was increased in 2003 using this trigger; however, Governor Schwarzenegger reversed the increase on his first day in office.

Table 1: Proposition 1A: Key Provisions Compared to Current Law		
	Current Law	**Proposition 1A**
Property Tax		
Rate	Capped at 1 percent, except for rates linked to voter approved or pre-1978 debt.	No change.
Allocation	Property taxes are allocated within the county where collected to schools, community colleges, counties, cities, and special districts. The Legislature can reallocate property tax revenues within the county where collected by majority vote. The allocation of local property tax dollars approximates the shares received by individual jurisdictions in 1978, prior to the passage of Proposition 13. Significant disparities exist between counties. Los Angeles County, for example, receives 24 percent of the local property tax, while Orange County receives just 10 percent.[4] Similar disparities exist among cities.	Prohibits the Legislature from increasing the share of local property tax revenues allocated to schools above the percentage schools received based on state law in effect on November 3, 2004. The Legislature could shift taxes among non-educational local agencies within a county by a two-thirds vote.
Suspension	N/A	Beginning in 2008-09, the Legislature could reallocate property taxes between local governments and schools by a two-thirds vote if the Governor proclaims severe fiscal hardship. Any revenues lost by local government during a suspension must be repaid. The state could not reallocate more than 8 percent of cities', counties', and special districts' total prior year property tax revenues. Suspension could occur no more than twice in a 10-year period. The state would be required to repay counties and cities approximately $1.2 billion in deferred VLF backfill payments prior to suspending the limits on the Legislature's ability to reallocate property tax revenues. Any revenues lost to cities, counties, and special districts during a suspension would be treated as a loan and the state would be required to repay these amounts with interest by the end of the third year following the year in which the suspension occurs.

		Any amounts owed because of a suspension must be repaid prior to a subsequent suspension.
Vehicle License Fee		
Rate	Set by the Legislature.	Set by the Legislature. However, if the rate is reduced below 0.65 percent, the state would be required to reimburse counties and cities for lost revenues.
Allocation	The state Constitution requires the Legislature to allocate amounts exceeding the cost of collection to cities and counties. Currently, state law allocates VLF revenues to counties and cities as general purpose revenues and to the Local Revenue Fund to support health and social services programs transferred to the counties as part of the 1991 realignment of program responsibility.	Proposition 1A allocates VLF revenues to the Local Revenue Fund, created as part of the 1991 realignment of program responsibility between the state and counties, and to counties and cities.
Sales Tax		
Rate	Proposition 57 of 2004 transferred a portion of the local rate to the state to repay the state's Economic Recovery Bonds.	Prohibits the state from extending the period of the current rate shift or from transferring a portion of the local rate to the state in the future. Prohibits the state from reducing the local sales tax rate or local governments' ability to enact voter-approved transactions and use tax rates.
Allocation	In general, 1 percent of the local "Bradley-Burns" rate is allocated to the city or county where the sale occurs.	Prohibits the state from reducing local governments' sales tax rate or local governments' authority to impose a sales tax rate. Prohibits the state from reallocating the proceeds of the local sales tax or from changing the method by which local allocations are made. Voluntary agreements made between local jurisdictions would be allowed with the approval of the governing bodies of the participating jurisdictions. The state would be allowed to change the allocation of local sales taxes if needed to comply with federal law or to participate in an interstate compact, such as that envisioned by the Streamlined Sales Project in order boost collection of taxes attributable to electronic and mail order sales.
Other Provisions		
VLF – Property Tax Swap	SB 1096 of 2004, enacted as part of the 2004-05 budget agreement, ended the VLF backfill that reimbursed counties and cities for revenues lost because of the VLF rate reductions enacted in the late	Has the effect of constitutionally guaranteeing a level of funding for local governments that reflects the prior VLF backfill payments, because it prohibits the Legislature from reducing, except under

	1990s. The same measure transferred an equivalent value of property tax revenues from schools to counties and cities to replace the lost backfill payments. State funding for schools was increased. All jurisdictions received the same level of funding under the swap as they would have received in its absence.	limited and temporary circumstances, the share of property taxes allocated to local governments.
Mandates	Proposition 4 of 1979 required the state to reimburse local governments for state actions that increase local costs related to new programs or increased levels of service. No reimbursement was required if the mandate was requested by the local entity; for mandates enacted prior to January 1, 1975; or for legislation defining a new crime or changing the definition of a crime. While reimbursement is constitutionally required, the state Constitution does not require payment to be made within a specific period.	Suspend state-imposed requirements ("mandates") on counties, cities, and special districts in any year in which the state does not fully reimburse local governments for the costs for fulfilling the requirements. This would relieve local governments of the responsibility for complying with a mandate. Proposition 1A also expands the definition of "mandate" to include legislation that transfers a larger share of financial responsibility from the state to local governments. Proposition 1A does not apply to mandates affecting schools and community colleges or mandates related to employee relations and collective bargaining. Requires the state to repay amounts owed for mandate costs incurred prior to 2004-05. The state currently owes local governments approximately $1.3 billion. Prohibits the state from increasing local governments' share of property tax revenues as reimbursement for costs related to mandates.

The 2004-05 Budget Agreement

In January 2004, Governor Schwarzenegger proposed to permanently shift $1.3 billion in property tax revenues from counties, cities, and special districts to schools in order to reduce the state's school funding obligation.[5] The Governor's proposal was patterned after similar shifts enacted in 1992 and 1993 to help bridge the state's budget gap. In April 2004, a coalition of local government groups submitted signatures to place an initiative on the November ballot that would have prevented the Governor from achieving the savings proposed in his January budget.[6] Proposition 65 would "lock in" local revenues, make changes to the state mandate process, and prohibit the two-year property tax shift included as part of the 2004-05 Budget, thereby increasing the state's budget gap by $1.3 billion in 2004-05 and $1.3 billion in 2005-06.

In May, the Governor reached an agreement with representatives of local governments to allow a $1.3 billion property shift in 2004-05 and in 2005-06 and then permanently prohibit the Legislature from reallocating local revenues in the future. The Governor's agreement included other changes, including a number that were similar or identical to those contained in Proposition 65.[7] The

Legislature approved a somewhat modified version of the Governor's agreement in SCA 4 (Torlakson), which will appear on the November 2004 ballot as Proposition 1A. The most critical difference between Proposition 1A and Proposition 65 is that the former will allow the state to achieve $1.3 billion of savings in 2004-05 and again in 2005-06. As part of this agreement, local governments have withdrawn their support of Proposition 65 and the Governor has agreed to support Proposition 1A.

Proposition 1A and the 2004-05 Budget

The 2004-05 budget agreement makes a number of changes to the state-local government fiscal relationship that work in tandem with Proposition 1A. SB 1096 (Committee on Budget and Fiscal Review, Chapter 211 of 2004) provides the statutory framework for these changes. Specifically, the budget agreement:

- **Eliminates the Vehicle License Fee (VLF) backfill and replaces backfill payments to counties and cities with an equivalent amount of property tax revenues.** The amount of property tax revenues allocated to schools would be reduced by the same amount that state spending for schools is increased. All jurisdictions would receive the same level of funding they would have in the absence of the shifts.
- **Repeals the VLF trigger.** The original VLF reduction provided a trigger that administratively increased the VLF rate in the event that state lacked sufficient funds to reimburse counties and cities for revenues lost as a result of the tax cut. The 2004-05 repeals this trigger, since the state no longer makes backfill payments.
- **Shifts, for two years, $1.3 billion in property taxes from counties, cities, special districts, and redevelopment agencies to schools**. In 2004-05 and 2005-06, counties, cities, and special districts will each shift $350 million to schools and redevelopment agencies will shift $250 million to schools, for a total shift of $1.3 billion in each year. The state will reduce the amount it spends on schools by $1.3 billion in each year. In 2006-07 and beyond, property tax allocations will revert to their 2003-04 shares.

Taken together, the budget agreement and Proposition 1A lock the state into a higher level of spending, on the one hand, and make it more difficult to raise revenues in the event of a severe budget crisis, on the other. Specifically, these actions:

- **Shift $4.1 billion of state spending from VLF backfill payments to schools.** This shift is significant, since Proposition 98 of 1988 constitutionally guarantees the level of spending for schools. VLF backfill payments were not guaranteed. If Proposition 1A is approved by the voters, the state would be unable to reduce its obligations to make up for the revenues lost as a result of the 1998 VLF reduction without permanently suspending the Proposition 98 guarantee, since local governments' share of local property tax revenues could not be reduced in order to achieve state savings.[8]
- **Eliminate an administrative mechanism for raising the VLF rate.** In 2003, the VLF rate was increased when the state lacked sufficient funds to make backfill payments. Governor Schwarzenegger reversed the increase on his first day in office. While the VLF rate could be increased by the Legislature, doing so would require a two-thirds vote of each house.

A Competing Measure, Proposition 65, Will Also Appear on the November Ballot

In April 2004, a coalition of local government associations including the California State Association of Counties, the League of California Cities, and the California Special Districts Association submitted signatures placing a measure on the ballot to limit the state's ability to reallocate local revenues. This measure will appear on the November ballot as Proposition 65. As noted above, Proposition 1A, unlike Proposition 65, would allow the state to transfer $1.3 billion in property tax revenues from counties, cities, and special districts to schools in order to reduce the state's school funding requirement in 2004-05 and in 2005-06. Proposition 65 would require the shift to be approved by voters at a subsequent statewide election. Proposition 65 would require voter approval in order for:

- The Legislature to reduce local government sales or property tax revenues below the share provided by laws in effect on January 1, 2003.
- The state to reduce county and city backfill payments for VLF revenues lost due to the 1998 rate reduction.
- Local governments to swap property taxes for sales taxes. Proposition 1A allows such transfers with the approval of the governing bodies of the participating jurisdictions.
- The state to reduce or delay repayment of the $875 million of deferred VLF backfill payments.
- The Legislature to change the allocation of local sales tax revenues.
- The Legislature to reallocate local property tax revenues among non-education jurisdictions within a county without the consent of the affected jurisdictions. Proposition 1A would allow reallocation among non-school entities with a two-thirds vote of the Legislature.
- The Legislature to reallocate revenues allocated to redevelopment agencies, as well as counties, cities, and special districts.

Proposition 65 would also require the state to reimburse local government for state mandates. In any fiscal year when full reimbursement is not provided, the mandate would be suspended.

Proposition 65 requires the state to continue to reimburse counties and cities for revenues lost as a result of the reduction in VLF rates in the late 1990s and does not assume the swap of VLF backfill payments for property tax revenues included in the 2004-05 budget agreement.

A measure passed by the Legislature as part of the 2004-05 budget agreement required the state to issue a supplemental voter guide describing both Proposition 1A and Proposition 65. The same measure allowed the proponents of Proposition 65 to revise their ballot argument which, as revised, argues in favor of Proposition 1A and against Proposition 65.

What If Both Measures Pass?

If both measures pass and Proposition 1A receives a greater number of votes, none of the provisions of Proposition 65 shall take effect. If both measures pass but Proposition 65 receives more votes than Proposition 1A or if Proposition 65 passes, but Proposition 1A fails, the property tax shift included in the 2004-05 budget agreement would be prohibited. This would increase the state's cost for K–14 education under the Proposition 98 school funding guarantee by $1.3 billion in 2004-05 and 2005-06 and local governments would retain $1.3 billion in property tax revenues in both 2004-05 and 2005-06.

Impact on the Budget

Proposition 1A would not directly affect the state's budget, however it could result in increased state costs in future years by limiting the state's ability to both reallocate local revenues and defer payment on state mandates. The state's ability to reduce local government revenues would also be limited. The Legislative Analyst concludes that Proposition 1A:

> "Could result in decreased resources being available for state programs than otherwise would be the case. This reduction, in turn, would affect state spending and/or taxes. For example, because the state could not use local government property taxes permanently as part of the state's budget solution, the Legislature would need to take *alternative* actions to resolve the state's budget difficulties – such as increasing state taxes or decreasing spending on other state programs…the total fiscal effect also could be in the billions of dollars annually."[9]

Policy Issues Raised by Proposition 1A

Proposition 1A raises a number of important policy considerations that warrant careful consideration. Proposition 1A addresses the fundamental degree to which the state and local governments should have separate or shared financial responsibility for public services provided to Californians. Local governments argue that state and local government finances should be separate and that the state should not have the authority to divert local revenues to achieve state savings or policy goals. Critics respond that Proposition 1A will limit the state's ability to respond to future budget crises, that the fiscal relationship between the state and local governments is complex, with a number of shared responsibilities, and that additional constraints will make it more difficult to reform a system that virtually all agree suffers from major flaws and inequities.

Who Should Pay for the Revenues Lost Due to Proposition 13 of 1978 and the Vehicle License Fee Reductions of the Late 1990s?

Proposition 1A is the product of an uneasy compromise between the state, which has largely shouldered the burden of the budget reductions required by Proposition 13 and the VLF reduction, and local governments, whose revenues were reduced as a result of these tax cuts. The complexity of the fiscal relationship between the state and local governments has clouded the lines of financial and program responsibility, making it difficult for voters to assess the impact of these major tax reductions on public services.

Proposition 13 gave the Legislature the authority to allocate property tax revenues, which it used in the wake of Proposition 13 to shift property tax dollars from schools to local governments while the state assumed a greater share of the responsibility for financing schools and community colleges.[10] In response to the substantial budget shortfalls of the early 1990s, the state used this authority to reallocate property tax dollars from local governments to schools and community colleges in order to reduce the state's school funding obligations. Local governments welcomed the so-called AB 8 bailout that provided assistance to cities, counties, and special districts after

Proposition 13, while these same jurisdictions opposed the Legislature's actions during the early 1990s, which reduced their share of the local property tax dollar. Both transactions resulted from the fact that Proposition 13 substantially reduced the revenues that had historically funded education and local services.

The Legislature reduced the VLF in 1998 at a time when the state enjoyed substantial budget surpluses. While the VLF is imposed by the state, the revenues are allocated to counties and cities. The 1998 measure reducing the VLF required the state to reimburse counties and cities for revenues lost as a result of the reduction. At full implementation, this reduction cost the state $4.1 billion. In 2003, then-Governor Davis allowed the so-called trigger to go into effect, which provided for an increase in the VLF if the state had insufficient funds to make backfill payments. Governor Schwarzenegger reversed this action on his first day in office, restoring the backfill payments to local governments.[11] The 2004-05 budget agreement replaces the backfill with a dollar-for-dollar transfer of property taxes from schools to counties and cities. The state, in turn, increased funding for schools.

How Will Proposition 1A Affect the State's Ability to Address Future Budget Crises?

During the budget crisis of the early 1990s, the state used its authority to reallocate property tax revenues to shift funds from counties, cities, and special districts to schools in order to reduce the state's constitutional school funding guarantee. If enacted, Proposition 1A would severely limit the state's ability to reallocate revenues by treating the amounts lost by local government as a loan that must be repaid with interest. This limitation will likely increase pressure on state supported programs that lack constitutional protection such as higher education, resource and environmental protection, health, social services, and public safety.

What Would Proposition 1A Mean for Efforts to Address Local Fiscal Incentives?

A number of analysts argue that current property and sales tax allocation formulas encourage local governments to seek sales tax-generating retail development over housing or other forms of commercial activity, such as manufacturing. The preference for sales tax generating development uses is often called the "fiscalization of land use." Legislation aimed at addressing this issue has garnered broad support, but has stalled in the Legislature due to opposition from localities that would be "losers" as a result of efforts to change the current system.

Proposition 1A would prevent the Legislature from modifying the current allocations, with very limited exceptions. Specifically, the Legislature would be barred from statutorily changing the allocation of sales tax dollars from a point of sale to a population-based system. Thus, Proposition 1A effectively locks the current incentives into place, absent future voter approval.

How Would Proposition 1A Affect State Funding for Locally Administered Services?

While Proposition 1A protects property tax, sales tax, and VLF revenues and reimbursements for state-mandated costs, it does not protect state funding for programs that are the shared responsibility of the state and county governments, including a number of health, mental health, and social service programs. Reducing the options available for achieving savings in the event of future budget crises would increase pressure on programs, including many health and social service programs, that lack constitutional or other protections. Programs with shared financial responsibility include child protective services, CalWORKs, courts, adoptions assistance, In-Home Supportive Services, Medi-Cal, and other county-administered services. The mandate provisions of Proposition 1A would prevent the state from requiring local governments to maintain program levels, thereby increasing the likelihood that services would be reduced in the event of state budget reductions.

How Would Proposition 1A Affect State Mandates?

Proposition 4 of 1979 required the state to reimburse local governments whenever it "mandates a new program or higher level of services on any local government."[12] Since 1979, a complex process for determining whether a mandate exists and the level of reimbursement owed to local governments has developed. In recent years, the state has deferred payment on approximately $1.3 billion owed for mandate reimbursements.

Proposition 1A would prevent the state from deferring payment and, instead, repeal the requirement in any year when reimbursement is not provided. This provision would not apply to mandates related to employee relations and collective bargaining.[13] Examples of the types of mandates that would be covered by this provision include requiring local firefighters to undergo training in the recognition of Sudden Infant Death Syndrome; costs related to local coastal plans; costs related to permanent absentee voter status; and a requirement that local animal shelters hold animals for a minimum amount of time prior to euthanizing them.

What Would Proposition 1A Mean for School Finance?

Proposition 1A would cap the share of school funding provided by local property tax revenues.[14] The measure would also lock in the reduction in schools' share of local property taxes contained in the 2004-05 budget agreement resulting from the elimination of state VLF backfill payments to counties and cities and their replacement with local property tax revenues. By limiting the state's ability to achieve budget savings by reallocating local revenues, Proposition 1A would increase the pressure on other areas of the budget. While schools enjoy the protection of the Proposition 98 spending guarantee, the suspension provisions of Proposition 1A are "tougher" than those contained in Proposition 98. Specifically, Proposition 98 can be suspended by a two-thirds vote of the Legislature. The Constitution requires the state to restore funding to the level where it would have been absent suspension over time.[15] The state is not, however, required to repay schools for funds lost during a suspension or for funds lost during the years between suspension and a return to the guaranteed spending level. Proposition 1A, on the other hand, contains a similar two-thirds vote requirement for suspension but additionally requires the state to repay, with interest, local governments for revenues lost during a suspension. By imposing a higher financial penalty on the state for suspension of Proposition 1A, the measure could increase pressure to suspend the school funding guarantee and/or reduce spending in other areas of the budget.

Appendix A: Recent Ballot Measures Affecting the Fiscal Relationship Between the State and Local Governments	
Proposition 13 (June 1978)	• Limited property tax rates to one percent. • Limited the annual increase in the assessed value of property to no more than 2 percent unless a property changes ownership. • Allowed reassessment of property to market value only upon change of ownership. • Transferred responsibility for allocating property tax revenues to the state Legislature. • Required 2/3 voter approval of local taxes designated for a specific purpose. • Required measures raising state taxes to be approved by a 2/3 vote of each house of the Legislature.
Proposition 4 (November 1979)	• Imposed expenditure limits on all levels of California government. • Required the state to reimburse local governments for mandated costs or expenditures imposed after January 1, 1975.
Proposition 62 (November 1986)	• Required approval of new local general purpose taxes by a 2/3 vote of the governing body of a local agency and a majority of the voters. Largely invalidated by the courts.
Proposition 98 (November 1988)	• Established a minimum funding guarantee for K-12 education and community colleges. The guarantee applies to the sum of funding schools receive from state and local sources.
Proposition 111 (June 1990)	• Increased the state gas tax to pay for transportation infrastructure. • Revised the formula used to calculate state and local government expenditure limits.
Proposition 172 (November 1993)	• Imposed a 0.5 percent sales tax rate dedicated to local public safety programs as partial backfill for the property tax shifts enacted in 1992 and 1993.
Proposition 218 (November 1996)	• Required new general purpose local taxes to be approved by a majority of the voters and special purpose taxes to be approved by a 2/3 vote of the voters. • Prohibited school districts from imposing a general purpose local tax. • Limited the use of benefit assessments and imposed protest and notice provisions on governments attempting to impose benefit assessments. • Restricted the use of property-related fees by local governments and imposed new notice and protest provisions. • Allowed voters to repeal any existing local tax, fee, or assessment by a majority vote.

Jean Ross prepared this Brief. The California Budget Project (CBP) neither supports nor opposes Proposition 1A. The CBP was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. Support for the CBP comes from foundation grants, publications, and individual contributions.

ENDNOTES

[1] Other districts include special districts and redevelopment agencies.
[2] The VLF rate was originally 1.75 percent. See Senate Local Government Committee*, Three Budget Topics* (January 22, 2003).
[3] The trigger increased the VLF rate in the event that the state had insufficient funds to reimburse counties and cities for revenues lost as a result of the rate reduction.
[4] California State Board of Equalization, *2002-03 Annual Report* (2004). Alpine County, with no incorporated cities, receives 68 percent of the local property tax. However, Mariposa County, where no property taxes go to cities, receives 26 percent of the local property tax, and similarly situated Trinity County receives 29 percent of the local property tax.
[5] This paper uses the term "education spending" to refer to spending subject to the Proposition 98 school spending guarantee and "schools" to refer to the local jurisdictions that are covered by the Proposition 98 guarantee. This includes school districts, county offices of education, and community colleges.
[6] This measure will appear on the November ballot as Proposition 65 (see below).
[7] For a review of the Governor's original proposal, see the California Budget Project, *Vexing Questions: Will the Proposed Local Government Budget Agreement Help or Hinder Efforts to Improve the Fiscal Relationship Between the State and Local Governments?* (June 2004).
[8] As noted elsewhere, the Legislature can suspend Proposition 1A's prohibition on shifts of local revenues, but any amounts shifted must be repaid with interest.
[9] Legislative Analyst's Office, *Analysis of Proposition 1A* (August 6, 2004), downloaded from http://www.ss.ca.gov/elections/elections_suppvig_pg04.htm on September 3, 2004.
[10] For a more detailed description of the impact of Proposition 13 and subsequent legislative actions, see California Budget Project, *Proposition 13: Its Impact on California and Implications for State and Local Finances* (April 1997).
[11] $1.3 billion of backfill payments owed to cities and counties for 2003-04 are treated as a loan with a repayment date of no later than August 2006.
[12] Section 6 of Article XIIIB of the California Constitution.
[13] Proposition 4 of 1979 excluded laws that define a new crime or that change the definition of an existing crime from the definition of a mandate.
[14] Beginning in 2006-07 and thereafter, schools would receive no more than the share of the local property taxes that they received in 2003-04, adjusted for the shift of property tax dollars to counties and cities, to make up for the elimination of VLF backfill payments.
[15] The Constitution contains a formula for restoring funding to the level where it would have been absent suspension. Repayment depends on the growth in per capita General Fund revenues, per capita personal income growth, and enrollment growth.