



## Proposition 1A: Protecting Local Taxpayers and Vital Local Services

### Background

Proposition 1A will appear on the November 2, 2004, ballot to amend California's constitution to prevent the state Legislature from taking and using local government funds for state programs and purposes. A bipartisan agreement between Governor Arnold Schwarzenegger, local governments and state legislators, Proposition 1A will keep more local tax dollars local and protect funding for vital local services.

For more than a dozen years, the state has shifted local tax dollars to public schools that local governments previously used to provide vital services like water treatment, fire protection, paramedic response, law enforcement, health care, parks and libraries. The state has taken more than \$40 billion from cities, counties and special districts in the last 12 years. While this funding shift will continue, future shifts mean fewer firefighters, fewer law enforcement officers and longer waits at emergency rooms -- or higher local taxes and fees.

### Proposition 1A vs. Proposition 65:

A coalition of local government officials (cities, counties and special districts) placed Proposition 65 on the ballot earlier this year to force a statewide vote before taking local government funding. However, that was before passage of the historic bipartisan agreement that put Proposition 1A on the ballot. Proposition 1A is a better, more flexible approach to protecting local services and local tax dollars. That's why all the official proponents of Prop 65 are now supporting Proposition 1A and opposing Proposition 65.

### Key Provisions of Proposition 1A:

- The state can only borrow local government revenues in the future following a gubernatorial proclamation of a significant state fiscal hardship and a 2/3 vote of the Legislature.
- The state can borrow local revenues only twice in a 10-year period (local revenues cannot be borrowed unless any prior loans are completely paid in full with interest). The loan cannot exceed 8% of total local property tax revenues in any given year.
- The state cannot reallocate local property tax revenues to ERAF or other state programs; however, by a 2/3 vote of the Legislature, the state could reallocate local property tax revenues within a given county.
- State mandated local programs must be paid for by the state, or local agencies will be able to suspend implementation of the mandated program.

The attached chart illustrates the amendments to be made by Proposition 1A compared to current law.

## **Opponents' Argument on Proposition 1A:**

- Proposition 1A was cooked up at the last minute as a part of a bad budget deal.
- Proposition 1A protects local governments, but it hurts education by allowing the state to raid property taxes that fund local schools.
- Proposition 1A prevents the Legislature from lowering taxes by locking in the local sales tax rate.
- Proposition 1A jeopardizes critical programs. As California's fiscal challenges continue, the state budget ax will fall even harder on funding for K-12 education, higher education, children's health care, programs for seniors and public safety.

## **Proponents' Argument on Proposition 1A:**

- Proposition 1A prevents the State Legislature from taking and using local government funds.
- Proposition 1A protects funding for vital local services like fire and paramedic response, law enforcement, healthcare, parks, libraries, and transportation.
- Proposition 1A keeps more of our local tax dollars local.

## **ACWA's Position**

The ACWA Board of Directors announced its support of Proposition 1A on August 25, 2004. ACWA supports Proposition 1A because it offers better protection for local governments against future state financial raids and helps stabilize local funds and protect delivery of critical services.

## **More information:**

ACWA Web Site: [www.acwanet.com](http://www.acwanet.com)

Yes on Proposition 1A Web Site: <http://www.yesonprop1a.com/>

## **Contacts:**

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## PROPOSED LOCAL GOVERNMENT AGREEMENT COMPROMISE

Current Law		Proposal
<b>VLF</b>		
<b>VLF Rate</b>	Currently at 2%	Reduced to 0.65% statutorily-but property tax backfill provided
<b>Backfill if VLF Rate Reduced</b>	None	Property tax backfill provided if rate reduced below 0.65%
<b>Increases in VLF Rate</b>	Capped at 2% constitutionally. Can only be used for city or county purposes.	Capped at 2% constitutionally but may be raised above 0.65% for local purposes.
<b>VLF Gap Loan Repayment</b>	Statutorily required in 2006-07.	Statutorily required in 2006-07. No future property tax loan/suspension if unpaid.
<b>PROPERTY TAX</b>		
<b>Agencies Protected</b>	None. Legislature may reallocate at will to ERAF and among agencies.	City, county, special district and RDA share protected from ERAF shift.
<b>Reallocation Among Local Agencies</b>	Legislature can reallocate by simple majority vote, including to ERAF or other state fund.	Local share (non-school/ERAF) may be reallocated by 2/3 vote to other local govts. in a county. Legislature may <b>not</b> reallocate to ERAF or other state fund any more.
<b>Suspension Trigger</b>	None. May take permanently at will.	Beginning in 2008-09, Governor proclaims "significant state fiscal hardship."
<b>Suspension Vote Needed</b>	Simple majority to take permanently—no repayment.	2/3rds vote – separate from budget.
<b>Suspension Limits</b>	None. May take permanently at will.	--No more than 2 times in 10 years. --No loan until VLF Gap loan or previous suspension loan outstanding. --Cap of 8% of local share of property taxes (\$1.3 billion today).
<b>Repayment terms</b>	No provision for repayment.	Legislature must pass a statute to fully repay loan with interest within three fiscal years.
<b>SALES TAX</b>		
<b>Protection</b>	None. Legislature may reduce rate or change method of distribution. Prop. 57 triple flip ¼ cent sales tax not protected.	Protects the rate and method of distribution of the local Bradley-Burns sales tax revenues. Guarantees return of ¼ cent Bradley Burns sales tax when Prop 57 bonds retired.
<b>Reallocation</b>	May be allowed. Law unclear.	None.
<b>MANDATES</b>		
<b>Scope--Consequence of Nonpayment</b>	None.	Statute imposing mandate is suspended if no state funding except for specified employee rights and benefits. Applies only to city, county, special district mandates.
<b>Mandate Definition</b>	State may shift costs to local governments without triggering reimbursement requirement.	Clarifies mandate definition to include cost shifts from the state to locals.
<b>VOLUNTARY PROPERTY/SALES TAX EXCHANGES</b>		
	None.	Legislature may approve a statutory framework for voluntary exchanges of property tax and sales tax.

July 26, 2004—9:00 a.m.