

# Measure E298

---

## **INSTRUCTIONS:**

Please carefully read the following description of a ballot measure that was written by a disinterested expert. Feel free to take notes or outline passages as you read.

This should take approximately 10 minutes.

---

## **BALLOT MEASURE E298**

---

### **BACKGROUND**

#### **Local Government Funding**

California has over 5,000 local governments-cities, counties, special districts, and redevelopment agencies-that provide services such as fire and police protection, water, libraries, and parks and recreation programs. Local governments pay for these programs and services with money from local taxes, fees, and user charges; state and federal aid; and other sources. Three taxes play a major role in local finance because they raise significant sums of general-purpose revenues that local governments may use to pay for a variety of programs and services. These three taxes-the property tax, the local sales tax, and the vehicle license fee (VLF)-are described in Figure 1.

#### **State Authority Over Local Finance**

The State Constitution and existing statutes give the Legislature authority over the three major taxes described in Figure 1. For example, the Legislature has some authority to change tax rates; items subject to taxation; and the distribution of tax revenues among local governments, schools, and community college districts. The state has used this authority for many purposes, including increasing funding for local services, reducing state costs, reducing taxation, and addressing concerns regarding funding for particular local governments. Figure 2 describes some past actions the Legislature has taken, as well as actions that the state was considering during the summer of 2004 (at the time this analysis was prepared).

#### **Requirement to Reimburse for State Mandates**

The State Constitution generally requires the state to reimburse local governments, schools, and community college districts when the state "mandates" a new local program or higher level of service. For example, the state requires local agencies to post agendas for their hearings. As a mandate, the state must pay local governments, schools, and community college districts for their costs to post these agendas. Because of the state's budget difficulties, the state has not provided mandate reimbursements in recent years. Currently, the state owes these local agencies about \$2 billion for prior-years' costs of state-mandated programs.

### **PROPOSAL**

#### **Limitations on Legislature's Authority to Change Local Revenues**

This measure amends the State Constitution to significantly reduce the Legislature's authority to make changes affecting any local government's revenues from the property tax, sales tax, and VLF. Specifically,

the measure requires approval by the state's voters before a legislative measure could take effect that reduced a local government's revenues below the amount or share it would have received based on laws in effect on January 1, 2003. For example, this measure would require statewide voter approval before a law took effect that:

- Shifted property taxes from local governments to schools and community colleges.
- Changed how sales taxes are distributed among cities and counties.
- Exchanged city sales taxes for increased property taxes.
- Revised the formulas used to distribute property taxes among local governments.

Proposition E298 also would suspend any law enacted after November 1, 2003, that would have required voter approval under the terms of this measure. Suspended laws would take effect only if they were approved by the state's voters at the next statewide election.

The measure provides two exceptions to these voter-approval requirements. The state could enact laws that (1) shift property taxes among consenting local governments or (2) replace VLF revenues with an equal amount of alternative funds.

This measure also places into the State Constitution two existing state statutes relating to local finance. These statutes require the state to pay deferred VLF backfill revenues to cities and counties (\$1.2 billion) by August 2006 and reestablish the local sales tax rate at 1.25 percent after the state's deficit-related bonds are paid.

## **State Mandates**

The measure amends the State Constitution to reduce the state's authority over local government, school, and community college programs. Specifically, if the state does not provide timely reimbursement for a mandate's costs (other than mandates related to employee rights), local agencies could choose not to comply with the state requirement. The measure also appears to expand the circumstances under which the state would be responsible for reimbursing local agencies for carrying out a new state requirement. For example, the measure may increase the state's responsibility to reimburse local governments when the state increases a local agency's share of cost for a jointly financed state-local program.



**STOP!**

Please go to the online survey, enter the 4-character code for this ballot measure (printed at the top and bottom of this page) and answer the survey questions.