



Proposition 22: Local Taxpayer, Public Safety, and Transportation Protection Act of 2010

The Summary Report
from the
Joint Informational Hearing

Wednesday, September 22, 2010
State Capitol
Sacramento, California

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**Joint Informational Hearing
Proposition 22: Local Taxpayer, Public Safety,
and Transportation Protection Act of 2010**

SUMMARY REPORT

On Wednesday, September 22, 2010, the Senate Transportation and Housing Committee and the Senate Local Government Committee held a joint informational hearing on the Local Taxpayer, Public Safety, and Transportation Protection Act of 2010, which will appear on the November 2, 2010 General Election ballot as Proposition 22.

The hearing began at 1:40 p.m. and continued until 3:35 p.m. Held in Room 112 of the State Capitol in Sacramento, the committees' hearing attracted about 40 people.

Six senators attended the informational hearing:

Senator Alan Lowenthal, Chair
Senate Transportation and Housing Committee
Senator Christine Kehoe, Vice-Chair
Senate Local Government Committee
Senator Mark DeSaulnier, member of both committees
Senator Denise Moreno Ducheny
Senator Tom Harman, member, Transportation and Housing Committee
Senator Curren Price, member, Local Government Committee.

This report contains the staff summary of the committees' hearing [*see the white pages*], reprints the committee staffs' briefing paper [*see the blue pages*], and reproduces written materials provided by the speakers and others [*see the yellow pages*].

Senate staff video-recorded the entire hearing and it is possible to purchase DVD copies by calling the Senate TV and Video office at (916) 651-1531. Video of the hearing can also be viewed on the California Channel's website:

www.calchannel.com/channel/viewvideo/1760

The Speakers

The committees invited seven people to speak. Legislators invited the speakers to provide written materials to supplement their brief remarks. The witnesses whose names appear with an asterisk (*) provided written materials. The appendix reprints the speakers' materials. [See the *yellow* pages.] The speakers were divided into three panels:

Background and Analysis

Marianne O'Malley, Director, General Government*
Legislative Analyst's Office

Jessica Digiambattista, Fiscal and Policy Analyst*
Legislative Analyst's Office

Proponents

Chris McKenzie, Executive Director*
League of California Cities

Joshua Shaw, Executive Director
California Transit Association

Opponents

Brian Hatch, Legislative Advocate*
California Professional Firefighters

Kathy Dennis, Board Member*
California Nurses Association

Toby Boyd, Board Member *
California Teachers Association

During the hearing, legislators also asked John Shirey, Executive Director of the California Redevelopment Association, to respond to a specific question regarding Proposition 22's impact on the Community Redevelopment Law. No speakers responded to Senator Lowenthal's invitation for public comments after the committees heard from the invited panelists.

Additionally, the committees received written advice from:

Jolena Voorhis, Executive Director*
Urban Counties Caucus

What the Committees Learned

The September 22 hearing gave legislators a chance to seek answers to questions about Proposition 22's complex provisions. After nearly two hours of testimony and discussion, the committees' members found that definitive answers to a number of important questions about Proposition 22 remain elusive.

The first speaker on the agenda, Marianne O'Malley, stated that Proposition 22 is the most complicated initiative she has worked on in a quarter-century of analyzing ballot measures for the Legislative Analyst's Office (LAO). She noted that the initiative's length, its effects across multiple policy areas, and changes to state law that occurred since Proposition 22 was drafted make it difficult to determine how Proposition 22 would affect current law. She cautioned that, as a result, there may not be satisfying answers to some questions about the initiative's likely effects. The remainder of the hearing showed this to be true.

Specifically, the September 22 hearing revealed uncertainty about the following issues related to Proposition 22:

1. Does Proposition 22 retroactively repeal the gas tax swap? While speakers at the hearing expressed a general consensus that Proposition 22 likely doesn't repeal the gas tax swap that the legislature enacted earlier this year, Jessica Digiambattista cautioned that it is possible that a court could interpret the measure differently. It did, however, appear a near certainty that Proposition 22 requires the state to use its General Fund to back general obligation transportation bonds that have already been issued, despite the gas tax swap's use of gasoline excise tax revenues to do so.
2. Does Proposition 22 require the state to seek a second, separate voter-approval twice before using transportation tax revenues to back future voter-approved general obligation transportation bonds? The initiative's proponents sharply disagreed with the LAO's analysis that the state must, after getting voter-approval for general obligation transportation bonds, get voters to subsequently approve the use of transportation tax revenues to back those bonds. Despite continued

testimony and questioning at the hearing, no consensus view emerged to answer this question.

3. Will Proposition 22 increase or decrease funds available to local transit operators? An objective of legislators in passing the gas tax swap was to increase the amount of state funding for local transit operations. To that end, the gas tax swap changed the statutory formula to increase the percentage of PTA revenues, from 50% to 75%, that flows to local transit providers. Proposition 22, however, locks in the old 50% formula. The LAO testified that, therefore, transit operators will actually receive less funds from the state if Proposition 22 passes than if it doesn't. Proponents did not dispute this but did argue that historically the PTA should have received billions of dollars that the legislature redirected. It remains unclear what exactly Proposition 22 in concert with the gas tax swap will mean for state support of local transit operations.

4. Does Proposition 22 impact the legislature's authority over redevelopment law? Opponents of the measure testified that Proposition 22 would lock in provisions of redevelopment law and prohibit redirection of redevelopment funds to local services, including schools. The LAO responded that the legislature would, if Proposition 22 passes, retain its ability to amend state law governing redevelopment, but that it would not be able to shift property tax revenues away from redevelopment agencies or modify redevelopment agencies' pass through payments to other local governments. Proposition 22's proponents agreed with the LAO's interpretation of the initiative.

Conclusion

While the hearing found portions of Proposition 22 to be ambiguous in their impact, the general thrust of the proposition is clear: it further limits the ability of the state to direct property tax and gasoline tax revenues. Because of the limitations Proposition 22 would impose if it passes, the legislature would have fewer options during times of state budget shortfalls and would more often have either to cut General Fund spending or to raise taxes. In addition, because of its limits on using gas tax revenues to service transportation bonds, the proposition would exacerbate current state General Fund shortfalls. Because of its prohibition on borrowing of transportation revenues, including short term borrowing, the proposition would negatively impact state cash flow.

California Legislature

STATE CAPITOL
SACRAMENTO, CALIFORNIA

Senate Committee on Transportation and Housing
Senate Committee on Local Government



Proposition 22: Local Taxpayer, Public Safety, and Transportation Protection Act of 2010

A Staff Briefing Paper for the Informational Hearing

1:30 p.m., Wednesday, September 22, 2010
State Capitol, Room 112

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**Proposition 22:
Local Taxpayer, Public Safety,
and Transportation Protection Act of 2010**

Sponsored by the League of California Cities and the California Transit Association, the *Local Taxpayer, Public Safety, and Transportation Protection Act of 2010* has qualified for the November 2, 2010 General Election as Proposition 22.

Elections Code §9034 requires each house of the Legislature to assign qualified initiative measures to its appropriate committees. Those committees must hold joint public hearings on the subject of the measure at least 30 days before the election.

Accordingly, the Senate Committee on Transportation and Housing and the Senate Committee on Local Government will hold a joint hearing on September 22, 2010, at the State Capitol to review Proposition 22.

In accordance with the Elections Code, the Legislature has no authority to alter any initiative measure or to prevent it from appearing on the ballot.

About This Paper

This background paper prepares the members of the two committees for the September 22 public hearing. The committees will hear from the Legislative Analyst's Office, the initiative's sponsors, and its opponents. Legislators will also engage in a question and answer session. The committees will also reserve time for others to give their comments and reactions.

The paper suggests questions that legislators may want to ask the witnesses at the hearing. The suggested questions appear in *italics* and are preceded with the ► symbol.

Background and Existing Law

In the more than 30 years since voters approved Proposition 13 (1978), state and local fiscal affairs have become increasingly entangled because of decisions made

by policymakers, judges, and voters, producing conflict between the state and local governments. Proposition 22 is the most recent chapter in a decades-long struggle to achieve a balance in state-local fiscal relations.

Particularly since the property tax shifts in the early 1990s, local officials have expressed their collective irritation with the state for restricting, raiding, and refusing to repay local revenue sources. Local officials argue (and many legislators agree) that the state's budgetary behavior toward local governments has led to increasing instability and unpredictability for local budgets. They worry about the lack of legislative solutions, the continuing attempts to shift additional property taxes, the persistent uncertainty about motor vehicle fuel tax and vehicle license fee revenues, and the dysfunctional mandate reimbursement process. They argue that the convoluted state-local funding relationship has removed revenue streams further and further from the services they pay for and rendered local government financing virtually impossible for the public to understand.

Years of working groups, select committees, and blue ribbon commissions have filled legislative shelves with reports, studies, and reform proposals for fixing the state-local relationship. Few disagree with the need for reform. Affected constituencies argue about the details, but not about the need for change. The Senate Local Government Committee's 2001 report *Tension & Ambiguity: A Legislative Guide to Recent Efforts to Reform California's State-Local Fiscal Relationship*, summarizes the reform efforts. For all the long and thoughtful hours devoted to this topic, the Legislature has enacted very little real reform.

Frustrated by the Legislature's failure to enact reforms, some interest groups have placed reform proposals before the voters. In November 2004, voters approved Proposition 1A, which amended the California Constitution to limit the state's authority over revenues from property taxes, local sales taxes, and vehicle license fees. In November 2006, voters approved another Proposition 1A, which restricted the state's authority over revenues from sales taxes on gasoline. This November's Proposition 22 augments these two ballot measures by further restricting the state's authority over:

- Transportation tax revenues,
- Property tax revenues, and
- Vehicle license fee revenues.

I. Transportation tax revenues. The excise tax on motor vehicle fuels ("the gas tax") provides the primary source of state funding for transportation in California

and functions as a user-pays system for the state's highways and local streets and roads. The state first imposed an excise tax on gasoline and diesel in the 1920s and historically revenue from the state's excise tax has been allocated to both the state and local governments.

Article XIX of the California Constitution provides that the state's motor vehicle fuel excise tax may only be used for the "research, planning, construction, improvement, maintenance, and operations of public streets and highways (and their related public facilities for nonmotorized traffic)" and the "research, planning, construction, and improvement of exclusive public mass transit guideways (and their related fixed facilities)... ." Article XIX, therefore, prohibits using these gas tax revenues for most transit purposes.

A. Transit Funding. In the post World War II era, transit transitioned from privately provided to a local public service that was locally funded, largely from local property taxes.

In the early 1970s, the Legislature passed and Governor Ronald Reagan signed the Transit Development Act (TDA) to provide a stable local subsidy program for transit. This was the state's first foray into using the sales tax, rather than an excise tax, to fund transportation.

With the passage of the TDA, the state dropped its statewide sales tax rate by a quarter percent and made up for the loss in the state's General Fund by broadening the sales tax base to include gasoline. Whenever sales tax on gasoline produced more than enough revenue to fill that revenue hole, the state agreed to use the excess, or what was called the "spillover", to support public transportation. At the same time, the state required counties to impose a quarter-cent sales tax to be used to fund transit in urban areas and transit and roads in rural areas. Later the sales tax on diesel was also dedicated to transit.

These three sources – the local sales tax, the spillover, and the sales tax on diesel -- became the primary sources of state support for transit funding. These three flow into the state's Public Transportation Account (PTA), through which the state provides support to local transit districts and for intercity rail.

B. The Gas Tax. In 1990, the voters approved Proposition 111, which the Legislature placed on the ballot and which increased the excise tax on motor vehicle fuels from 9 cents to 18 cents over a period of five years. The last of the

Proposition 111 increases occurred on January 1, 1994 when the tax went up one cent to 18 cents per gallon. (This amount stood until this year, when the Legislature enacted the “gas tax swap,” which is described below.)

Through Proposition 111 the state also dedicated the increment of sales tax on the new 9 cents of gasoline excise tax to transit, a new revenue for the PTA.

In the years between full implementation of Proposition 111 and 2010, the gasoline excise tax lost over 30 percent of its purchasing power. In its place in the state provided primarily General Fund revenues and local governments contributed funds from local, voter-approved, transportation sales tax revenues.

One of the most significant shifts of General Fund revenues to transportation occurred in 2000, when the Legislature dedicated the state sales tax on gasoline to transportation. California included this dedication in the California Constitution when the people approved Proposition 42 in 2002. Twenty percent of those revenues were dedicated to transit, 40 percent to the state highway system, and 40 percent to local streets and roads.

Then in 2006, Proposition 1B, which the Legislature placed on the ballot, authorized a \$19 billion general obligation bond for transportation. Originally, the state General Fund repaid bonds issued under Proposition 1B, but beginning in the 2010-11 Fiscal Year, gasoline excise taxes, pursuant to the gas tax swap, provide funds to repay those bonds.

C. The 2010 Gas Tax Swap. The gas tax swap enacted in March 2010 eliminated, effective July 1 2010, the sales tax on gasoline and replaced it with an gasoline excise tax designed to generate an equivalent amount of revenue. To ensure continuing revenue neutrality in the swap, each year the Board of Equalization must adjust the gasoline excise tax such that over time the new excise tax generates the same revenue as the old sales tax on gasoline would have generated. The gas tax swap legislation also provided that about \$1 billion annually of PTA and gas tax revenues would be used to repay existing general obligation transportation bonds, including those authorized under Proposition 1B of 2006.

The gas tax swap legislation also provided for a revenue-neutral swap of (increased) sales tax on diesel and (reduced) diesel excise tax in order to increase PTA funds available for transit operations funding.

D. Constitutional Limits on Borrowing Transportation Funds. As the state moved away from the user-pay concept in transportation and embedded transportation in the state's General Fund, it subjected transportation to the same revenue vagaries that other General Fund programs face. During booming economic times, transportation received extra funding, but during more austere economic times the state borrowed transportation revenues or, in the case of PTA funds, used them without a plan to repay. In response, to restrict borrowing of these transportation funds, the people amended the California Constitution through:

- Proposition 2 of 1998, which limited state General Fund borrowing of state transportation funds, including gas tax revenues and funds in the Public Transportation Account. Specifically, loans to the state General Fund in any fiscal year must be repaid within that fiscal year, except that repayment may be delayed up to 30 days after a state budget is enacted for the subsequent fiscal year. Loans extending over a fiscal year may be during times of significant negative impacts on the General Fund. Loans extending over a fiscal year must be repaid in full within three fiscal years.
- Proposition 1A of 2006, which restricts the borrowing of gasoline sales tax (*i.e.*, Proposition 42) funds. It limits such borrowings to twice in a ten-year period, but it requires full repayment of the first loan before a second could commence and requires that any loan be fully repaid within three years.

II. Property tax revenues. Before voters' approval of Proposition 13 (1978), local governments set their own property tax rates. Proposition 13 capped the rate of ad valorem taxes on real property at 1%, cutting statewide property tax revenues by 57%, and gave the Legislature the power to allocate the remaining property tax revenues.

The Legislature responded by allocating property tax revenues to counties, cities, special districts, and school districts based on each agency's pro rata share of the property taxes collected within a county in the three fiscal years prior to 1978-79 (SB 154, Rodda, 1978). The Rodda bill also bailed out local governments with \$858 million in block grants. In 1979, the Legislature permanently restructured the allocation of property taxes (AB 8, L. Greene, 1979). AB 8 used SB 154's property tax allocations as a base and then, in place of block grants, shifted some of the schools' property tax revenues to local agencies and replaced the schools' losses with increased subventions from the state General Fund.

To balance the State Budget in 1992-93, and then again in 1993-94, the Legislature permanently shifted property tax revenues from local governments to each county's Educational Revenue Augmentation Fund (ERAF) to benefit schools --- and offset State General Fund spending. During the late 1990s, efforts to reverse or mitigate the ERAF property tax shifts and to reform the state-local fiscal relationship failed to produce results.

Following these failed legislative reform efforts, and in response to the threat of more local revenues being shifted to the state, a coalition of local governments qualified the *Local Taxpayers and Public Safety Protection Act* for the November 2, 2004 ballot as Proposition 65. Proposition 65 reduced the state's control over some local funding sources by requiring majority-voter approval of legislation to reduce, suspend, or delay local governments' property tax, sales tax, and Vehicle License Fee (VLF) revenues.

Alarmed by Proposition 65's potential fiscal consequences for the state, Governor Schwarzenegger proposed an alternative approach. The governor's package proposed reforming the state-local fiscal relationship in exchange for a two-year local government property tax contribution toward the State Budget. On a separate track, the Legislature re-engaged in conversations with local governments on how best to reform the system. These two efforts came together and a proposal emerged as part of the 2004-05 State Budget package, leading to voter approval of Proposition 1A in November 2004.

Proposition 1A of 2004 amended the California Constitution to prohibit the state from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year under the laws in effect as of November 3, 2004. Proposition 1A allowed the state to shift to schools and community colleges a limited amount of local government property tax revenues if: the Governor proclaims that the shift is needed due to a severe state financial hardship, the Legislature approves the shift with a two-thirds vote of both houses, and certain other conditions are met. The state must repay local governments for their property tax losses, with interest, within three years.

The 2009-10 State Budget used this constitutionally-permitted exception to borrow \$1.9 billion of property taxes from cities, counties, and special districts. That budget redirected revenues equal to 8% of each local agency's 2008-09 property tax apportionment (excluding debt levies) into a new fund in each county – the Supplemental Revenue Augmentation Fund (SRAF) – to offset State General Fund

spending for trial court, correctional, and other state-funded services. The funds must be repaid by June 30, 2013.

State law lets redevelopment agencies divert other local governments' property tax increment revenues so that they can fight physical and economic blight. In 2007-08, redevelopment agencies diverted about \$5.4 billion in property tax increment revenues annually from counties, cities, special districts, and school districts. The state General Fund must backfill the schools' losses, about \$2.7 billion a year. Proposition 1A's restrictions do not apply to redevelopment agencies. The 2009-10 State Budget took advantage of this exception by requiring redevelopment agencies to shift nearly \$2 billion of revenues to schools over two years.

III. Vehicle license fee revenues. The motor vehicle license fee (VLF) is a state excise tax on the ownership of a registered vehicle, in lieu of a personal property tax on vehicles. Motor vehicles were originally part of the local property tax rolls, subject to local property taxes. In 1935, the legislature removed vehicles from local property taxation and instead substituted a state-imposed vehicle license fee. The state returned the revenues from the VLF, minus administrative costs, to counties and cities as a replacement for the revenues they would have received if vehicles had remained on property tax rolls. Voters approved Proposition 47 (1986) to constitutionally guarantee that VLF revenues go to counties and cities.

The VLF rate was constant for more than 50 years until 1998, when the Legislature began cutting the VLF rate from 2% to 0.65% of a vehicle's value. The state General Fund backfilled the lost VLF revenues to cities and counties.

As part of the 2004-05 budget agreement, the Legislature enacted the "VLF-property tax swap." Instead of a backfill subsidy from the State General Fund, cities and counties get more of the property tax revenues that otherwise would have gone to schools through the Educational Revenue Augmentation Fund (ERAF). In turn, the state General Fund backfills schools for their lost ERAF money. As a result of these changes, the net VLF revenues available for per capita allocation to local governments were reduced by nearly 90%, from approximately \$1.86 billion to \$196.7 million in 2004-05.

Proposition 1A (2004) amended the California Constitution to require that the Legislature must allocate to local governments a minimum amount of funding that is equal to what they would have received from a 0.65% VLF rate, even if the Legislature lowers the VLF rate below 0.65%. Under Proposition 1A of 2004, the

Legislature retained the authority to allocate VLF revenues among cities and counties.

Proposed Initiative

Proposition 22 restricts the Legislature's authority over revenues from transportation taxes, property taxes, and vehicle license fees.

I. Transportation taxes. Proposition 22 prohibits state borrowing of transportation funds, repealing the provisions of the California Constitution that Proposition 2 of 1998 and Proposition 1A of 2006 added. It would also embed in the California Constitution statutory transportation funding formulas, generally providing that these could only be changed after a California Transportation Commission public hearing and reporting process and a two-thirds vote of each house of the Legislature. Also, the proposition provides that the Legislature may not direct gas tax funds to pay previously issued bonds, thus undoing a major provision of the gas tax swap at General Fund cost of about \$1 billion per year.

- ▶ *To the extent that Proposition 22 embeds in the state's constitution statutory transportation funding formulas, does it lock in a financing system that is not responsive to meeting California's transportation needs?*
- ▶ *For transportation bond repayment purposes, why does Proposition 22 treat local government use of gas tax revenues differently than state use of these revenues (i.e., why does it require a vote of the people and permit prospective use only for the state)?*
- ▶ *By further restricting the state's authority to borrow gas tax revenues and PTA revenues, what impact does Proposition 22 have on the state's cash flow?*

II. Property taxes. Proposition 22 repeals the Legislature's authority to shift a limited amount of local government property tax revenues to schools and community colleges during a time of severe state financial hardship.

Proposition 22 prohibits the Legislature from requiring a community redevelopment agency to either:

- Pay, remit, loan, or otherwise transfer, directly or indirectly, taxes on ad valorem real property and tangible personal property allocated to the agency for the benefit of the state, any agency of the state, or any jurisdiction; or
 - Use, restrict, or assign a particular purpose for such taxes for the benefit of the state, any agency of the state, or any jurisdiction, other than for making payments to affected taxing agencies pursuant to specified statutes or for increasing, improving, and preserving the supply of low and moderate income housing available at affordable housing cost.
- ▶ *By further restricting the state's authority to borrow or reallocate property tax revenues, does Proposition 22 advance the goal of local government finance reform or does it reinforce an existing flawed revenue structure?*
 - ▶ *To the extent that Proposition 22 locks in funding for local governments, does it make it harder for the state to pay for other programs such as education, social services, corrections, and transportation? Does it increase the likelihood of future tax increases?*

III. Vehicle License Fees. Proposition 22 prohibits the Legislature from changing vehicle license fee allocations to reimburse a local government when the Legislature or any state agency mandates a new program or higher level of service on that local government.

- ▶ *By prohibiting the Legislature from reallocating VLF revenues to reimburse local governments for mandate costs, does Proposition 22 make it more likely that legislators will suspend state mandates because they lack funding?*

IV. Other provisions. Proposition 22 automatically repeals any statute passed by the Legislature between October 21, 2009 and November 2, 2010 that would have been prohibited if Proposition 22 were in effect on the date it was enacted.

- ▶ *What measures have been enacted into law since October 20, 2009 that will be retroactively repealed by Proposition 22? Specifically, beyond undoing the paying of transportation bond debt with gas tax revenues, what impact does Proposition 22 have on the March 2010 gas tax swap?*

APPENDIX

PROPOSITION 22 PROHIBITS THE STATE FROM BORROWING OR TAKING FUNDS USED FOR TRANSPORTATION, REDEVELOPMENT, OR LOCAL GOVERNMENT PROJECTS AND SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

OFFICIAL TITLE AND SUMMARY

PREPARED BY THE ATTORNEY GENERAL

PROHIBITS THE STATE FROM BORROWING OR TAKING FUNDS USED FOR TRANSPORTATION, REDEVELOPMENT, OR LOCAL GOVERNMENT PROJECTS AND SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

- Prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services.

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

Due to restrictions on state authority over fuel and property taxes, the state would have to take alternative actions—probably in the range of \$1 billion to several billion dollars annually. This would result in both:

- Reductions in General Fund program spending and/or increases in state revenues of those amounts.
- Comparable increases in funding for state and local transportation programs and local redevelopment.

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

Under the State Constitution, state and local government funding and responsibilities are interrelated. Both levels of government share revenues raised by some taxes—such as sales taxes and fuel taxes. Both levels also share the costs for some programs—such as many health and social services programs. While the state does not receive any property tax revenues, it has authority over the distribution of these revenues among local agencies and schools.

Over the years, the state has made decisions that have affected local government revenues and costs in various ways. Some of these decisions have benefited the state fiscally, and others have benefited local governments. For example, in the early 1990s, the state permanently shifted a share of city, county, and special district property tax revenues to schools. These shifts had the effect of reducing local agency resources and reducing state costs for education. Conversely, in the late 1990s, the state changed laws regarding trial court program funding. This change had the effect of shifting local agency costs to the state.

In recent years, the state's voters have amended the Constitution to limit the state's authority over local finances. Under Proposition 1A of 2004, the state no longer has the authority to permanently shift city, county, and special district property tax revenues to schools, or take certain other actions that affect local governments. In addition, Proposition 1A of 2006 restricts the state's ability to borrow state gasoline sales tax revenues. These provisions in the Constitution, however, do not eliminate state authority to temporarily borrow or redirect some city, county, and special district funds. In addition, these propositions do not eliminate the state's authority to redirect local redevelopment agency revenues. (Redevelopment agencies work on projects to improve blighted urban areas.)

PROPOSAL

As Figure 1 summarizes, this measure reduces or eliminates the state's authority to:

- Use state fuel tax revenues to pay debt service on state transportation bonds.
- Borrow or change the distribution of state fuel tax revenues.

PROP 22 PROHIBITS THE STATE FROM BORROWING OR TAKING FUNDS USED FOR TRANSPORTATION, REDEVELOPMENT, OR LOCAL GOVERNMENT PROJECTS AND SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

Figure 1
Major Provisions of Proposition 22

- ✓ **Restrictions Regarding State Fuel Taxes**
 - Reduces state's authority to use funds to pay debt service on transportation bonds.
 - Prohibits borrowing of funds by the state.
 - Limits state authority to change distribution of funds.

- ✓ **Other Restrictions on the State**
 - Prohibits redirection of redevelopment property tax revenues.
 - Eliminates state authority to temporarily shift property tax revenues from cities, counties, and special districts.
 - Prohibits state from using vehicle license fee revenues to pay for state-imposed mandates.

- ✓ **Enforcement**
 - Repeals state laws enacted after October 20, 2009, if they conflict with the measure.
 - Provides reimbursement if the state violates any term of the measure.

- Redirect redevelopment agency property taxes to any other local government.
- Temporarily shift property taxes from cities, counties, and special districts to schools.
- Use vehicle license fee (VLF) revenues to reimburse local governments for state mandated costs.

As a result, this measure affects resources in the state's General Fund and transportation funds. The General Fund is the state's main funding source for schools, universities, prisons, health, and social services programs. Transportation funds are placed in separate accounts and used to pay for state and local transportation programs.

Use of Funds to Pay for Transportation Bonds

State Fuel Taxes. As Figure 2 shows, the state annually collects about \$5.9 billion in fuel tax revenues for transportation purposes—with most of this amount coming from a 35.3 cents per gallon excise tax on gasoline. The amounts shown in Figure 2 reflect changes adopted in early 2010. Prior to these changes, the state charged two taxes

on gasoline: an 18 cents per gallon excise tax and a sales tax based on the cost of the purchase. Under the changes, the state collects the same amount of total revenues but does not charge a state sales tax on gasoline. (These state fuel tax changes did not affect the local sales tax on gasoline.) Part of the reason the state made these changes is because revenues from the gasoline excise tax can be used more flexibly than sales tax revenues to pay debt service on transportation bonds.

Figure 2
Current State Fuel Tax Revenues for Transportation Purposes^a

2010–11
(In Millions)

Fuel	Excise Tax	Sales Tax
Gasoline	\$5,100	—
Diesel	470	\$300
Totals	\$5,570	\$300

^aLocal governments also charge taxes on fuels. The figure does not show these local revenues.

PROP 22 PROHIBITS THE STATE FROM BORROWING OR TAKING FUNDS USED FOR TRANSPORTATION, REDEVELOPMENT, OR LOCAL GOVERNMENT PROJECTS AND SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

Current Use of Fuel Tax Revenues. The main uses of state fuel tax revenues are (1) constructing and maintaining highways, streets, and roads and (2) funding transit and intercity rail services. In addition, the state uses some of its fuel tax revenues to pay debt-service costs on voter-approved transportation bonds. In the current year, for example, the state will use about \$850 million of fuel tax revenues to pay debt-service costs on bonds issued to fund highway, road, and transit projects. In future years, this amount is expected to increase to about \$1 billion annually.

Reduces State Authority. The measure reduces state authority to use fuel tax revenues to pay for bonds. Under the measure, the state could not use fuel tax revenues to pay for any bonds that have already been issued. In addition, the state’s authority to use fuel tax revenues to pay for bonds that have not yet been issued would be significantly restricted.

Because of these restrictions, the state would need to pay about \$1 billion of annual bond costs from its General Fund rather than from transportation accounts. (In the current year, the amount would be somewhat less because the state would have paid some of its bond costs using fuel tax revenues by the time of the election.) This, in turn, would (1) increase the amount of funds the state would have available to spend for transportation programs and (2) reduce the amount of General Fund resources the state would have available to spend on non-transportation programs.

Borrowing of Fuel Tax Revenues

Current Authority to Borrow. While state fuel tax revenues generally must be used for transportation purposes, the state may use these funds for other purposes under certain circumstances. Specifically:

- **Borrowing for Cash Flow Purposes.** The state historically has paid out most of its General Fund expenses between July and December of each year, but received most of its revenues between January and June. To help manage this uneven cash flow, the state

often borrows funds from various state accounts, including fuel tax funds, on a temporary basis. The cash flow loans of fuel tax funds often total \$1 billion or more.

- **Borrowing for Budget-Balancing Purposes.** In cases of severe state fiscal hardship, the state may use fuel tax revenues to help address a budgetary problem. The state must pay these funds back within three years. For example, at the time this analysis was prepared, the proposed 2010–11 state budget included a \$650 million loan of state fuel tax revenues to the state General Fund.

Prohibits Borrowing. This measure generally prohibits fuel tax revenues from being loaned—either for cash flow or budget-balancing purposes—to the General Fund or to any other state fund. The state, therefore, would have to take alternative actions to address its short-term borrowing needs. These actions could include borrowing more from private markets, slowing state expenditures to accumulate larger reserves in its accounts, or speeding up the collection of tax revenues. In place of budgetary borrowing, the state would have to take alternative actions to balance future General Fund budgets—such as reducing state spending or increasing state taxes.

Distribution of Fuel Tax Revenues

Current Distribution. Roughly two-thirds of the state’s fuel tax revenues are spent by the state, and the rest is given to cities, counties, and transit districts. Although state law specifies how much money local agencies shall receive, the Legislature may pass a law with a majority vote of each house to change these funding distributions. For example, the state has made various changes to the allocation of transit funding over recent years.

Limits Changes to Distribution. This measure constrains the state’s authority to change the distribution of state fuel tax revenues to local agencies. In the case of fuel excise taxes, the measure requires that the formula to distribute these tax revenues to local governments for the construction or maintenance of local streets and roads be the one that was in effect on

APPENDIX (continued)

PROP 22 PROHIBITS THE STATE FROM BORROWING OR TAKING FUNDS USED FOR TRANSPORTATION, REDEVELOPMENT, OR LOCAL GOVERNMENT PROJECTS AND SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

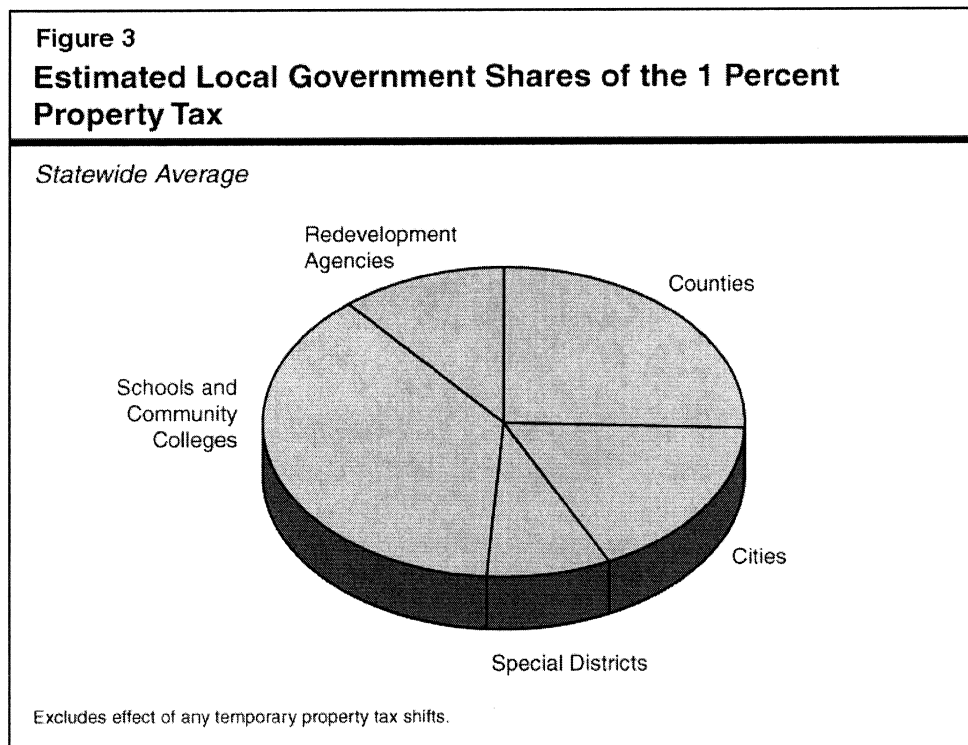
June 30, 2009. (At that time, local governments received the revenues generated from 6 cents of the 18 cents being collected from the fuel excise tax.) Under this measure, the state could enact a law to change this allocation, but only by a two-thirds vote of each house of the Legislature and after the California Transportation Commission conducted a series of public hearings.

In the case of diesel sales tax revenues (used primarily for transit and transportation planning), current law requires that the funds be distributed 25 percent to the state and 75 percent to local governments, beginning in 2011–12. The measure specifies that the funds instead be split equally between local and state programs. This change in diesel sales tax revenue distribution, therefore, would provide somewhat lower ongoing funding for local transit purposes and more funding for state transit purposes than otherwise would be the case. Under the measure, the state could not change this distribution of funds.

Allocation of Property Tax Revenues

Current Property Tax Distribution. California property owners pay a 1 percent tax on the value of their homes and other properties, plus any additional property tax rates for voter-approved debt. State law specifies how county auditors are to distribute these revenues among local governments. Figure 3 shows the average share of property tax revenues local governments receive.

State law allows the state to make some changes to the distribution of property tax revenues. For example, the state may require redevelopment agencies to shift revenues to nearby schools. Recently, the state required redevelopment agencies to shift \$2 billion of revenues to schools over two years. (This amount is roughly 15 percent of total redevelopment revenues.) In addition, during times of severe state fiscal hardship, the state may require that a portion of property tax revenues be temporarily shifted away



PROP 22 PROHIBITS THE STATE FROM BORROWING OR TAKING FUNDS USED FOR TRANSPORTATION, REDEVELOPMENT, OR LOCAL GOVERNMENT PROJECTS AND SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

from cities, counties, and special districts. In this case, however, the state must repay the local agencies for their losses within three years, including interest. Recently, the state required these agencies to shift \$1.9 billion of funds to schools. The major reason the state made these revenue shifts was to reduce state General Fund costs for education and other programs.

Reduces State Authority. This measure prohibits the state from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies. The measure also eliminates the state’s authority to shift property taxes temporarily during a severe state fiscal hardship. Under the measure, therefore, the state would have to take other actions to balance its budget in some years—such as reducing state spending or increasing state taxes.

Use of VLF Revenues

Current VLF. California vehicle owners pay a VLF based on their vehicle’s value at a rate of 1.15 percent, including a 0.65 percent ongoing rate and a 0.50 percent temporary rate. Most VLF revenues are distributed to local governments.

Current Mandate Payments. The state generally must reimburse local governments when it “mandates” that they provide a new program or higher level of service. The state usually provides reimbursements through appropriations in the annual budget act or by providing other offsetting funds.

Restricts Use of VLF Funds. This measure specifies that the state may not reimburse local governments for a mandate by giving them an increased share of VLF revenues collected under the ongoing rate. Under the measure, therefore, the state would have to reimburse local governments using other resources.

State Laws That Are in Conflict With This Proposition

voids Recent Laws. Any law enacted between October 20, 2009, and November 2, 2010, that is in conflict with this proposition would be repealed. Several factors make it difficult to determine the practical effect of this provision.

First, parts of this measure would be subject to future interpretation by the courts. Second, in the spring of 2010, the state made significant changes to its fuel tax laws, and the full effect of this measure on these changes is not certain. Finally, at the time this analysis was prepared (early in the summer of 2010), the state was considering many new laws and funding changes to address its major budget difficulties. As a result, it is not possible to determine the full range of state laws that could be affected or repealed by this measure.

Requires Reimbursement for Future Laws.

Under this measure, if a court ruled that the state violated a provision of Proposition 22, the State Controller would reimburse the affected local governments or accounts within 30 days. Funds for these reimbursements, including interest, would be taken from the state General Fund and would not require legislative approval.

FISCAL EFFECTS

State General Fund

Effect in 2010–11. This measure would (1) shift some debt-service costs to the state General Fund and (2) prohibit the General Fund from borrowing fuel tax revenues. As a result, the measure would reduce resources available for the state to spend on other programs, probably by about \$1 billion in 2010–11. To balance the budget, the state would have to take other actions to raise revenues and/or decrease spending. Overall, the measure’s immediate fiscal effect would equal about 1 percent of total General Fund spending. As noted above, the measure also would repeal laws passed after this analysis was prepared that conflicted with its provisions.

Longer-Term Effect. Limiting the state’s authority to use fuel tax revenues to pay transportation bond costs would increase General Fund costs by about \$1 billion annually for the next couple of decades. In addition, the measure’s constraints on state authority to borrow or redirect property tax and redevelopment revenues could result in increased costs or decreased resources available to the General Fund in some years. The

APPENDIX (continued)

PROP 22 PROHIBITS THE STATE FROM BORROWING OR TAKING FUNDS USED FOR TRANSPORTATION, REDEVELOPMENT, OR LOCAL GOVERNMENT PROJECTS AND SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

total annual fiscal effect from these changes is not possible to determine, but could range from about \$1 billion (in most years) to several billion dollars (in some years).

State and Local Transportation Programs and Local Government

The fiscal effect of the measure on transportation programs and local governments largely would be the *opposite* of its effect on the state's General Fund. Under the measure, the state would use General Fund revenues—instead of fuel tax revenues—to pay for transportation bonds. This would leave more fuel tax revenues available for state and local transportation programs.

In addition, limiting the state's authority to redirect revenues likely would result in increased resources being available for redevelopment and state and local transportation programs. Limiting the state's authority to borrow these revenues likely would also result in more stable revenues being available for local governments and transportation. The magnitude of this fiscal effect is not possible to determine, but could be in the range from about \$1 billion (in most years) to several billions of dollars (in some years).

APPENDIX (continued)

PROP 22 PROHIBITS THE STATE FROM BORROWING OR TAKING FUNDS USED FOR TRANSPORTATION, REDEVELOPMENT, OR LOCAL GOVERNMENT PROJECTS AND SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

★ ARGUMENT IN FAVOR OF PROPOSITION 22 ★

THE PROBLEM—STATE POLITICIANS KEEP TAKING LOCAL GOVERNMENT and TRANSPORTATION FUNDS.

For too long, Sacramento politicians have used loopholes in the law to take billions in taxpayer funds dedicated by the voters to local government and transportation services.

The State Legislature took and borrowed \$5 billion last year and is planning to take billions more this year. State raids have forced deep cuts to vital local services like *9-1-1 emergency response, police, fire, libraries, senior services, road repairs, and public transportation improvements.*

THE SOLUTION—YES on 22 will STOP STATE RAIDS OF LOCAL GOVERNMENT and TRANSPORTATION FUNDS.

YES on 22 will:

1) STOP the State from taking or borrowing local tax dollars dedicated to cities and counties to fund vital local services like 9-1-1 response, police, and fire protection.

2) STOP the State from taking or diverting gas taxes we pay at the pump that voters have dedicated to local road repairs, transportation improvements, and public transportation.

YES on 22—PROTECTS VITAL LOCAL SERVICES, including PUBLIC SAFETY.

“Cities spend more than 60 percent of their general funds on police and fire services. By prohibiting State raids of local funds, Prop. 22 will help maintain law enforcement, 9-1-1 emergency response, and other public safety services.”—Chief Douglas Fry, President, FIRE CHIEFS DEPARTMENT, League of California Cities

YES on 22 will protect vital locally delivered services, including:

- Police and sheriff patrols
- 9-1-1 emergency dispatch
- Paramedic response
- Fire protection
- Senior services
- Youth anti-gang and after school programs
- Neighborhood parks and libraries
- Public transportation, like buses and commuter rail
- Local road safety repairs

YES on 22—ENSURES our GAS TAXES are DEDICATED to TRANSPORTATION.

The gas taxes we pay at the pump should be used to improve road safety, relieve traffic congestion, and to fund mass transit. But state politicians keep diverting our gas taxes for non-transportation purposes. Yes on 22 ensures that gas tax funds are used for transportation improvements as voters intended.

YES on 22—APPLIES ONLY TO EXISTING FUNDING FOR LOCAL GOVERNMENT and TRANSPORTATION SERVICES.

Prop. 22 will NOT increase taxes. And claims that 22 will hurt school funding are just scare tactics by those who want to continue State raids of local funds. Prop. 22 simply ensures that our *existing* local tax dollars and *existing* gas taxes cannot be taken away by the state politicians again.

YES on 22—SUPPORTED by a BROAD COALITION:

- California Fire Chiefs Association
- Peace Officers Research Association of California, representing 60,000 public safety members
- Local paramedics and 9-1-1 dispatch operators
- California Police Chiefs Association
- California Library Association, representing 3,000 librarians across California
- California Transit Association
- League of California Cities
- California Alliance for Jobs
- California Chamber of Commerce
- More than 50 local chambers of commerce
- More than 300 cities and towns

STOP STATE RAIDS OF LOCAL TAXPAYER FUNDS.

VOTE YES on 22!

www.SaveLocalServices.com

DOUGLAS FRY, President
Fire Chiefs Department, League of California Cities

KIM BUI-BURTON, President
California Library Association

SUSAN MANHEIMER, President
California Police Chiefs Association

★ REBUTTAL TO ARGUMENT IN FAVOR OF PROPOSITION 22 ★

THE SOLUTION—NO ON PROP. 22

Are proponents of Prop. 22—local government bureaucrats, developers and redevelopment agencies who create endless schemes to fill their coffers—really blind to California’s budget crisis?

Why else would they ask voters to pass an initiative where public schools stand to lose over one billion dollars next year, and billions more over the next decade, while handing billions in tax dollars to developers?

Then, Prop. 22 takes money firefighters across California use to fight fires and natural disasters.

And, Prop. 22 makes funding for affordable healthcare for children more difficult.

The Silicon Valley Taxpayers Association strongly urges a NO vote on 22.

The Fullerton Association of Concerned Taxpayers says NO.

They believe special protections for redevelopment agencies in Prop. 22 are a terrible idea. It would allow more sweetheart deals with for-profit developers.

It’s a bad idea to amend California’s Constitution to reduce funding available for public education and shrink budgets for fire protection, public safety and healthcare, while protecting tax giveaways for local developers. California’s Constitution isn’t the place for local power grabs. Especially with no accountability!

“Prop. 22 locks in protections for redevelopment agencies that take over 10% of all property taxes and use them to enter into billions of dollars of long-term debt without voter approval.”—Lew Uhler, President, National Taxpayer Limitation Committee

Your tax dollars should go first to public schools, public safety and healthcare. And go LAST to local bureaucrats, developers and redevelopment agencies that support Proposition 22.

DAVID A. SANCHEZ, President
California Teachers Association

KEN HAMBRICK, Chair
Alliance of Contra Costa Taxpayers

LEW STONE, President
Burbank Firefighters

APPENDIX (continued)

PROP 22 PROHIBITS THE STATE FROM BORROWING OR TAKING FUNDS USED FOR TRANSPORTATION, REDEVELOPMENT, OR LOCAL GOVERNMENT PROJECTS AND SERVICES. INITIATIVE CONSTITUTIONAL AMENDMENT.

★ ARGUMENT AGAINST PROPOSITION 22 ★

Proposition 22 is another one of those propositions that sounds good, but is filled with hidden provisions that hurt taxpayers. Look at what it really does.

If Proposition 22 passes our schools stand to lose over \$1 billion immediately and an additional \$400 million every year after that. That is the equivalent of 5,700 teachers every year. It means larger class sizes. Overcrowded schools. Cuts in academics, music, art, vocational training, and classroom safety.

At a time when our public schools are already suffering from crippling budget cuts, Proposition 22 would devastate them. That's why the California Teachers Association, joined by school principals and parents across the state, say strongly: Vote NO on Proposition 22.

If that isn't bad enough, Proposition 22 also takes money that firefighters across the state need. The California Professional Firefighters opposes Proposition 22 because it will leave us all in greater danger from fires, earthquakes, floods, and other natural disasters. It also means cuts in emergency medical services, forcing longer response times if your family needs a paramedic—or perhaps no paramedic at all in a major emergency.

Proposition 22 will reduce funding available for health care at a time when our safety net for children is already collapsing. Tens of thousands of children in California are at risk of losing their health insurance and access to affordable health care if Proposition 22 passes.

Finally, Proposition 22 has another hidden provision—it locks protections for redevelopment agencies into the State Constitution forever. These agencies have the power to take your property away with eminent domain. They skim off billions in local property taxes, with much of that money ending up in the hands of local developers. And they do so with no direct voter oversight.

Supporters of Proposition 22 claim this will somehow help public services. We disagree. Your tax dollars should go first to schools, public safety, and health care. They should go LAST to the developers and the redevelopment agencies that support this proposal.

In 2004, voters approved Proposition 1A which allows local funds to be borrowed in times of real fiscal crisis, but requires full repayment within 3 years. Proposition 22 will reverse what Californians wisely approved in 2004, leaving schools, children's health care, seniors, the blind and disabled with even less hope.

Riverside City Firefighter Timothy Strack says, "Proposition 22 won't put one more firefighter on an engine or one more paramedic in an ambulance. It simply props open the door for redevelopment agencies to take away our public safety funding."

We all know that ballot propositions often don't do what they promise, and too often make things worse. Proposition 22 is the perfect example. During the current budget crisis we face throughout our state, why would locking in more budgeting be a smart thing? With virtually no accountability and no taxpayer protections? To benefit redevelopment agencies and the developers they serve?

Protect our schools. Our public safety. Our children's health care. Vote NO on Proposition 22.

LOU PAULSON, President
California Professional Firefighters
MALINDA MARKOWITZ, RN, Co-President
California Nurses Association
DONNA DREITH, Third Grade Teacher
Riverdale Joint Unified School District

★ REBUTTAL TO ARGUMENT AGAINST PROPOSITION 22 ★

In the past, the roles of California's local and state governments were balanced. But that balance has been destroyed.

Year after year, State Politicians abuse loopholes in the law to take away local taxpayer dollars now dedicated to local services.

The politicians redirect that local money to the State General Fund, where they spend it as they please.

State government keeps taking more and more, while our city and county services have been cut to the bone.

We have to close the loopholes and stop State raids of our local taxpayer funds.

READ 22 FOR YOURSELF:

- Yes on 22 stops State Politicians from taking funds used for local government services like emergency 9-1-1 response, police, fire, libraries, parks and senior services.
- Yes on 22 stops State Politicians from taking gas taxes that voters have dedicated to transportation improvements.

DON'T BE MISLED BY OPPONENTS' SCARE TACTICS.

Those opposed to 22 want State Politicians to be able to continue to take our local tax dollars. It's that simple.

FACT: 22 protects only *existing* local revenues and does not reduce the amount schools are guaranteed by the State Constitution. *Not even by one dime.*

FACT: The Peace Officers Research Association of California, representing 60,000 law enforcement personnel, the California Fire Chiefs, Fire Districts Association of California and the California Police Chiefs *support* 22 because it protects more than \$16 billion annually for local firefighting, law enforcement and 9-1-1 emergency response.

STOP State Politicians from Raiding Local Funds.

Vote YES on 22.

www.SaveLocalServices.com

DOUGLAS FRY, President
Fire Chiefs Department, League of California Cities
RON COTTINGHAM, President
Peace Officers Research Association of California
JANE LIGHT, Librarian
San Jose Public Library

management practices and providing continuity of funding for urban river parkways when allocating grant funds pursuant to this section. The department shall give highest priority for grants to urban river parkways that benefit the most underserved communities.

5088.2. The department shall provide grants to local agencies operating units of the state park system to assist in the operation and maintenance of those units. The department shall first grant available funds to local agencies operating units of the state park system that, prior to the implementation of this chapter, charged entry or parking fees on vehicles, and shall allocate any remaining funds, on a prorated basis, to local agencies to assist in the operation and maintenance of state park units managed by local agencies, based on the average annual operating expenses of those units over the three previous years, as certified by the chief financial officer of that local agency. Of the funds provided in subdivision (a) of Section 5088, an amount equal to 5 percent of the amount deposited in the fund shall be available for appropriation for the purposes of this section. The department shall develop guidelines for the implementation of this section.

5089. For the purposes of this chapter, eligible expenditures for wildlife conservation include direct expenditures and grants for operation, management, development, restoration, maintenance, law enforcement and public safety, interpretation, costs to provide appropriate public access, and other costs necessary for the protection and management of natural resources and wildlife, including scientific monitoring and analysis required for adaptive management.

5090. Funds provided pursuant to this chapter, and any appropriation or transfer of those funds, shall not be deemed to be a transfer of funds for the purposes of Chapter 9 (commencing with Section 2780) of Division 3 of the Fish and Game Code.

SEC. 2. Section 10751.5 is added to the Revenue and Taxation Code, to read:

10751.5. (a) Except as provided in subdivision (b), in addition to the license fee imposed pursuant to Section 10751, for licenses and renewals on or after January 1, 2011, there shall also be imposed an annual surcharge, to be called the State Parks Access Pass, in the amount of eighteen dollars (\$18) on each vehicle subject to the license fee imposed by that section. All revenues from the surcharge shall be deposited into the State Parks and Wildlife Conservation Trust Fund pursuant to subdivision (a) of Section 5081 of the Public Resources Code.

(b) The surcharge established in subdivision (a) shall not apply to the following vehicles:

- (1) Vehicles subject to the Commercial Vehicle Registration Act (Section 4000.6 of the Vehicle Code).
- (2) Trailers subject to Section 5014.1 of the Vehicle Code.
- (3) Trailer coaches as defined by Section 635 of the Vehicle Code.

PROPOSITION 22

This initiative measure is submitted to the people of California in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure amends, amends and renumbers, repeals, and adds sections to the California Constitution; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

Section 1. Title.

This act shall be known and may be cited as the “Local Taxpayer, Public Safety, and Transportation Protection Act of 2010.”

Section 2. Findings and Declarations.

The people of the State of California find and declare that:

(a) In order to maintain local control over local taxpayer funds and protect vital services like local fire protection and 9-1-1 emergency response, law enforcement, emergency room care, public transit, and transportation improvements, California voters have repeatedly and overwhelmingly voted to restrict state politicians in Sacramento from taking revenues dedicated to funding local government services and dedicated to funding transportation improvement projects and services.

(b) By taking these actions, voters have acknowledged the critical importance of preventing State raids of revenues dedicated to funding vital local government services and transportation improvement projects and services.

(c) Despite the fact that voters have repeatedly passed measures to prevent the State from taking these revenues dedicated to funding local government services and transportation improvement projects and services, state politicians in Sacramento have seized and borrowed billions of dollars in local government and transportation funds.

(d) In recent years, state politicians in Sacramento have specifically:

(1) Borrowed billions of dollars in local property tax revenues that would otherwise be used to fund local police, fire and paramedic response, and other vital local services;

(2) Sought to take and borrow billions of dollars in gas tax revenues that voters have dedicated to on-going transportation projects and tried to use them for non-transportation purposes;

(3) Taken local community redevelopment funds on numerous occasions and used them for unrelated purposes;

(4) Taken billions of dollars from local public transit like bus, shuttle, light-rail, and regional commuter rail, and used these funds for unrelated state purposes.

(e) The continued raiding and borrowing of revenues dedicated to funding local government services and dedicated to funding transportation improvement projects can cause severe consequences, such as layoffs of police, fire and paramedic first responders, fire station closures, healthcare cutbacks, delays in road safety improvements, public transit fare increases, and cutbacks in public transit services.

(f) State politicians in Sacramento have continued to ignore the will of the voters, and current law provides no penalties when state politicians take or borrow these dedicated funds.

(g) It is hereby resolved, that with approval of this ballot initiative, state politicians in Sacramento shall be prohibited from seizing, diverting, shifting, borrowing, transferring, suspending, or otherwise taking or interfering with tax revenues dedicated to

funding local government services or dedicated to transportation improvement projects and services.

Section 2.5. Statement of Purpose.

The purpose of this measure is to conclusively and completely prohibit state politicians in Sacramento from seizing, diverting, shifting, borrowing, transferring, suspending, or otherwise taking or interfering with revenues that are dedicated to funding services provided by local government or funds dedicated to transportation improvement projects and services.

Section 3. Section 24 of Article XIII of the California Constitution is amended to read:

(a) The Legislature may not impose taxes for local purposes but may authorize local governments to impose them.

(b) *The Legislature may not reallocate, transfer, borrow, appropriate, restrict the use of, or otherwise use the proceeds of any tax imposed or levied by a local government solely for the local government's purposes.*

(c) Money appropriated from state funds to a local government for its local purposes may be used as provided by law.

(d) Money subvended to a local government under Section 25 may be used for state or local purposes.

Section 4. Section 25.5 of Article XIII of the California Constitution is amended to read:

SEC. 25.5. (a) On or after November 3, 2004, the Legislature shall not enact a statute to do any of the following:

(1) (A) Except as otherwise provided in subparagraph (B), modify the manner in which ad valorem property tax revenues are allocated in accordance with subdivision (a) of Section 1 of Article XIII A so as to reduce for any fiscal year the percentage of the total amount of ad valorem property tax revenues in a county that is allocated among all of the local agencies in that county below the percentage of the total amount of those revenues that would be allocated among those agencies for the same fiscal year under the statutes in effect on November 3, 2004. For purposes of this subparagraph, "percentage" does not include any property tax revenues referenced in paragraph (2).

(B) ~~Beginning with the 2008-09~~ *In the 2009-10 fiscal year only*, and except as otherwise provided in subparagraph (C), subparagraph (A) may be suspended for a *that* fiscal year if all of the following conditions are met:

(i) The Governor issues a proclamation that declares that, due to a severe state fiscal hardship, the suspension of subparagraph (A) is necessary.

(ii) The Legislature enacts an urgency statute, pursuant to a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring, that contains a suspension of subparagraph (A) for that fiscal year and does not contain any other provision.

(iii) No later than the effective date of the statute described in clause (ii), a statute is enacted that provides for the full repayment to local agencies of the total amount of revenue losses, including interest as provided by law, resulting from the modification of ad valorem property tax revenue allocations to local agencies. This full repayment shall be made not later than the end of the third fiscal year immediately following the fiscal year to which the modification applies.

~~(C) (i) Subparagraph (A) shall not be suspended for more than two fiscal years during any period of 10 consecutive fiscal years; which period begins with the first fiscal year for which subparagraph (A) is suspended.~~

~~(ii) Subparagraph (A) shall not be suspended during any fiscal year if the full repayment required by a statute enacted in~~

accordance with clause (iii) of subparagraph (B) has not yet been completed.

~~(iii) Subparagraph (A) shall not be suspended during any fiscal year if the amount that was required to be paid to cities, counties, and cities and counties under Section 10754.11 of the Revenue and Taxation Code, as that section read on November 3, 2004, has not been paid in full prior to the effective date of the statute providing for that suspension as described in clause (ii) of subparagraph (B).~~

~~(iv) (C) A suspension of subparagraph (A) shall not result in a total ad valorem property tax revenue loss to all local agencies within a county that exceeds 8 percent of the total amount of ad valorem property tax revenues that were allocated among all local agencies within that county for the fiscal year immediately preceding the fiscal year for which subparagraph (A) is suspended.~~

(2) (A) Except as otherwise provided in subparagraphs (B) and (C), restrict the authority of a city, county, or city and county to impose a tax rate under, or change the method of distributing revenues derived under, the Bradley-Burns Uniform Local Sales and Use Tax Law set forth in Part 1.5 (commencing with Section 7200) of Division 2 of the Revenue and Taxation Code, as that law read on November 3, 2004. The restriction imposed by this subparagraph also applies to the entitlement of a city, county, or city and county to the change in tax rate resulting from the end of the revenue exchange period, as defined in Section 7203.1 of the Revenue and Taxation Code as that section read on November 3, 2004.

(B) The Legislature may change by statute the method of distributing the revenues derived under a use tax imposed pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law to allow the State to participate in an interstate compact or to comply with federal law.

(C) The Legislature may authorize by statute two or more specifically identified local agencies within a county, with the approval of the governing body of each of those agencies, to enter into a contract to exchange allocations of ad valorem property tax revenues for revenues derived from a tax rate imposed under the Bradley-Burns Uniform Local Sales and Use Tax Law. The exchange under this subparagraph of revenues derived from a tax rate imposed under that law shall not require voter approval for the continued imposition of any portion of an existing tax rate from which those revenues are derived.

(3) Except as otherwise provided in subparagraph (C) of paragraph (2), change for any fiscal year the pro rata shares in which ad valorem property tax revenues are allocated among local agencies in a county other than pursuant to a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring. *The Legislature shall not change the pro rata shares of ad valorem property tax pursuant to this paragraph, nor change the allocation of the revenues described in Section 15 of Article XI, to reimburse a local government when the Legislature or any state agency mandates a new program or higher level of service on that local government.*

(4) Extend beyond the revenue exchange period, as defined in Section 7203.1 of the Revenue and Taxation Code as that section read on November 3, 2004, the suspension of the authority, set forth in that section on that date, of a city, county, or city and county to impose a sales and use tax rate under the Bradley-Burns Uniform Local Sales and Use Tax Law.

(5) Reduce, during any period in which the rate authority suspension described in paragraph (4) is operative, the payments to a city, county, or city and county that are required

TEXT OF PROPOSED LAWS

by Section 97.68 of the Revenue and Taxation Code, as that section read on November 3, 2004.

(6) Restrict the authority of a local entity to impose a transactions and use tax rate in accordance with the Transactions and Use Tax Law (Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code), or change the method for distributing revenues derived under a transaction and use tax rate imposed under that law, as it read on November 3, 2004.

(7) *Require a community redevelopment agency (A) to pay, remit, loan, or otherwise transfer, directly or indirectly, taxes on ad valorem real property and tangible personal property allocated to the agency pursuant to Section 16 of Article XVI to or for the benefit of the State, any agency of the State, or any jurisdiction; or (B) to use, restrict, or assign a particular purpose for such taxes for the benefit of the State, any agency of the State, or any jurisdiction, other than (i) for making payments to affected taxing agencies pursuant to Sections 33607.5 and 33607.7 of the Health and Safety Code or similar statutes requiring such payments, as those statutes read on January 1, 2008, or (ii) for the purpose of increasing, improving, and preserving the supply of low and moderate income housing available at affordable housing cost.*

(b) For purposes of this section, the following definitions apply:

(1) "Ad valorem property tax revenues" means all revenues derived from the tax collected by a county under subdivision (a) of Section 1 of Article XIII A, regardless of any of this revenue being otherwise classified by statute.

(2) "Local agency" has the same meaning as specified in Section 95 of the Revenue and Taxation Code as that section read on November 3, 2004.

(3) "Jurisdiction" has the same meaning as specified in Section 95 of the Revenue and Taxation Code as that section read on November 3, 2004.

Section 5. Section 1 is added to Article XIX of the California Constitution, to read:

SECTION 1. The Legislature shall not borrow revenue from the Highway Users Tax Account, or its successor, and shall not use these revenues for purposes, or in ways, other than those specifically permitted by this article.

Section 5.1. Section 1 of Article XIX of the California Constitution is amended and renumbered to read:

~~SECTION 1.~~ *SEC. 2.* Revenues from taxes imposed by the State on motor vehicle fuels for use in motor vehicles upon public streets and highways, over and above the costs of collection and any refunds authorized by law, shall be deposited into the Highway Users Tax Account (Section 2100 of the Streets and Highways Code) or its successor, which is hereby declared to be a trust fund, and shall be allocated monthly in accordance with Section 4, and shall be used solely for the following purposes:

(a) The research, planning, construction, improvement, maintenance, and operation of public streets and highways (and their related public facilities for nonmotorized traffic), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, and the administrative costs necessarily incurred in the foregoing purposes.

(b) The research, planning, construction, and improvement of exclusive public mass transit guideways (and their related fixed facilities), including the mitigation of their environmental effects, the payment for property taken or damaged for such purposes, the administrative costs necessarily incurred in the foregoing purposes, and the maintenance of the structures and the immediate right-of-way for the public mass transit guideways, but excluding the maintenance and operating costs for mass transit power

systems and mass transit passenger facilities, vehicles, equipment, and services.

Section 5.2. Section 2 of Article XIX of the California Constitution is amended and renumbered to read:

~~SEC. 2.~~ *SEC. 3.* Revenues from fees and taxes imposed by the State upon vehicles or their use or operation, over and above the costs of collection and any refunds authorized by law, shall be used for the following purposes:

(a) The state administration and enforcement of laws regulating the use, operation, or registration of vehicles used upon the public streets and highways of this State, including the enforcement of traffic and vehicle laws by state agencies and the mitigation of the environmental effects of motor vehicle operation due to air and sound emissions.

(b) The purposes specified in Section 4 of this article.

Section 5.3. Section 3 of Article XIX of the California Constitution is amended and renumbered to read:

~~SEC. 3.~~ *SEC. 4.* (a) ~~Except as provided in subdivision (b), the Legislature shall provide for the allocation of the revenues to be used for the purposes specified in Section 1 of this article in a manner which ensures the continuance of existing statutory allocation formulas in effect on June 30, 2009, which allocate the revenues described in Section 2 to for cities, counties, and areas of the State; shall remain in effect.~~

(b) *The Legislature shall not modify the statutory allocations in effect on June 30, 2009, unless and until both of the following have occurred:*

(1) *The Legislature determines in accordance with this subdivision that another basis for an equitable, geographical, and jurisdictional distribution exists; provided that, until such determination is made, any use of such revenues for purposes specified in subdivision (b) of Section 1 of this article by or in a city, county, or area of the State shall be included within the existing statutory allocations to, or for expenditure in, that city, county, or area.* Any future statutory revisions shall (A) provide for the allocation of these revenues, together with other similar revenues, in a manner which gives equal consideration to the transportation needs of all areas of the State and all segments of the population; and (B) be consistent with the orderly achievement of the adopted local, regional, and statewide goals for ground transportation in local general plans, regional transportation plans, and the California Transportation Plan;

(2) *The process described in subdivision (c) has been completed.*

(c) *The Legislature shall not modify the statutory allocation pursuant to subdivision (b) until all of the following have occurred:*

(1) *The California Transportation Commission has held no less than four public hearings in different parts of the State to receive public input about the local and regional goals for ground transportation in that part of the State;*

(2) *The California Transportation Commission has published a report describing the input received at the public hearings and how the modification to the statutory allocation is consistent with the orderly achievement of local, regional, and statewide goals for ground transportation in local general plans, regional transportation plans, and the California Transportation Plan; and*

(3) *Ninety days have passed since the publication of the report by the California Transportation Commission.*

(d) *A statute enacted by the Legislature modifying the statutory allocations must be by a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring, provided that the bill does not contain any other unrelated provision.*

TEXT OF PROPOSED LAWS

(e) The revenues allocated by statute to cities, counties, and areas of the State pursuant to this article may be used solely by the entity to which they are allocated, and solely for the purposes described in Sections 2, 5, or 6 of this article.

(f) The Legislature may not take any action which permanently or temporarily does any of the following: (1) changes the status of the Highway Users Tax Account as a trust fund; (2) borrows, diverts, or appropriates these revenues for purposes other than those described in subdivision (e); or (3) delays, defers, suspends, or otherwise interrupts the payment, allocation, distribution, disbursement, or transfer of revenues from taxes described in Section 2 to cities, counties, and areas of the State pursuant to the procedures in effect on June 30, 2009.

Section 5.4. Section 4 of Article XIX of the California Constitution is amended and renumbered to read:

~~SEC. 4.~~ *SEC. 5.* Revenues allocated pursuant to Section 3 4 may not be expended for the purposes specified in subdivision (b) of Section 2, except for research and planning, until such use is approved by a majority of the votes cast on the proposition authorizing such use of such revenues in an election held throughout the county or counties, or a specified area of a county or counties, within which the revenues are to be expended. The Legislature may authorize the revenues approved for allocation or expenditure under this section to be pledged or used for the payment of principal and interest on voter-approved bonds issued for the purposes specified in subdivision (b) of Section 2.

Section 5.5. Section 5 of Article XIX of the California Constitution is amended and renumbered to read:

~~SEC. 5.~~ *SEC. 6.* (a) ~~The Legislature may authorize up to 25 percent of the revenues available for expenditure by any city or county, or by the State, allocated to the State pursuant to Section 4 for the purposes specified in subdivision (a) of Section 2 of this article to~~ may be pledged or used *by the State, upon approval by the voters and appropriation by the Legislature,* for the payment of principal and interest on voter-approved bonds *for such purposes issued by the State on and after November 2, 2010 for such purposes.*

(b) Up to 25 percent of the revenues allocated to any city or county pursuant to Section 4 for the purposes specified in subdivision (a) of Section 2 of this article may be pledged or used only by any city or county for the payment of principal and interest on voter-approved bonds issued by that city or county for such purposes.

Section 5.6. Section 6 of Article XIX of the California Constitution is repealed.

~~SEC. 6.~~ The tax revenues designated under this article may be loaned to the General Fund only if one of the following conditions is imposed:

~~(a) That any amount loaned is to be repaid in full to the fund from which it was borrowed during the same fiscal year in which the loan was made, except that repayment may be delayed until a date not more than 30 days after the date of enactment of the budget bill for the subsequent fiscal year.~~

~~(b) That any amount loaned is to be repaid in full to the fund from which it was borrowed within three fiscal years from the date on which the loan was made and one of the following has occurred:~~

~~(1) The Governor has proclaimed a state of emergency and declares that the emergency will result in a significant negative fiscal impact to the General Fund.~~

~~(2) The aggregate amount of General Fund revenues for the current fiscal year, as projected by the Governor in a report to the Legislature in May of the current fiscal year, is less than the~~

aggregate amount of General Fund revenues for the previous fiscal year, adjusted for the change in the cost of living and the change in population, as specified in the budget submitted by the Governor pursuant to Section 12 of Article IV in the current fiscal year.

~~(c) Nothing in this section prohibits the Legislature from authorizing, by statute, loans to local transportation agencies, cities, counties, or cities and counties, from funds that are subject to this article, for the purposes authorized under this article. Any loan authorized as described by this subdivision shall be repaid, with interest at the rate paid on money in the Pooled Money Investment Account, or any successor to that account, during the period of time that the money is loaned, to the fund from which it was borrowed, not later than four years after the date on which the loan was made.~~

Section 5.7. Section 7 is added to Article XIX of the California Constitution, to read:

SEC. 7. If the Legislature reduces or repeals the taxes described in Section 2 and adopts an alternative source of revenue to replace the moneys derived from those taxes, the replacement revenue shall be deposited into the Highway Users Tax Account, dedicated to the purposes listed in Section 2, and allocated to cities, counties, and areas of the State pursuant to Section 4. All other provisions of this article shall apply to any revenues adopted by the Legislature to replace the moneys derived from the taxes described in Section 2.

Section 5.8. Section 7 of Article XIX of the California Constitution is amended and renumbered to read:

~~SEC. 7.~~ *SEC. 8.* This article shall not affect or apply to fees or taxes imposed pursuant to the Sales and Use Tax Law or the Vehicle License Fee Law, and all amendments and additions now or hereafter made to such statutes.

Section 5.9. Section 8 of Article XIX of the California Constitution is amended and renumbered to read:

~~SEC. 8.~~ *SEC. 9.* Notwithstanding Sections 1 and 2 and 3 of this article, any real property acquired by the expenditure of the designated tax revenues by an entity other than the State for the purposes authorized in those sections, but no longer required for such purposes, may be used for local public park and recreational purposes.

Section 5.10. Section 9 of Article XIX of the California Constitution is amended and renumbered to read:

~~SEC. 9.~~ *SEC. 10.* Notwithstanding any other provision of this Constitution, the Legislature, by statute, with respect to surplus state property acquired by the expenditure of tax revenues designated in Sections 1 and 2 and 3 and located in the coastal zone, may authorize the transfer of such property, for a consideration at least equal to the acquisition cost paid by the state *State* to acquire the property, to the Department of Parks and Recreation for state park purposes, or to the Department of Fish and Game for the protection and preservation of fish and wildlife habitat, or to the Wildlife Conservation Board for purposes of the Wildlife Conservation Law of 1947, or to the State Coastal Conservancy for the preservation of agricultural lands.

As used in this section, "coastal zone" means "coastal zone" as defined by Section 30103 of the Public Resources Code as such zone is described on January 1, 1977.

Section 6. Section 1 of Article XIX A of the California Constitution is amended to read:

SECTION 1. (a) *The Legislature shall not borrow revenues from the Public Transportation Account, or any successor account, and shall not use these revenues for purposes, or in ways, other than those specifically permitted by this article.*

TEXT OF PROPOSED LAWS

(b) The funds in the Public Transportation Account in the State Transportation Fund, or any successor to that account, is a trust fund. The Legislature may not change the status of the Public Transportation Account as a trust fund. Funds in the Public Transportation Account may not be loaned or otherwise transferred to the General Fund or any other fund or account in the State Treasury. ~~may be loaned to the General Fund only if one of the following conditions is imposed:~~

(c) All revenues specified in paragraphs (1) through (3), inclusive, of subdivision (a) of Section 7102 of the Revenue and Taxation Code, as that section read on June 1, 2001, shall be deposited no less than quarterly into the Public Transportation Account (Section 99310 of the Public Utilities Code), or its successor. The Legislature may not take any action which temporarily or permanently diverts or appropriates these revenues for purposes other than those described in subdivision (d), or delays, defers, suspends, or otherwise interrupts the quarterly deposit of these funds into the Public Transportation Account.

(d) Funds in the Public Transportation Account may only be used for transportation planning and mass transportation purposes. The revenues described in subdivision (c) are hereby continuously appropriated to the Controller without regard to fiscal years for allocation as follows:

(1) Fifty percent pursuant to subdivisions (a) through (f), inclusive, of Section 99315 of the Public Utilities Code, as that section read on July 30, 2009.

(2) Twenty-five percent pursuant to subdivision (b) of Section 99312 of the Public Utilities Code, as that section read on July 30, 2009.

(3) Twenty-five percent pursuant to subdivision (c) of Section 99312 of the Public Utilities Code, as that section read on July 30, 2009.

(a) ~~That any amount loaned is to be repaid in full to the account during the same fiscal year in which the loan was made, except that repayment may be delayed until a date not more than 30 days after the date of enactment of the budget bill for the subsequent fiscal year:~~

(b) ~~That any amount loaned is to be repaid in full to the account within three fiscal years from the date on which the loan was made and one of the following has occurred:~~

(1) ~~The Governor has proclaimed a state of emergency and declares that the emergency will result in a significant negative fiscal impact to the General Fund:~~

(2) ~~The aggregate amount of General Fund revenues for the current fiscal year, as projected by the Governor in a report to the Legislature in May of the current fiscal year, is less than the aggregate amount of General Fund revenues for the previous fiscal year, as specified in the budget submitted by the Governor pursuant to Section 12 of Article IV in the current fiscal year.~~

(e) For purposes of paragraph (1) of subdivision (d), "transportation planning" means only the purposes described in subdivisions (c) through (f), inclusive, of Section 99315 of the Public Utilities Code, as that section read on July 30, 2009.

(f) For purposes of this article, "mass transportation," "public transit," and "mass transit" have the same meaning as "public transportation." "Public transportation" means:

(1) (A) Surface transportation service provided to the general public, complementary paratransit service provided to persons with disabilities as required by 42 U.S.C. 12143, or similar transportation provided to people with disabilities or the elderly; (B) operated by bus, rail, ferry, or other conveyance on a fixed route, demand response, or otherwise regularly available basis;

(C) generally for which a fare is charged; and (D) provided by any transit district, included transit district, municipal operator, included municipal operator, eligible municipal operator, or transit development board, as those terms were defined in Article 1 of Chapter 4 of Part 11 of Division 10 of the Public Utilities Code on January 1, 2009, a joint powers authority formed to provide mass transportation services, an agency described in subdivision (f) of Section 15975 of the Government Code, as that section read on January 1, 2009, any recipient of funds under Sections 99260, 99260.7, 99275, or subdivision (c) of Section 99400 of the Public Utilities Code, as those sections read on January 1, 2009, or a consolidated agency as defined in Section 132353.1 of the Public Utilities Code, as that section read on January 1, 2009.

(2) Surface transportation service provided by the Department of Transportation pursuant to subdivision (a) of Section 99315 of the Public Utilities Code, as that section read on July 30, 2009.

(3) Public transit capital improvement projects, including those identified in subdivision (b) of Section 99315 of the Public Utilities Code, as that section read on July 30, 2009.

Section 6.1. Section 2 of Article XIX A of the California Constitution is amended to read:

SEC. 2. (a) As used in this section, a "local transportation fund" is a fund created under Section 29530 of the Government Code, or any successor to that statute.

(b) All local transportation funds are hereby designated trust funds. *The Legislature may not change the status of local transportation funds as trust funds.*

(c) A local transportation fund that has been created pursuant to law may not be abolished.

(d) Money in a local transportation fund shall be allocated only by the local government that created the fund, and only for the purposes authorized under Article 11 (commencing with Section 29530) of Chapter 2 of Division 3 of Title 3 of the Government Code and Chapter 4 (commencing with Section 99200) of Part 11 of Division 10 of the Public Utilities Code, as those provisions existed on October 1, 1997. Neither the county nor the Legislature may authorize the expenditure of money in a local transportation fund for purposes other than those specified in this subdivision.

(e) This section constitutes the sole method of allocating, distributing, and using the revenues in a local transportation fund. The purposes described in subdivision (d) are the sole purposes for which the revenues in a local transportation fund may be used. The Legislature may not enact a statute or take any other action which, permanently or temporarily, does any of the following:

(1) Transfers, diverts, or appropriates the revenues in a local transportation fund for any other purpose than those described in subdivision (d);

(2) Authorizes the expenditures of the revenue in a local transportation fund for any other purpose than those described in subdivision (d);

(3) Borrows or loans the revenues in a local transportation fund, regardless of whether these revenues remain in the Retail Sales Tax Fund in the State Treasury or are transferred to another fund or account.

(f) The percentage of the tax imposed pursuant to Section 7202 of the Revenue and Taxation Code allocated to local transportation funds shall not be reduced below the percentage that was transmitted to such funds during the 2008 calendar year. Revenues allocated to local transportation funds shall be transmitted in accordance with Section 7204 of the Revenue and Taxation Code and deposited into local transportation funds in accordance with Section 29530 of the Government Code, as those sections read on June 30, 2009.

TEXT OF PROPOSED LAWS

Section 7.0. Section 1 is added to Article XIX B of the California Constitution, to read:

SECTION 1. The Legislature shall not borrow revenues from the Transportation Investment Fund, or its successor, and shall not use these revenues for purposes, or in ways, other than those specifically permitted by this article.

Section 7.1. Section 1 of Article XIX B of the California Constitution is amended and renumbered to read:

~~SECTION 1. SEC. 2.~~ (a) For the 2003–04 fiscal year and each fiscal year thereafter, all ~~moneys revenues~~ that are collected during the fiscal year from taxes under the Sales and Use Tax Law (Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code), or any successor to that law, upon the sale, storage, use, or other consumption in this State of motor vehicle fuel, *as defined for purposes of the Motor Vehicle Fuel License Tax Law (Part 2 (commencing with Section 7301) of Division 2 of the Revenue and Taxation Code), and that are deposited in the General Fund of the State pursuant to that law; shall be transferred to deposited into the Transportation Investment Fund or its successor, which is hereby created in the State Treasury and which is hereby declared to be a trust fund. The Legislature may not change the status of the Transportation Investment Fund as a trust fund.*

(b) (1) For the 2003–04 to 2007–08 fiscal years, inclusive, moneys in the Transportation Investment Fund shall be allocated, upon appropriation by the Legislature, in accordance with Section 7104 of the Revenue and Taxation Code as that section read on March 6, 2002.

(2) For the 2008–09 fiscal year and each fiscal year thereafter, moneys in the Transportation Investment Fund shall be allocated solely for the following purposes:

(A) Public transit and mass transportation. *Moneys appropriated for public transit and mass transportation shall be allocated as follows: (i) Twenty-five percent pursuant to subdivision (b) of Section 99312 of the Public Utilities Code, as that section read on July 30, 2009; (ii) Twenty-five percent pursuant to subdivision (c) of Section 99312 of the Public Utilities Code, as that section read on July 30, 2009; and (iii) Fifty percent for the purposes of subdivisions (a) and (b) of Section 99315 of the Public Utilities Code, as that section read on July 30, 2009.*

(B) Transportation capital improvement projects, subject to the laws governing the State Transportation Improvement Program, or any successor to that program.

(C) Street and highway maintenance, rehabilitation, reconstruction, or storm damage repair conducted by cities, including a city and county.

(D) Street and highway maintenance, rehabilitation, reconstruction, or storm damage repair conducted by counties, including a city and county.

(c) For the 2008–09 fiscal year and each fiscal year thereafter, moneys in the Transportation Investment Fund *are hereby continuously appropriated to the Controller without regard to fiscal years, which shall be allocated, upon appropriation by the Legislature, as follows:*

(A) Twenty percent of the moneys for the purposes set forth in subparagraph (A) of paragraph (2) of subdivision (b).

(B) Forty percent of the moneys for the purposes set forth in subparagraph (B) of paragraph (2) of subdivision (b).

(C) Twenty percent of the moneys for the purposes set forth in subparagraph (C) of paragraph (2) of subdivision (b).

(D) Twenty percent of the moneys for the purposes set forth in subparagraph (D) of paragraph (2) of subdivision (b).

~~(d) (1) Except as otherwise provided by paragraph (2), the transfer of revenues from the General Fund of the State to the Transportation Investment Fund pursuant to subdivision (a) may be suspended, in whole or in part, for a fiscal year if all of the following conditions are met:~~

~~(A) The Governor issues a proclamation that declares that, due to a severe state fiscal hardship, the suspension of the transfer of revenues required by subdivision (a) is necessary.~~

~~(B) The Legislature enacts by statute, pursuant to a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring, a suspension for that fiscal year of the transfer of revenues required by subdivision (a) and the bill does not contain any other unrelated provision.~~

~~(C) No later than the effective date of the statute described in subparagraph (B), a separate statute is enacted that provides for the full repayment to the Transportation Investment Fund of the total amount of revenue that was not transferred to that fund as a result of the suspension, including interest as provided by law. This full repayment shall be made not later than the end of the third fiscal year immediately following the fiscal year to which the suspension applies.~~

~~(2) (A) The transfer required by subdivision (a) shall not be suspended for more than two fiscal years during any period of 10 consecutive fiscal years, which period begins with the first fiscal year commencing on or after July 1, 2007, for which the transfer required by subdivision (a) is suspended.~~

~~(B) The transfer required by subdivision (a) shall not be suspended during any fiscal year if a full repayment required by a statute enacted in accordance with subparagraph (C) of paragraph (1) has not yet been completed.~~

~~(e) (d) The Legislature may not enact a statute that modifies the percentage shares set forth in subdivision (c) by a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring, provided that the bill does not contain any other unrelated provision and that the moneys described in subdivision (a) are expended solely for the purposes set forth in paragraph (2) of subdivision (b), until all of the following have occurred:~~

~~(1) The California Transportation Commission has held no less than four public hearings in different parts of the State to receive public input about the need for public transit, mass transportation, transportation capital improvement projects, and street and highway maintenance;~~

~~(2) The California Transportation Commission has published a report describing the input received at the public hearings and how the modification to the statutory allocation is consistent with the orderly achievement of local, regional and statewide goals for public transit, mass transportation, transportation capital improvements, and street and highway maintenance in a manner that is consistent with local general plans, regional transportation plans, and the California Transportation Plan;~~

~~(3) Ninety days have passed since the publication of the report by the California Transportation Commission.~~

~~(4) The statute enacted by the Legislature pursuant to this subdivision must be by a bill passed in each house of the Legislature by rollcall vote entered in the journal, two-thirds of the membership concurring, provided that the bill does not contain any other unrelated provision and that the revenues described in subdivision (a) are expended solely for the purposes set forth in paragraph (2) of subdivision (b).~~

~~(f) (e) (1) An amount equivalent to the total amount of~~

TEXT OF PROPOSED LAWS

revenues that were not transferred from the General Fund of the State to the Transportation Investment Fund, as of July 1, 2007, because of a suspension of transfer of revenues pursuant to this section as it read on January 1, 2006, but excluding the amount to be paid to the Transportation Deferred Investment Fund pursuant to Section 63048.65 of the Government Code, shall be transferred from the General Fund to the Transportation Investment Fund no later than June 30, 2016. Until this total amount has been transferred, the amount of transfer payments to be made in each fiscal year shall not be less than one-tenth of the total amount required to be transferred by June 30, 2016. The transferred revenues shall be allocated solely for the purposes set forth in this section as if they had been received in the absence of a suspension of transfer of revenues.

(2) The Legislature may provide by statute for the issuance of bonds by the state or local agencies, as applicable, that are secured by the minimum transfer payments required by paragraph (1). Proceeds from the sale of those bonds shall be allocated solely for the purposes set forth in this section as if they were revenues subject to allocation pursuant to paragraph (2) of subdivision (b).

(f) This section constitutes the sole method of allocating, distributing, and using the revenues described in subdivision (a). The purposes described in paragraph (2) of subdivision (b) are the sole purposes for which the revenues described in subdivision (a) may be used. The Legislature may not enact a statute or take any other action which, permanently or temporarily, does any of the following:

(1) Transfers, diverts, or appropriates the revenues described in subdivision (a) for any other purposes than those described in paragraph (2) of subdivision (b);

(2) Authorizes the expenditures of the revenues described in subdivision (a) for any other purposes than those described in paragraph (2) of subdivision (b) or;

(3) Borrows or loans the revenues described in subdivision (a), regardless of whether these revenues remain in the Transportation Investment Fund or are transferred to another fund or account such as the Public Transportation Account, a trust fund in the State Transportation Fund.

(g) For purposes of this article, "mass transportation," "public transit" and "mass transit" have the same meanings as "public transportation." "Public transportation" means:

(1) (A) Surface transportation service provided to the general public, complementary paratransit service provided to persons with disabilities as required by 42 U.S.C. 12143, or similar transportation provided to people with disabilities or the elderly; (B) operated by bus, rail, ferry, or other conveyance on a fixed route, demand response, or otherwise regularly available basis; (C) generally for which a fare is charged; and (D) provided by any transit district, included transit district, municipal operator, included municipal operator, eligible municipal operator, or transit development board, as those terms were defined in Article 1 of Chapter 4 of Part 11 of Division 10 of the Public Utilities Code on January 1, 2009, a joint powers authority formed to provide mass transportation services, an agency described in subdivision (f) of Section 15975 of the Government Code, as that section read on January 1, 2009, any recipient of funds under Sections 99260, 99260.7, 99275, or subdivision (c) of Section 99400 of the Public Utilities Code, as those sections read on January 1, 2009, or a consolidated agency as defined in Section 132353.1 of the Public Utilities Code, as that section read on January 1, 2009.

(2) Surface transportation service provided by the Department of Transportation pursuant to subdivision (a) of Section 99315 of the Public Utilities Code, as that section read on July 30, 2009.

(3) Public transit capital improvement projects, including those identified in subdivision (b) of Section 99315 of the Public Utilities Code, as that section read on July 30, 2009.

(h) If the Legislature reduces or repeals the taxes described in subdivision (a) and adopts an alternative source of revenue to replace the moneys derived from those taxes, the replacement revenue shall be deposited into the Transportation Investment Fund, dedicated to the purposes listed in paragraph (2) of subdivision (b), and allocated pursuant to subdivision (c). All other provisions of this article shall apply to any revenues adopted by the Legislature to replace the moneys derived from the taxes described in subdivision (a).

Section 8. Article XIX C is added to the California Constitution, to read:

Article XIX C

SECTION 1. If any challenge to invalidate an action that violates Article XIX, XIX A, or XIX B is successful either by way of a final judgment, settlement, or resolution by administrative or legislative action, there is hereby continuously appropriated from the General Fund to the Controller, without regard to fiscal years, that amount of revenue necessary to restore the fund or account from which the revenues were unlawfully taken or diverted to its financial status had the unlawful action not been taken.

SEC. 2. If any challenge to invalidate an action that violates Section 24 or Section 25.5 of Article XIII is successful either by way of a final judgment, settlement, or resolution by administrative or legislative action, there is hereby continuously appropriated from the General Fund to the local government an amount of revenue equal to the amount of revenue unlawfully taken or diverted.

SEC. 3. Interest calculated at the Pooled Money Investment Fund rate from the date or dates the revenues were unlawfully taken or diverted shall accrue to the amounts required to be restored pursuant to this section. Within 30 days from the date a challenge is successful, the Controller shall make the transfer required by the continuous appropriation and issue a notice to the parties that the transfer has been completed.

SEC. 4. If in any challenge brought pursuant to this section a restraining order or preliminary injunction is issued, the plaintiffs or petitioners shall not be required to post a bond obligating the plaintiffs or petitioners to indemnify the government defendants or the State of California for any damage the restraining order or preliminary injunction may cause.

Section 9.

Section 16 of Article XVI of the Constitution requires that a specified portion of the taxes levied upon the taxable property in a redevelopment project each year be allocated to the redevelopment agency to repay indebtedness incurred for the purpose of eliminating blight within the redevelopment project area. Section 16 of Article XVI prohibits the Legislature from reallocating some or that entire specified portion of the taxes to the State, an agency of the State, or any other taxing jurisdiction, instead of to the redevelopment agency. The Legislature has been illegally circumventing Section 16 of Article XVI in recent years by requiring redevelopment agencies to transfer a portion of those taxes for purposes other than the financing of redevelopment projects. A purpose of the amendments made by this measure is to prohibit the Legislature from requiring, after the taxes have been allocated to a redevelopment agency, the redevelopment agency to transfer some or all of those taxes to the State, an agency of the State, or a jurisdiction; or to use some or all of those taxes for the benefit of the State, an agency of the State, or a jurisdiction.

Section 10. Continuous Appropriations.

The provisions of Sections 6, 6.1, 7, 7.1, and 8 of this act that require a continuous appropriation to the Controller without regard to fiscal year are intended to be “appropriations made by law” within the meaning of Section 7 of Article XVI of the California Constitution.

Section 11. Liberal Construction.

The provisions of this act shall be liberally construed in order to effectuate its purposes.

Section 12. Conflicting Statutes.

Any statute passed by the Legislature between October 21, 2009 and the effective date of this measure, that would have been prohibited if this measure were in effect on the date it was enacted, is hereby repealed.

Section 13. Conflicting Ballot Measures.

In the event that this measure and another measure or measures relating to the direction or redirection of revenues dedicated to funding services provided by local governments or transportation projects or services, or both, appear on the same statewide election ballot, the provisions of the other measure or measures shall be deemed to be in conflict with this measure. In the event that this measure shall receive a greater number of affirmative votes, the provisions of this measure shall prevail in their entirety, and the provisions of the other measure or measures shall be null and void.

Section 14. Severability.

It is the intent of the People that the provisions of this act are severable and that if any provision of this act or the application thereof to any person or circumstance, is held invalid, such invalidity shall not affect any other provision or application of this act which can be given effect without the invalid provision or application.

PROPOSITION 23

This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure adds a section to the Health and Safety Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

California Jobs Initiative

SECTION 1. STATEMENT OF FINDINGS

(a) In 2006, the Legislature and Governor enacted a sweeping environmental law, AB 32. While protecting the environment is of utmost importance, we must balance such regulation with the ability to maintain jobs and protect our economy.

(b) At the time the bill was signed, the unemployment rate in California was 4.8 percent. California’s unemployment rate has since skyrocketed to more than 12 percent.

(c) Numerous economic studies predict that complying with AB 32 will cost Californians billions of dollars with massive increases in the price of gasoline, electricity, food and water, further punishing California consumers and households.

(d) California businesses cannot drive our economic recovery and create the jobs we need when faced with billions of dollars in new regulations and added costs; and

(e) California families being hit with job losses, pay cuts and furloughs cannot afford to pay the increased prices that will be passed onto them as a result of this legislation right now.

SEC. 2. STATEMENT OF PURPOSE

The people desire to temporarily suspend the operation and implementation of AB 32 until the state’s unemployment rate returns to the levels that existed at the time of its adoption.

SEC. 3. Division 25.6 (commencing with Section 38600) is added to the Health and Safety Code, to read:

DIVISION 25.6. SUSPENSION OF AB 32

38600. (a) From and after the effective date of this division, Division 25.5 (commencing with Section 38500) of the Health and Safety Code is suspended until such time as the unemployment rate in California is 5.5 percent or less for four consecutive calendar quarters.

(b) While suspended, no state agency shall propose, promulgate, or adopt any regulation implementing Division 25.5 (commencing with Section 38500) and any regulation adopted prior to the effective date of this division shall be void and unenforceable until such time as the suspension is lifted.

PROPOSITION 24

This initiative measure is submitted to the people in accordance with the provisions of Section 8 of Article II of the California Constitution.

This initiative measure amends and repeals sections of the Revenue and Taxation Code; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

SECTION 1. Title

This act shall be known as the “Repeal Corporate Tax Loopholes Act.”

SEC. 2. Findings and Declarations

The people of the State of California find and declare that:

1. The State of California is in the midst of the worst financial crisis since the Great Depression. State revenues have plummeted, millions of Californians have lost their jobs, and hundreds of thousands of California homes have been lost in foreclosure sales. Projections suggest it could be many years before the state and its citizens recover.

2. To cope with the fiscal crisis, in 2008 and 2009 the Legislature and Governor raised taxes paid by the people of this state: the personal income tax, the state sales tax, and vehicle license fees. Yet at the same time they passed three special corporate tax breaks that give large corporations nearly \$2 billion a year in state revenues.

3. No public hearings were held and no public notice was given before these corporate tax breaks were passed by the Legislature and signed into law by the Governor.

4. Corporations get these tax breaks without any requirements to create new jobs or to stop shipping current jobs overseas.

5. These loopholes benefit the biggest of corporations with gross incomes of over \$1 billion. One study estimates that 80 percent of the benefits from the first loophole will go to just 0.1 percent of all California corporations. Similarly, estimates are that 87 percent of the benefits from one tax break will go to just 229 companies, each of which has gross income over \$1 billion.

6. At the same time it created these corporate loopholes, the Legislature and Governor enacted \$31 billion in cuts to the state budget—decimating funding for public schools and colleges, eliminating health care services to our neediest citizens, closing

**Joint Informational Hearing
Proposition 22: Local Taxpayer, Public Safety,
and Transportation Protection Act of 2010**

APPENDIX

Written Materials Received by the Committees

Marianne O'Malley, Director, General Government, Legislative Analyst's Office

Jessica Digiambattista, Fiscal and Policy Analyst, Legislative Analyst's Office

Chris McKenzie, Executive Director, League of California Cities

Brian Hatch, Legislative Advocate, California Professional Firefighters

Kathy Dennis, Board Member, California Nurses Association

Toby Boyd, Board Member, California Teachers Association

Jolena Voorhis, Executive Director, Urban Counties Caucus

September 22, 2010

Proposition 22

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Senate Transportation and Housing Committee

Hon. Alan Lowenthal, Chair

Senate Local Government Committee

Hon. Christine Kehoe, Vice-Chair





Background



California State and Local Government Are Highly Interrelated.

- Both levels of government share revenues raised by some taxes—such as sales taxes and fuel taxes.
- Both levels of government share the costs for some programs—such as many health and social services programs.



Over the Years, the State Has Made Decisions That Have Affected Local Government Revenues and Costs.



Recent Measures Limit State Authority Over Local Government.

- Proposition 1A (of 2004 and 2006) amended the California Constitution to limit state authority over local finance and program costs.
- Proposition 22 would broaden these constitutional limitations.



Proposition 22 Overview



Proposition 22 Reduces or Eliminates the State's Authority to:

- Redirect redevelopment property tax revenues to other local governments.
- Shift property taxes from cities, counties, and special districts to schools.
- Use vehicle license fee (VLF) revenues to reimburse local governments for state mandated costs.
- Use state fuel tax revenues to pay debt service on state transportation bonds.
- Borrow or change the distribution of state fuel tax revenues.

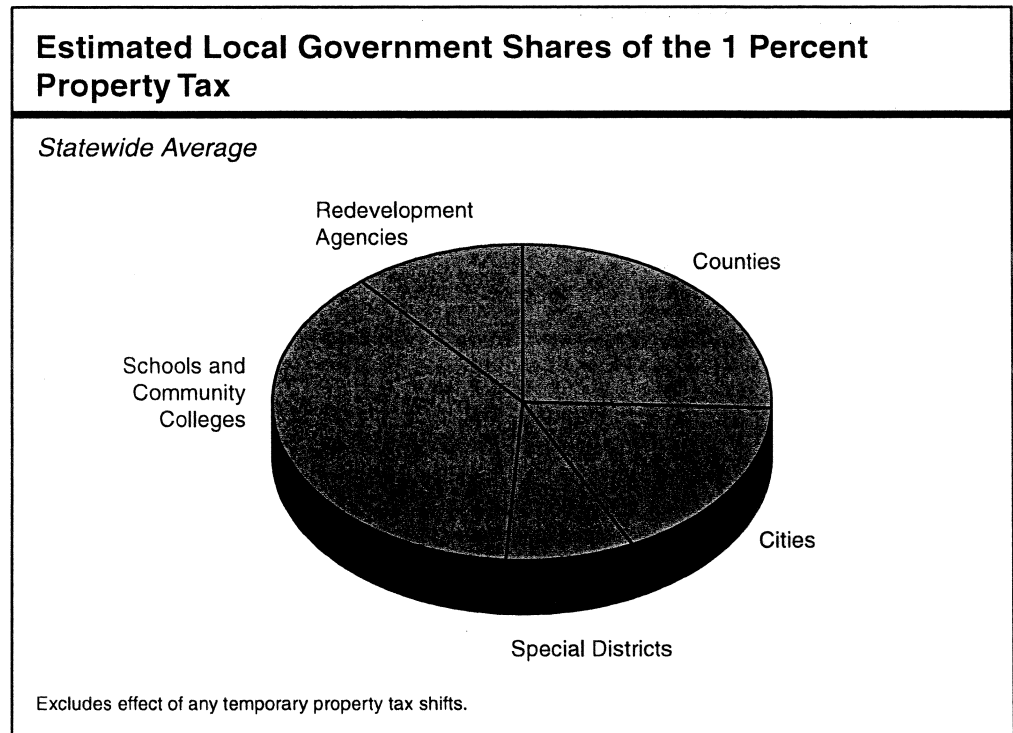


Fiscal Effect: No Change to Overall State-Local Government Costs or Revenues.

- Due to restrictions on state authority over fuel and property taxes, the state would have to take alternative actions—probably in the range of \$1 billion to several billion dollars annually.
- This would result in (1) reduced state General Fund program spending and/or increases in state revenues of those amounts and (2) comparable increases in transportation and redevelopment revenues.



Authority Over Property Tax Distribution



Under Proposition 13, State Laws Direct County Auditors How to Allocate Property Tax Revenues. Proposition 1A (2004) imposed some restrictions on this state authority.

- No more than twice in a decade, the Legislature may temporarily increase the share of property tax revenues allocated to schools and community colleges (a "Proposition 1A loan"). The state must repay affected cities, counties, and special districts with interest, within three years.
- Laws that change the allocation of property taxes among cities, counties, and special districts must be approved by a two-thirds vote of both houses.



Authority Over Property Tax Distribution

(Continued)



Local Redevelopment Decisions Also Affect Property Tax Distribution. If a redevelopment agency creates a project area, the agency:

- Receives all growth in property tax revenues from the project area.
- Shares a portion of these property tax revenues with affected local agencies (“pass-through payments”).



Proposition 22 Provisions: Property Tax, Redevelopment, and VLF

- Eliminates State's Authority to Temporarily Increase School And Community Colleges' Share of Property Tax Revenues.**
 - Existing \$1.9 billion Proposition 1A property tax loan would be repaid as planned.
 - No future Proposition 1A loans would be permitted.

- Prohibits State From Borrowing or Redirecting Redevelopment Property Tax Revenues—or Requiring Increased Pass-Through Payments.**
 - Appears to eliminate state authority to enact new laws similar to the 2009 measure requiring redevelopment agencies to give \$2 billion to school districts.

- Prohibits State From Reallocating VLF Revenues to Pay for State-Imposed Mandates.**
 - No immediate effect, but could restrict state fiscal flexibility with regards to future realignments of state-local programs.



Fiscal Effect: Property Tax, Redevelopment, And VLF Provisions



No Change to Overall State-Local Government Costs or Revenues.



Higher Redevelopment Revenues.

- Due to restrictions on state authority over redevelopment property tax revenues and pass-through payments, the state would have to take alternative actions to address its fiscal and policy objectives.
- This could result in reduced state General Fund program spending or increased state revenues.



Other Fiscal Effects.

- Potential small increase in local government property tax revenue stability.
- Potential increased state costs to implement future state-local program realignments.



Proposition 22 Provisions: Use of Funds to Pay for Transportation Bonds

- Under current law, the state uses some of its fuel tax revenues to pay debt-service costs on voter-approved transportation bonds.
 - In 2010-11, about \$850 million in transportation debt-service costs will be paid from fuel tax revenues.
 - In future years, this amount is expected to increase to about \$1 billion annually.

- Proposition 22 would restrict the states authority to pay transportation debt-service costs with fuel tax revenues. Because of these restrictions, the state would instead need to pay these costs from the General Fund.



Proposition 22 Provisions: Prohibits Borrowing of Fuel Tax Revenues



Under current law, while state fuel tax revenues generally must be used for transportation purposes, the state may borrow the funds for other purposes.

- ***Borrowing for Cash Flow.*** To help manage uneven cash flow, the state often borrows from various state accounts, including fuel tax funds, on a temporary basis. The cash flow loans of fuel tax funds often total \$1 billion or more.
- ***Borrowing for Budgetary Purposes.*** In cases of severe fiscal hardship, the state may use fuel tax revenues to help address a budgetary problem. The state must repay these funds within three years. In 2010-11, the state plans to borrow \$650 million in fuel tax revenues to help address the General Fund budget problem.



Proposition 22 prohibits fuel tax revenues from being loaned—either for cash flow or budget-balancing purposes—to the General Fund or any other state fund.



Proposition 22 Provisions: Limits Authority to Change Distribution of Fuel Tax Revenues

- Current law provides 6 cents out of the first 18 cents of fuel excise tax revenues to be given to cities and counties. While this sharing of revenues has been in place for many years, the Legislature does have the authority to change the allocation with a majority vote.

- Proposition 22 would require a two-thirds vote of each house of the Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties.

- In the case of diesel sales tax revenues, current law requires that funds be distributed 25 percent to the state, and 75 percent to local governments. The Legislature has the authority to change the allocation of these revenues with a majority vote, and has done so in recent years.

- Proposition 22 would require that funds be split equally between the state and local governments. By making this distribution of funds a constitutional requirement, the measure would also prohibit the Legislature from changing the allocation.



Fiscal Effect: Transportation

- State General Fund Effect in 2010-11.** Proposition 22 would (1) shift some debt-service costs to the state General Fund and (2) prohibit the General Fund from borrowing fuel tax revenues. As a result, the measure would reduce resources available for other programs, probably by about \$1 billion in 2010-11.

- State General Fund Longer Term Effect.** Limiting the state's authority to use fuel tax revenues to pay transportation bond costs would increase General Fund costs by about \$1 billion annually for the next couple of decades.

- Transportation Programs Effect.** Under the measure, the state would use General Fund revenues—instead of fuel tax revenues—to pay for transportation bonds. This would leave more fuel tax revenues (about \$1 billion annually) available for transportation programs.



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Phone: 916.658.8200 Fax: 916.658.8240
www.cacities.org

TO: Joint Senate Transportation and Housing and the Senate Local Government Committees
FROM: Chris McKenzie, Executive Director
DATE: September 22, 2010
RE: Support of Proposition 22

Let me begin by thanking you and those who are gathered today to discuss this important issue during your informational hearing. The League and our partners qualified Proposition 22 for the ballot with over 84,000 signatures earlier this year, indicative of the level of dissatisfaction with our state-local relationship. We are proud to be part of a coalition of over 700 organizations that support this important reform measure.

I want to compliment your staff, particularly Brian Weinberger, for the excellent staff analysis of the tortured history of state-local fiscal relations in California. Here are the most important conclusions that there may be agreement on.

- **Fiscal Lines Have Become Blurred.** While there was a time in the early part of the last century when city officials could be clearly held accountable for the cost of city government and the tax rates that were set to finance city services that is no longer the case. While we once enjoyed what the experts call the “separation of sources” principle which clearly identified which revenues financed state government and those which paid for local services, the lines have become completely blurred today.
- **Waiting for the Other Shoe to Drop.** As we are now experiencing the longest delay in the approval of the state budget this year, hundreds of cities around the state adopted their budgets on time, but they are waiting--waiting for the other shoe to drop. They are waiting to learn how much of our community’s tax revenues the legislature and governor believe should be taken to balance the state budget instead of vital local services.
- **State-Local Fiscal System a Mess.** As the staff analysis points out, in the 32 years since voters approved Proposition 13 (1978), state and local fiscal affairs have become increasingly confused, producing conflict between the state and local governments. Proposition 22 is the most recent effort in a decades-long struggle to achieve a balance in state-local fiscal relations.

- **Local Budgets Treated As State’s Rainy Day Fund.** The state’s budgetary behavior toward local governments has led to increasing instability and unpredictability for local budgets. In fact, unable to create an adequate reserve (or rainy day fund) at the state level, state officials simply treat local governments like the state’s rainy day fund.
- **Limited Accountability in Current System.** Moreover, the convoluted state-local funding relationship has reduced accountability to the voters as the state has removed revenue streams further and further from the services they pay for and rendered local government financing virtually impossible for the public to understand.
- **Legislature Has Done Little to Reform System.** Staff points out accurately that our shelves are full of reports, studies, and reform proposals for fixing the state-local relationship. For all the long and thoughtful hours devoted to this topic, the Legislature has enacted very little real reform. We know the reason is that such reform is hard to do in a comprehensive way, but incremental change is possible.
- **Incremental Reform Occurred in 2004 and 2006.** In the face of inaction and continued tension, local governments have placed reform proposals before the voters. In November 2004, voters approved Proposition 1A, which amended the California Constitution to limit the state’s authority over revenues from property taxes, local sales taxes, and vehicle license fees. Again in November 2006, voters approved another Proposition 1A, which restricted the state’s authority over revenues from sales taxes on gasoline.
- **Prop. 22 Continues the Reform Effort.** This November’s Proposition 22 is a serious effort to reform this mess and to clarify and distinguish between the revenues that should finance general state services and those that the voters want dedicated to local government and transportation. Proposition 22 augments these two previous ballot measures by further restricting the state’s authority over certain funds the voters have said should go to pay for local government and transportation.
- **Prop. 22 Closes Loopholes.** Proposition 22 is designed to close the remaining loopholes in state law that allow the legislature to avoid taking responsibility for financing state government services with state (not local) funds. It does five simple things:
 - **Protects Gas Tax Revenues for Transportation.** The excise tax on motor vehicle fuels (“the gas tax”) provides the primary source of state funding for transportation in California and functions as a user-pays system for the state’s highways and local streets and roads. The state first imposed an excise tax on fuel in the 1920s and historically revenue from the state’s excise tax has been allocated to both the state and local governments because a local gas tax simply does not make sense. The LAO points out that about 1/3 of the gas tax goes to local agencies, and for

that they maintain 81% of the lane miles in the state. Prop. 22 strengthens previous voter approved measures and would prohibit the legislature from borrowing or raiding (as it attempted to do last year) the gas tax for non-transportation purposes.

- **Protects Sales Tax on Fuels for Transit Funding.** Since the early 1970s in Governor Reagan's time part of the sales tax has been used to fund local transit services. This includes local sales taxes under the Transportation Development program, the state sales tax on diesel, and in 2000 a small portion of the sales tax on gasoline. For the last five years the legislature has taken (not borrowed as allowed by law) billions of local transit revenue to fund the state general fund. Transit agencies recently won a lawsuit in which an appellate court concluded these raids were illegal. The legislature promptly restructured the sales tax on fuel to avoid its funding responsibilities. Prop. 22 protects important the funding for transit remaining after the restructuring without upsetting the transportation tax swap earlier this year.
- **Protects Redevelopment Funds.** Although the legislature and governor acknowledged in the 2004 Prop. 1A negotiations that local redevelopment funding is protected by Article 16 of the state constitution and did not need protection in Prop. 1A (and the Governor signed a ballot argument that said this), last year they took \$2.1 billion (over two years) of redevelopment funds directly in violation of Article 16. Additional protections were put in Prop. 22 for redevelopment in the event we learn in a recent lawsuit that the Article 16 protections are not sufficient. CSU-Chico reports that the \$2.1 billion lost would have paid for 198,000 full and part time jobs, mostly in the construction industry, and those workers would have paid considerable income and sales tax to the state.
- **Protects Local Property Taxes.** Prop. 22 will put an end to the irresponsible practice of "borrowing" city, county and special district property taxes to finance state services. The truth is that local governments can no more afford to lend the state property taxes than the state can afford to pay them back in three years. This just puts the state deeper in debt at a time when that is the last thing it needs. This last "borrowing" of \$1.9 billion in property taxes put the state back \$275 million in interest cost (an effective interest cost of 15%), an unconscionable amount to be paid by the taxpayers of our state on top of the \$1.9 billion "borrowed."
- **Protects Locally Levied Taxes.** In addition, Prop. 22 provides valuable protections to locally levied hotel/motel, utility, parcel and other taxes, both those approved by the voters and older taxes approved by local elected bodies, so the state can't interfere or direct how those funds should be spent.

What Prop. 22 Does Not Do

- ✓ **Does not** raise taxes
- ✓ **Does not** increase or decrease funding for local government
- ✓ **Does not** take away funding from state services like schools or healthcare.
- ✓ **Does not** repeal the gas tax swap of earlier this year but makes sure the funding is used for transportation.

What Prop. 22 Does Do

- Helps reinstate the historic “separation of sources” rule, distinguishing between state general revenues and local government and transportation revenues dedicated by the voters for that purpose?
- Creates stability for funding for state and local services.
- Protects funding for vital local public safety, infrastructure and related services.
- Makes state officials and local officials accountable to the voters for spending decisions about their respective revenues.
- Helps end the confusion about the funding of state and local government.

YES^{ON} 22

PROTECT LOCAL SERVICES. STOP STATE RAIDS!

www.savelocalservices.com

Protect Local Services Stop State Raids

THE PROBLEM: STATE RAIDS AND BORROWING ARE JEOPARDIZING PUBLIC SAFETY, EMERGENCY RESPONSE, TRANSPORTATION, TRANSIT AND OTHER VITAL LOCAL SERVICES.

California voters have overwhelmingly passed separate ballot measures to dedicate local funding sources to essential local services and to prevent the State from shifting or raiding local government, transit and transportation funds. Despite this, last year the State passed a budget that borrowed and took approximately \$5 billion in city, county, transit, redevelopment and special district funds. The state could take billions more this year. These raids and borrowing are jeopardizing the services Californians need most:

- X *Police, fire and emergency 911 services have been cut.*
- X *Healthcare services for children, seniors and the disabled are being slashed.*
- X *Road repair and maintenance, congestion relief and safety improvements are constantly at risk.*
- X *Public transit like buses, commuter rail and shuttles are being slashed and fares are being raised.*
- X *Parks and libraries are closing, and other local government services critical to protect our neighborhoods and improve our quality of life are shutting down.*
- X *Vital community economic development and job creation projects are being shut down.*

PROP. 22 IS THE SOLUTION: PROHIBIT THE STATE FROM RAIDING LOCAL GOVERNMENT, TRANSIT AND TRANSPORTATION FUNDS.

Prop. 22, the Local Taxpayer, Public Safety and Transportation Protection Act, on the November 2010 statewide ballot, would:

- ✓ Prohibit the State from taking, borrowing or redirecting local taxpayer funds dedicated to public safety, emergency response and other vital local government services. Prop. 22 would close loopholes to prevent taking local taxpayer funds currently dedicated to cities, counties, special districts and redevelopment agencies. It would also revoke the State's authority to borrow local government property tax funds.
- ✓ Protect vital, dedicated transportation and public transit funds from State raids. Prop. 22 would prohibit the State from redirecting, borrowing or taking the gasoline excise tax (HUTA) allocated to cities and counties for local street and road maintenance and improvements. Prop. 22 also prohibits the State from taking or redirecting public transportation account revenues dedicated to public transit.
- ✓ Protect local taxpayers by keeping more of our local tax dollars local where there's more accountability to voters, and by ensuring once and for all that our gas taxes go to fund road improvements. Prop. 22 also reduces pressure for local tax and fee increases that become necessary when the State redirects local funds.

YES

PROTECT LOCAL SERVICES. STOP STATE RAIDS!

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YES ON 22 List of Supporters (as of 9/17/2010)

PUBLIC SAFETY

California Fire Chiefs Association
California Police Chiefs Association
Fire Districts Association of California
Peace Officers Research Association of California
California Association of Code Enforcement Officers
Central Valley Fire Chiefs Association
Los Angeles Area Fire Chiefs Association
Monterey County Deputy Sheriffs Association
Orange County Fire Chiefs Association
Riverside County Fire Chiefs Association
San Diego County Fire Chiefs' Association
Santa Cruz County Fire Chiefs Association
South Bay Fire Chiefs' Association
Ventura County Fire Chief's Association
Association for Los Angeles Deputy Sheriffs
Los Angeles County Police Chiefs Association
Los Angeles Police Protective League
Boulder Creek Fire Protection District
Beverly Hills Fire Department
Chino Valley Independent Fire District
Escondido Firefighters Association, Local 3842
Novato Fire Protection District
Orange County Fire Authority
Police Officers Association of Lodi
Salinas Police Officers Association
Stockton Police Officers Association
Santa Fe Springs Fire Rescue
San Bernardino County Safety Employees' Benefit Association
Santa Cruz Police Management Association
Scotts Valley Fire Protection District

LOCAL GOVERNMENT

League of California Cities
California Redevelopment Association
California Special Districts Association
California Contract Cities Association
California Society of Municipal Finance Officers
California Association of Public Cemeteries
California Association of Recreation and Parks District
California Association of Sanitation Agencies
City Clerks Association of California
Independent Cities Association
Association of Monterey Bay Area Governments
Coachella Valley Association of Governments
Council of Fresno County Governments
Gateway Cities Council of Governments
Merced County Association of Governments
San Benito County Governments
San Luis Obispo Council of Governments
South Bay Cities Council of Governments
Western Riverside Council of Governments
Tehachapi Valley Healthcare District
Monterey Regional Waste Management District
Costa Mesa Sanitary District
Orange County Sanitation District
Redevelopment Agency of the City of Vacaville

LOCAL GOVERNMENT (cont.)

Economic Development Committee of the City of Banning
Alameda County Mayors' Conference
Contra Costa County Mayors' Conference
Marin County Council of Mayors and Council Members
Monterey County Mayors Association
Marin County Council of Mayors and Council Members
Monterey County Mayors Association
Northern California Power Agency
Auburn Public Cemetery District
California Park and Recreation Society
Camp Meeker Recreation and Park District
Conejo Recreation and Park District
Pleasant Valley Recreation and Parks District
Rancho Simi Recreation and Park District
Moss Landing Harbor District
Santa Cruz Public Libraries Joint Powers Board
American Public Works Association;
Monterey Bay Chapter
Planning Director's Association of Orange County

TRANSPORTATION/TRANSIT

Automobile Club of Southern California
Bay Area Rapid Transit (BART)
California Transit Association
California Alliance for Jobs
Capitol Corridor Joint Powers Authority
Southern California Transit Advocates
The Transit Coalition
Anaheim Transportation Network
Eastern Contra Costa Transit Authority
Livermore Amador Valley Transit Authority
Long Beach Transit
Mendocino Transit Authority
Metro
Mobility 21
Monterey-Salinas Transit
North County Transit District
Omnitrans, San Bernardino Valley
Peninsula Corridor Joint Powers Board
Policy in Motion
San Benito County Local Transportation Authority
San Mateo County Transit District
San Mateo County Transportation Authority
Santa Clara Valley Transportation Authority
Santa Cruz Metropolitan Transit District
Shasta County Regional Transportation Planning Agency
South Tahoe Area Transit Authority
Transit Alliance for a Better North County
Transportation Agency for Monterey County
Transportation California
Transportation Now Committee,
Corona/Norco/District 2 Chapter
Truckee North Tahoe Transportation
Management Association
Victor Valley Transit Authority
West Contra Costa Transportation Advisory Committee
Western Contra Costa Transit Authority
Yolo County Transportation District

(MORE)

Paid for by Yes on 22/Californians to Protect Local Taxpayers and Vital Services, a coalition of taxpayers, public safety, local government, transportation, business and labor, with major funding from the League of California Cities (non-public funds and CitiPAC) and the California Alliance for Jobs Rebuild California Committee, 1121 L Street, #803 – Sacramento, CA 95814

TAXPAYER GROUPS

Howard Jarvis Taxpayers Association
California Taxpayer Protection Committee
League of Placer County Taxpayers
Monterey Peninsula Taxpayers' Association
Orange County Taxpayers Association
San Diego County Taxpayers Association
San Diego Tax Fighters
Sonoma County Taxpayers Association

WATER

Association of California Water Agencies
Las Virgenes Municipal Water District
Municipal Water District of Orange County
Orange County Water District
Tehachapi-Cummings County Water District
Valley Center Water District
Vista Irrigation District
Yuima Municipal Water District

LABOR

California Teamsters Public Affairs Council
California Association of Professional Employees, AFL-CIO
State Building and Construction Trades Council of California
Operating Engineers, Local Union #3
United Public Employees - Political Action Committee
Glendale City Employees Association
San Luis Obispo County Employees Association
Santa Rosa City Employees Association
Orange County Employees Association
Organization of SMUD Employees
Northern California Carpenters Regional Council
Building and Construction Trades Council of San Mateo County
San Bernardino Public Employees Association
San Joaquin Building Trades Council
Whittier City Employees' Association
American Federation of State County Municipal Employees
MTA/PTSC LOCAL 3634, Los Angeles
Amalgamated Transit Union Local 192, Oakland
Amalgamated Transit Union Local 256, Sacramento
Amalgamated Transit Union Local 276, Stockton
Amalgamated Transit Union Local 1027, Fresno
Amalgamated Transit Union Local 1225,
Monterey-Salinas
Amalgamated Transit Union Local 1555, Oakland
Amalgamated Transit Union Local 1575, San Rafael
Amalgamated Transit Union Local 1704, San Bernardino
Amalgamated Transit Union Local 1756, Arcadia
United Transportation Union
United Transportation Union, Local 23, Santa Cruz
International Brotherhood of Electrical Workers, Local #47,
Diamond Bar

ENVIRONMENT

Greenbelt Alliance

COMMUNITY

Alliance for a United Montebello
Chula Vista Civic Association
Hermosa Beach Community Alliance
Human Care Alliance (HCA)
San Francisco Human Services Network

HOUSING

California Housing Consortium
Community Housing Partnership
Housing California

HOUSING (cont.)

California Coalition for Rural Housing
Golden State Manufactured-Home Owners League
CHISPA (Community Housing Improvement Systems
and Planning Association, Inc.)
Housing Leadership Council of San Mateo County
Non-Profit Housing Association of Northern California
Opportune Housing
San Diego Housing Federation
Webb Affordable Housing Model (WAHM)

BUSINESS

California Chamber of Commerce
California Hispanic Chambers of Commerce
California Building Industry Association
California Business Properties Association
California Downtown Association
Arcadia Chamber of Commerce
American Council of Engineering Companies California
Azusa Chamber of Commerce
Beaumont Chamber of Commerce
Bell Gardens Chamber of Commerce
Blythe Area Chamber of Commerce
Brea Chamber of Commerce
Building Industry Association of Central California
Burlingame Chamber of Commerce
Business Council of San Joaquin County
Campbell Chamber of Commerce
Canyon Lake Chamber of Commerce
Cathedral City Chamber of Commerce
Cerritos Regional Chamber of Commerce
Costa Mesa Chamber of Commerce
Chambers of Commerce Coalition of Santa Clara County
Chino Valley Chamber of Commerce
Corona Chamber of Commerce
Culver City Chamber of Commerce
Dana Point Chamber of Commerce
Desert Hot Springs Chamber of Commerce
Downtown Association of Santa Cruz
Downtown Stockton Alliance
Emeryville Chamber of Commerce
Fairfield Suisun Chamber of Commerce
Fillmore Realty and Financial Services
Folsom Chamber of Commerce
Fontana Chamber of Commerce
Foster City Chamber of Commerce
Fremont Chamber of Commerce
Fullerton Chamber of Commerce
Garden Grove Chamber of Commerce
Gateway Chambers Alliance
Greater Bakersfield Chamber of Commerce
Greater Lakewood Chamber of Commerce
Greater Merced Chamber of Commerce
Greater Riverside Chambers of Commerce
Greater Riverside Hispanic Chamber of Commerce
Greater Tehachapi Economic Development Council
Half Moon Bay Chamber of Commerce
Hegg Team Realty Inc.
Hemet / San Jacinto Valley Chamber of Commerce
Hitzke Development Corporation
Indian Wells Chamber of Commerce
Indio Chamber of Commerce
Inland Empire African American Chamber of Commerce
Inland Empire Chamber Legislative Alliance
Inland Valley Business Alliance
Irvine Chamber of Commerce
JSA Consulting Services

(MORE)

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BUSINESS (cont.)

Kern County Hispanic Chamber of Commerce
La Quinta Chamber of Commerce
La Verne Chamber of Commerce
Lake Elsinore Valley Chamber of Commerce
Lake Tahoe South Shore Chamber of Commerce
Los Altos Chamber of Commerce
Los Angeles Area Chamber of Commerce
Lodi Chamber of Commerce
Livermore Chamber of Commerce
Milpitas Chamber of Commerce
Montclair Chamber of Commerce
Montebello Mid-Management Association
Monterey County Hospitality Association
Monterey Peninsula Chamber of Commerce
Moreno Valley Chamber of Commerce
Morgan Hill Chamber of Commerce and Visitors Center
Mountain View Chamber of Commerce
Murrieta Chamber of Commerce
Nationwide Realty Management LLC
North Orange County Legislative Alliance
Oakland Metropolitan Chamber of Commerce
Ontario Chamber of Commerce
Orange County Business Council
Orange County Hispanic Chamber of Commerce
Oxnard Chamber of Commerce
Pacific Grove Chamber of Commerce
Palo Alto Chamber of Commerce
Palos Verdes Peninsula Chamber of Commerce
Palm Desert Chamber of Commerce
Palm Springs Chamber of Commerce
Pasadena Chamber of Commerce
Rancho Cucamonga Chamber of Commerce
Rancho Mirage Chamber of Commerce
Red Bluff/Tehama County Chamber of Commerce
Redlands Chamber of Commerce
Redwood City – San Mateo County Chamber of Commerce
Regional Chamber Alliance, Serving cities of Santa Fe Springs, Whittier, Norwalk, Pico Rivera, and La Mirada
Sacramento Metro Chamber
Salinas Valley Builders Exchange
Salinas Valley Chamber of Commerce
San Benito County Chamber of Commerce
San Bernardino Area Chamber of Commerce
San Bruno Chamber of Commerce
San Carlos Chamber of Commerce
San Diego South County Chamber of Commerce
San Gabriel Valley Economic Partnership
San Gabriel Valley Legislative Coalition of Chambers
San Joaquin Partnership, Inc.
San Jose Silicon Valley Chamber of Commerce
San Leandro Chamber of Commerce
San Mateo Area Chamber of Commerce
Santa Clara Chamber of Commerce
Santa Cruz Chamber of Commerce
Santa Cruz County Conference and Visitors Council
Santa Maria Valley Chamber of Commerce
Santa Rosa Chamber of Commerce
Silicon Valley Leadership Group
Uni Quest Capital Inc.
Small Business Action Committee
South Bay Association of Chambers of Commerce
South Gate Chamber of Commerce
South Orange County Regional Chambers of Commerce
South San Francisco Chamber of Commerce

BUSINESS (cont.)

Southwest California Legislative Council
Sunnyvale Chamber of Commerce
Temecula Valley Chamber of Commerce
Thomas and Associates
Tuolumne County Chamber of Commerce
Valley Industry & Commerce Association
Victorville Chamber of Commerce
Wildomar Chamber of Commerce
Yorba Linda Chamber of Commerce
Yucca Valley Chamber of Commerce
Southern Sierras Chapter, National Electrical Contractors Association

CITIES

City of Albany
City of Adelanto
City of American Canyon
City of Angels
City of Antioch
City of Arcadia
City of Arcata
City of Arroyo Grande
City of Artesia
City of Arvin
City of Atascadero
City of Atwater
City of Auburn
City of Avalon
City of Avenal
City of Azusa
City of Bakersfield
City of Baldwin Park
City of Banning
City of Beaumont
City of Belmont
City of Benicia
City of Beverly Hills
City of Big Bear Lake
City of Bishop
City of Blue Lake
City of Blythe
City of Bradbury
City of Brawley
City of Brea
City of Buena Park
City of Burlingame
City of Calabasas
City of California City
City of Calimesa
City of Campbell
City of Canyon Lake
City of Capitola
City of Carmel-by-the-Sea
City of Carson
City of Cathedral City
City of Ceres
City of Cerritos
City of Chino
City of Chino Hills
City of Chowchilla
City of Chula Vista
City of Claremont
City of Clayton
City of Cloverdale
City of Clovis
City of Coachella
City of Coalinga

(MORE)

CITIES (cont.)

City of Commerce
City of Concord
City of Corona
City of Coronado
City of Cotati
City of Culver City
City of Cupertino
City of Cypress
City of Daly City
City of Davis
City of Delano
City of Del Rey Oaks
City of Desert Hot Springs
City of Diamond Bar
City of Dinuba City of Dixon
City of Dorris
City of Dublin
City of Elk Grove
City of Emeryville
City of Encinitas
City of Escondido
City of Exeter
City of Ferndale
City of Fontana
City of Fort Bragg
City of Fortuna
City of Foster City
City of Fountain Valley
City of Fowler
City of Fresno
City of Gardena
City of Garden Grove
City of Gilroy
City of Glendale
City of Goleta
City of Gonzales
City of Grass Valley
City of Greenfield
City of Gridley
City of Grover Beach
City of Half Moon Bay
City of Hayward
City of Hanford
City of Hemet
City of Hercules
City of Hermosa Beach
City of Hesperia
City of Hidden Hills
City of Highland
City of Huntington Beach
City of Huntington Park
City of Huron
City of Imperial
City of Imperial Beach
City of Indian Wells
City of Indio
City of Inglewood
City of Irvine
City of Kerman
City of King
City of Kingsburg
City of Lafayette
City of Laguna Hills
City of Lake Elsinore
City of Lake Forest
City of Lakewood
City of La Cañada Flintridge

CITIES (cont.)

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City of La Habra Heights
City of La Mesa
City of La Mirada
City of La Palma
City of La Puente
City of La Quinta
City of La Verne
City of Lake Forest
City of Lancaster
City of Larkspur
City of Lawndale
City of Lemoore
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City of Los Altos
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City of Santa Clarita
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City of Santa Rosa
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City of Saratoga
City of Scotts Valley
City of Seal Beach
City of Sebastopol
City of Selma
City of Shafter
City of Signal Hill
City of Solana Beach
City of Soledad
City of Sonoma
City of Sonora
City of South El Monte
City of South Lake Tahoe
City of South San Francisco
City of Stanton
City of Stockton
City of Sunnyvale
City of Taft
City of Temecula
City of Torrance
City of Tracy
City of Tulare
City of Turlock
City of Twentynine Palms
City of Ukiah
City of Union City
City of Upland
City of Vacaville
City of Vallejo

CITIES (cont.)

City of Villa Park
City of Visalia
City of Vista
City of Walnut
City of Walnut Creek
City of Wasco
City of Waterford
City of West Hollywood
City of Westminster
City of Wheatland
City of Whittier
City of Wildomar
City of Winters
City of Woodlake
City of Woodland
City of Yuba City
City of Yucaipa
Town of Apple Valley
Town of Hillsborough
Town of Los Gatos
Town of San Anselmo
Town of Tiburon
Town of Windsor
Town of Yountville

COUNTIES

County of Kern
County of Riverside
County of Sacramento
County of San Bernardino
County of Solano
County of Stanislaus

YES ON 22

Questions & Answers

PROTECT LOCAL SERVICES. STOP STATE RAIDS!

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WHAT IS PROP. 22 AND WHAT WOULD IT DO?

Prop. 22, the Local Taxpayer, Public Safety and Transportation Protection Act is a proposed constitutional amendment on California's November 2010 statewide ballot. The initiative would stop the State from raiding or borrowing funding used for local public safety, transportation, transit and other essential local government services. Specifically, Prop. 22 would:

- ✓ **Prohibit the State from taking, borrowing or redirecting local taxpayer funds dedicated to public safety, emergency response and other vital local government services.** Prop. 22 would close loopholes to prevent taking funds currently dedicated to cities, counties, special districts and redevelopment agencies. It would also end the State's fiscally irresponsible practice of borrowing local government property tax funds.
- ✓ **Protect vital, dedicated transportation and public transit funds from State raids.** Prop. 22 would prohibit the State from redirecting, borrowing or taking the gasoline excise tax (HUTA) allocated to cities and counties for local street and road maintenance and improvements. Prop. 22 also prohibits the State from taking or redirecting Public Transportation Account (PTA) revenues dedicated to public transit.
- ✓ **Protect local taxpayers** by keeping more of our local tax dollars local where there's more accountability to voters, and by ensuring once and for all that our gas taxes go to fund road improvements. Prop. 22 also reduces pressure for local tax and fee increases that become necessary when the State redirects local funds.

WHY IS PROP. 22 NEEDED?

The State has continued its irresponsible practice of taking and borrowing local taxpayer dollars and dedicated transportation funds. The 2009/10 state budget borrowed and took approximately \$5 billion in city, county, transit, redevelopment and special district funds despite the fact that voters have overwhelmingly passed ballot measures to keep local funding at the local level to provide essential local services. These raids and previous, ongoing state raids and borrowing jeopardize the services Californians need most, including police, fire and emergency 911 services; local economic development and redevelopment; mass transit like buses and commuter rail; and transportation improvements like road repairs and congestion relief. We need to pass this measure to protect these vital local services from State raids and borrowing.

ISN'T FUNDING FOR LOCAL GOVERNMENT AND TRANSPORTATION ALREADY PROTECTED FROM STATE RAIDS?

California voters have overwhelmingly passed separate measures to prevent the State from raiding local government and transportation funds. Even so, each and every year the State attempts to take or borrow local government, transportation and transit funding using loopholes, or illegal funding diversions that have only been stopped after expensive and lengthy court battles. In the 2009/10 fiscal year alone, the Legislature:

- **Borrowed approximately \$2 billion in property taxes from local governments**, despite no clear path to repay these funds; **took \$2.05 billion in local redevelopment funds**; and **shifted nearly \$1 billion in transit funding away from local transit agencies.** The courts have since ruled the transit shift unconstitutional. Finally, the so-called "gas tax swap" in the 2010/2011 budget could result in **transit losing more than \$600 million annually.**

Prop. 22 would close loopholes in current law that the legislature has exploited to take or divert local funds. And it would tighten sections of the law to prevent illegal State funding raids of local government and transportation funds before they happen.

WHY DOES PROP. 22 PREVENT THE STATE FROM BORROWING LOCAL GOVERNMENT AND TRANSPORTATION FUNDS?

The local government revenue protection measure approved by voters in 2004 (Prop 1A) and the transportation revenue protection measure approved by voters in 2006 (Prop 1A) included provisions that allow the State to borrow these funds during fiscal emergencies. However, after several budget cycles it is clear that these borrowing provisions are not only bad for local governments and transportation services, but fiscally irresponsible for the State. Borrowing these dedicated funds only plunges our state deeper into debt because the funds must be repaid, *with interest*, within three years.

Paid for by Yes on 22/Californians to Protect Local Taxpayers and Vital Services, a coalition of taxpayers, public safety, local government, transportation, business and labor, with major funding from the League of California Cities (non-public funds and CitiPAC) and the California Alliance for Jobs Rebuild California Committee, 1121 L Street, #803 – Sacramento, CA 95814

WHY DOES PROP. 22 PREVENT THE STATE FROM BORROWING LOCAL GOVERNMENT AND TRANSPORTATION FUNDS? cont.

The borrowing provisions were meant to provide an outlet in short-term budget emergencies, but instead are being used to paper over structural budget problems. For example, the State has no clear way to pay back the \$2 billion plus interest in local property taxes that the State borrowed as part of the 2009/10 State budget, yet lawmakers borrowed these funds anyway.

What's more, because the State has the authority to borrow local government and transportation funds, it creates mass uncertainty for cities and counties who need to plan and pass their local budgets, and for transportation and transit planners who aren't sure if they can rely on these revenues in any given year.

HOW DOES PROP. 22 IMPACT THE RECENT GAS TAX "SWAP"?

Prop. 22 will strengthen constitutional protections for the new amount of gasoline tax. At a minimum, the measure will:

- Prohibit the Legislature from diverting, borrowing or using the new increase in gasoline tax for non-transportation purposes. It also includes a prohibition on using the county/city share of HUTA to pay off state bond indebtedness.
- Strengthen protections for Public Transportation Account (PTA) funds which are dedicated to public transit, including funds from the existing sales tax on diesel fuel (which was not eliminated), and funds from the slight increase to the sales and use tax on diesel. Together, these diesel tax funds amount to \$430 million annually for local transit and intercity rail. The measure protects these and other PTA revenues by:
 - Prohibiting the Legislature from diverting, borrowing, appropriating or otherwise using these and other PTA revenues for anything other than bona fide transportation planning and mass transportation purposes.
 - Prop. 22 also prohibits the Legislature from diverting Public Transportation Account revenues to pay for expenses of the State's General Fund.

DOES PROP. 22 INCREASE OR DECREASE REVENUES FOR LOCAL GOVERNMENTS OR FOR TRANSPORTATION AND TRANSIT?

Prop. 22 does not increase or decrease the existing revenues that are dedicated to local government, transportation and transit funds. It simply prevents the State from borrowing or raiding *existing* local government, transportation and transit revenues that voters have dedicated to these services.

WON'T PROP. 22 MAKE OUR STATE'S BUDGET SYSTEM EVEN WORSE?

First, these are revenues that have historically been dedicated to cities, counties and special districts to fund local government services, or to transportation and transit. It's fiscally irresponsible for State Government to raid funds from local governments.

Second, it's important to remember that these are funds that voters have **ALREADY** dedicated to local government, transportation and transit services. Prop. 22 does not dedicate any **NEW** funding for these services, but instead ensures that the will of voters is upheld by protecting local government and transportation funds from further State raids and borrowing.

This reform is fiscally responsible and a key step in long-term reform for California. The State has gotten itself into this deep fiscal mess in large part because lawmakers have relied on budget gimmicks like tapping into voter-protected funds and borrowing which only pushes our problems into the future.

HOW DOES PROP. 22 FIT INTO THE NEED FOR BROAD REFORM OF STATE GOVERNMENT IN CALIFORNIA?

Prop. 22 is a necessary and responsible first step toward fiscal reform in California. Virtually everyone agrees that State reforms must include the restoration of more local control over local tax dollars, and moving services closer to the people at the local level. This measure ensures local control, predictability, and accountability for local tax dollars that are used to provide the most essential local services.

WILL PROP. 22 IMPACT FUNDING FOR PUBLIC SCHOOLS, HEALTHCARE OR OTHER SERVICES?

No. Prop. 22 does not take away funding from schools or any other service funded by the State because it only protects **EXISTING** funds that are already dedicated to local services like public safety and transportation. And this measure in no-way alters Proposition 98, which guarantees funding levels for K-14 schools.


HOW WILL PROP. 22 IMPACT TAXPAYERS?

Prop. 22 provides further protections for *existing* revenues that voters have already dedicated to local government, transportation and transit services. It does not increase taxes. In fact, Prop. 22 protects taxpayers by keeping more of our tax dollars local where they're more accountable. And Prop. 22 decreases pressure for local tax and fee increases at the local government level that become needed when the state takes local revenues and local governments are forced to look for new revenues to protect vital services.

Paid for by Yes on 22/Californians to Protect Local Taxpayers and Vital Services, a coalition of taxpayers, public safety, local government, transportation, business and labor, with major funding from the League of California Cities (non-public funds and CitiPAC) and the California Alliance for Jobs Rebuild California Committee, 1121 L Street, #803 – Sacramento, CA 95814

Diversions from the Public Transportation Account included in state budget agreements since 2000-01

Raids on the Public Transportation Account

Year	Dollars Lost	Where PTA Dollars Went
2000-01	\$70 million \$275 million	Loan to Toll Bridge Seismic Retrofit Program Loan to the Traffic Congestion Relief Fund
2002-03	\$100 million	Loan to the General Fund
2003-04	\$88 million \$93 million	Transfer “spillover” to General Fund Suspension of the PTA’s share of Proposition 42
2004-05	\$108 million \$106 million \$140 million	Divert revenue from sale of Caltrans property Suspension of the PTA’s share of Proposition 42 Transfer “spillover” to other programs
2005-06	\$ 380 million	Transfer “spillover” to other programs
2006-07	\$200 million \$125 million	Transfer “spillover” to the General Fund Transfer “spillover” to the Bay Bridge Toll Account
2007-08	\$ 1.052 billion	 <p> <u>New Permanent Expenses</u> <u>Previously Paid by the General Fund</u> G.O. bond debt service Home-to-School transportation Regional Center transportation Proposition 42 loan repayment </p>
2008-09	\$ 1.395 billion	
2009-10	\$ 910 million	
TOTAL SINCE 2000-01		\$ 5.042 billion

Joint legislative hearing on Proposition 22
Testimony of Brian Hatch
California Professional Firefighters

Proponents claim that Proposition 22 protects local revenue from the State, but nothing could be further from the truth. The California Redevelopment Act is actually a STATE program with NO designated oversight agency, which delegates to cities and counties the power to strip precious property tax revenues from every other local government agency that levies a property tax, including school districts, community college districts, fire districts, and a multitude of other special purpose districts, as well as from their own city and county general funds.

While local governments are struggling to make ends meet, the redevelopment agencies are growing and prospering. Analysis of reports published by the State Controller's Office show that property taxes funds shifted under state law from local governments to redevelopment agencies are about \$7.4 billion per year and growing at about 17% each year. The property tax increment received by redevelopment agencies is more than triple the amount of property tax leftovers apportioned to their sponsoring cities and counties, which are striving to fund vital public services. These redevelopment agencies are flourishing while vital public services are withering.

In round numbers extracted from reports published by the State Controller's Office show that redevelopment agencies spend more than \$300 million per year on investment bankers, lawyers, accountants, and various other consultants. Redevelopment agencies spend 22 times more on administrative costs than on relocation payments to dispossessed residents who were forced from their homes by redevelopment projects. Redevelopment agencies spend nearly \$10 billion per year, have run up nearly \$100 billion in public debt, and are sitting on nearly \$20 billion in surplus cash.

The redevelopment agency sponsoring Cities and Counties have loaned and gifted huge sums of taxpayer funds to their redevelopment agencies. Although the gifts and grants are not as well documented, however redevelopment agencies currently owe nearly \$18 billion to their sponsoring Cities and Counties. At a time when all local governments are struggling for economic survival, the redevelopment agencies haven't offered to repay one penny of debt to their sponsoring Cities and Counties.

A classic example is the City of San Diego which, like many other cities, is struggling with a staggeringly outsized structural deficit. The city is so desperate that it has resorted to closing nearly a quarter of its fire stations each day. While the city frantically plays roulette with public safety, the San Diego redevelopment agency, which owes the city nearly \$300 million, has instead of offering any debt repayment, demanded that the redevelopment agency debt be forgiven. In northern California, the foundering City of Vallejo might well have been able to avoid bankruptcy, if only it had received repayment of even half of the funds that city had loaned to its redevelopment agency.

Special districts have very limited choices to replace the property taxes taken from them. This is especially true of fire districts. Fire districts provide fire protection and emergency medical services to nearly half of the State's residents. Fire districts also provide fire protection and emergency medical services to the residents of more than 100 cities, as well as nearly all of the unincorporated territories of the 58 counties, most of which sponsor redevelopment agencies.

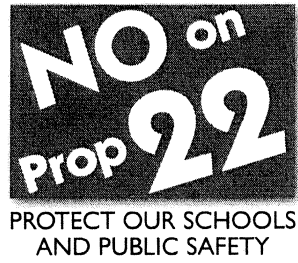
Over the life of the Community Redevelopment Act, fire districts have been forced to surrender billions of dollars in property tax revenue to the redevelopment agency project areas where they are obligated to provide fire protection. Efforts by fire districts to strike tax increment pass-through agreements with redevelopment agencies have met with limited success, as the fire districts have no leverage over the redevelopment agencies.

The impact of redevelopment agencies on fire districts has been crippling; demand for fire protection and emergency medical services has ballooned in redevelopment agency project areas; all the while the redevelopment agencies of those sponsoring cities and counties have devoured ever-increasing portions of the property tax revenues of those same fire districts. In response to the onslaught of redevelopment activities, many of fire districts have been forced to reduce their firefighting forces and delay the purchase of replacement fire apparatus and equipment.

The most outrageous examples of this phenomenon lie within Los Angeles County; where redevelopment agencies composed of entire cities; redevelopment agencies that use eminent domain to demolish existing homes to build high-rise luxury condos, big box retail complexes, auto malls, and sports stadiums; redevelopment agencies that increasingly overburden the resources of the Los Angeles County Fire Department (a fire district) while confiscating property tax revenue from that very fire district.

If ever there was a State program in need of reform, it is the Community Redevelopment Act. Proposition 22 will prevent ANY future reform of local redevelopment practices, no matter how horrifying they may be! For that reason alone, Proposition 22 should be rejected by the voters!

The League of California Cities should hang their heads in shame for sponsoring Proposition 22, a measure that fosters, encourages and protects such greed, avarice, and self serving behavior! Their assertion that redevelopment agency funds are dedicated to police and fire protection is laughable at best; at its worst it is a blatant effort to deceive the voters! It's up to the rest of us to speak up and see that Proposition 22 does not pass.



No on Proposition 22 – It’s Bad for Taxpayers!

Proposition 22 is supposed to “close loopholes” in the state budget but what it really does is cut funding for schools, universities and colleges, fire and paramedic services.

The only “vital local service” Proposition 22 protects is redevelopment agencies. These agencies have the power of eminent domain to take private property, freeze the amount of your tax dollars that can go to fire, paramedic and other critical neighborhood services, and go into debt for 30 to 40 years committing your tax dollars without voter approval. Redevelopment agencies are often used to funnel large taxpayer-funded subsidies to for-profit developers for housing and commercial development.

Amending California’s constitution to reduce education funding and shrink budgets for fire and public safety to protect subsidies for developers with little accountability is wrong. The State Constitution is not the place for local power grabs.

The facts about Proposition 22:

- Redevelopment agencies have grown at an alarming rate in California with over 30 redevelopment agencies created in just 5 years. Today they take 10% of all property taxes paid in California, over \$3 billion a year, and use them to enter into billions of dollars of long-term debt without voter approval.
- Proposition 22 locks in protections for redevelopment agencies into the State Constitution making it impossible to change your tax allocations forever.
- Redevelopment agencies are operated by local bureaucrats. The Inspector General of the US Department of Housing and Urban Development has found numerous redevelopment project violations in California. Read them yourself at:
www.hud.gov/offices/oig/reports/ca.cfm
- Proposition 22 does nothing to increase accountability for redevelopment agencies and there’s no one to regularly oversee their activities to assure compliance with state law.
- Proposition 22 would give redevelopment agencies a strong weapon in their fight to regain \$2 billion that was taken from them to help fund schools during the budget crisis.

- And Proposition 22 will take away at least \$400 million a year more from our schools, forever. Our public schools are already suffering from crippling budget cuts and Proposition 22 would devastate them further.
- Prop 22 also takes money from fire fighters and threatens fire districts and paramedics across the state. This leaves us all in greater danger from fires, earthquakes, floods, and other natural disasters.

Your tax dollars should go first to schools and public safety. It should go LAST to local bureaucrats, developers and to the redevelopment agencies that support Proposition 22.

No on Proposition 22 is supported by Assemblymember Chris Norby, President of the National Taxpayer Limitation Committee Lew Uhler, Alliance of Contra Costa Taxpayers, Fullerton Association of Concerned Taxpayers and the Silicon Valley Taxpayers Association.

Good afternoon Mr. and Madam Chairs and members...

My name is Kathy Dennis and I am a registered nurse at Mercy General in Sacramento. I've been a nurse for 12 years and I am Board Member of the California Nurses Association. Today I'm here representing the 86,000 members of CNA and to tell you why we oppose Proposition 22.

Our friends; the Firefighters and Teachers have stated many of the reasons why nurse, teachers and firefighters oppose this flawed initiative – but I wanted to specifically touch on the healthcare implications caused by Proposition 22. Prop 22 will leave us all in greater danger from fires, and other natural disasters due to lack of funds for these services. And, it also means cuts in emergency medical services, forcing longer response times if your family needs a paramedic – or perhaps no paramedic at all in a major emergency. Nurses and other healthcare professional know that the sooner a patient gets to the hospital the higher likelihood a good patient outcome will be achieved. Simply put: delays in getting to the hospital and longer wait times in emergency departments will result in bad patient outcomes and increased patient deaths.

Additionally, proposition 22 will reduce funding available for health care at a time when our safety net is already collapsing. CNA represents nurses at many clinics and County hospitals and nurses know that the decline in the economy has impacted these facilities. The most disadvantaged members of our communities' use the very services that are most likely to face deeper cuts if Prop. 22 passes.

If Prop. 22 passes, vital services that California's most vulnerable populations rely on will be cut. The poor, blind, disabled and senior citizens are already suffering enough in this era of austere budgets.

Safety-net program and social services have face years of cutting due to “bad” budgets – and there is nothing left to cut without the destruction of these programs.

Aside from the direct impact to education and fire services it is important to note:

- In-Home Support Services that allow senior citizens and the disabled to live with dignity in their own homes will be targeted for further cuts if Prop 22 passes.
- Prop. 22 will create cuts in funding for health care and, it will place additional strain on County hospitals that serve the poor and uninsured.
- And, Proposition 22 locks in protections for redevelopment agencies into California’s constitution. They use local property taxes to fund subsidies for local developers -- with no direct voter oversight. Funds that would have otherwise been available to fund schools, fire protection, children’s healthcare, parks and libraries

Supporters of Proposition 22 claim this will somehow help public services. Nurses disagree. Our tax dollars should go first to schools, public safety, and health care. They should go LAST to the developers and the redevelopment agencies that support this proposal.

Thank you.



CALIFORNIA TEACHERS ASSOCIATION

Good afternoon ladies and gentlemen of the committee.

My name is Toby Boyd. I am an elementary school teacher in Elk Grove. I am here today representing the 325,000 members of the California Teachers Association.

We are strongly opposed to Proposition 22.

Simply put, California's schools cannot afford Proposition 22. The so-called protections in this initiative would prioritize things like developer subsidies over adequate funding for our classrooms.

Given that \$17 billion in funding has already been cut from public school budgets in the past two years, the goals of Proposition 22 are well out of step with the direction California should be headed in.

In Elk Grove, where I teach, class sizes have increased in kindergarten through sixth grade, we have one school nurse for every 5,000 students, and all of our elementary school librarians were laid off until federal dollars helped bring back some of them.

Nearby Natomas and Folsom Cordova school districts have cut their guidance counseling staff by 50 percent. And many school districts have cut five school days for students. These types of cuts have both immediate and long-term effects on our students. If Proposition 22 passes, the situation will get even worse.

I want to take a moment to tell the committee just how Proposition 22 would impact our schools.

First, if Proposition 22 passes, it will immediately cut nearly \$1 billion from our schools.

A provision in Proposition 22 retroactively changes the law, disallowing a protection the State Legislature put in place to balance our state budget last year. This change will immediately blow an over \$2 billion hole in the budget.

That means just as the school year is getting underway – with larger classes and fewer educators, programs and supplies – we will be faced with even more cuts.

California cannot continue to pull back on its commitment to its most important investment – educating its children.

To make matters worse, Proposition 22 won't just cut our education budget once. It will do it every year afterward to the tune of about \$400 million.

That's simply outrageous.

A provision of Proposition 22 will route about \$1 billion of sales tax money from gas sales out of the state's general fund every year.

The fact is that regardless of what the money is earmarked for, when funding moves out of the general fund, it impacts the Proposition 98 minimum school funding guarantee.

If Proposition 22 passes, \$1 billion in sales tax on gas goes to its own special fund. And the Prop 98 guarantee goes down.

While the calculation is complex, the outcome is straightforward – schools will get shortchanged and our students will lose out.

I think the Sacramento Bee summed it up nicely in its September 18th editorial that asked voters to vote NO on Proposition 22.

“Proposition 22 is ill-timed and is an overreach, and should be rejected.”

Now, I want to give you a little history to make an important point.

In 2004, 84 percent of voters passed Proposition 1A, a measure similar to Proposition 22. But there was a vitally important difference: The people who wrote Proposition 1A knew that when a fiscal crisis hits the state, policymakers need every tool in the toolbox to keep California's budget balanced.

Right now, the only way the state can borrow local funds is if the governor declares a fiscal emergency and two-thirds of the state Legislature votes to approve the shift. That's a high bar. Also, the state must pay back the borrowed money, with interest, in three years. And the state cannot borrow from local governments more than twice in a 10 year period.

Now here's the important point – because Proposition 22 is a Constitutional Amendment, if it passes, it cannot under any circumstances be overridden, even in the case of a dire fiscal emergency, such as what occurred in 2008 and 2009.

Ironically, Proposition 98, our minimum school funding guarantee CAN and HAS been overridden.

So, not only would Proposition 22 cut billions from our schools budgets, it would increase the likelihood that the state would be faced with further cash-flow problems and more state budget cuts.

That is unfair. Unfair to our students who deserve a good education. Unfair to the future of California.

We urge you to vote NO on Proposition 22!

URBAN
COUNTIES
CAUCUS

Chair
Supervisor Paul Biane
Executive Director
Jolena L. Voorhis

1100 "K" Street, Suite 101/Sacramento, CA 95814/ (916) 327-7531 FAX (916) 491-4182/UCC@urbancounties.com

September 14, 2010

TO: Senator Christine Kehoe, Chair, Senate Local Government Committee
Senator Alan Lowenthal, Chair, Senate Transportation and Housing Committee

FROM: Jolena L. Voorhis, Executive Director

RE: **Proposition 22 – OPPOSE**
Informational Hearing to be held on September 22, 2010

The Urban Counties Caucus (UCC), a coalition of the most populous counties in the State, is opposed to the Local Taxpayer, Public Safety and Transportation Protection Act of 2010, or Proposition 22.

Proposition 22 would protect revenue streams that flow to local government agencies including transportation, transit, and redevelopment as well as prohibit the suspension of Proposition 1A (2004). While urban counties appreciate that the Proposition would protect some revenues from being taken as part of the budget process including transportation, redevelopment and local taxes, it does not protect many of the programs that counties provide to the most vulnerable citizens of California.

Counties, as partners with the state, provide many health and human service programs to our constituents including child welfare, mental health, CalWORKs, and IHSS to name a few. In addition, we also provide critical public safety services which could also be at significant risk if Proposition 22 passes.

Urban counties are concerned that if this measure passes, it will leave little option to the Legislature and the Governor but to cut these critical areas since they are not protected under other initiatives or under the Constitution. It would also prioritize transportation and redevelopment over other important government services.

For the above reasons, UCC is opposed to Proposition 22. If you have any questions please do not hesitate to contact me at (916) 327-7531.

cc: Each Member and Consultant, Senate Local Government Committee
Each Member and Consultant, Senate Transportation and Housing Committee

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