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Overview of Proposition 218
"The Right to Vote on Taxes Initiative"

Presented To
The Senate Local Government Committee

(This handout is available on the LAO's World Wide Web site at http://www.lao.ca.gov.)

Overview

Proposition 218 would:

- Restrict local government revenue raising ability. Bring greater uncertainty to local government finance.
- Reduce the amount of fees, assessments, and taxes that individuals and businesses pay. Increase voter-approval requirements for local taxes, assessments and fees.
- Reduce spending for local public services.

Proposition 218 affects most local government revenues, including garbage collection fees, fire assessments, and utility user taxes. The only local revenues **not** affected directly by Proposition 218 are: fees for local services not related to property, gas and electric charges, fees collected as a condition of property development, and intergovernmental transfers.

Assessments

✔ Which are affected?

All new assessments and some existing assessments. Existing assessments exempt from the measure's provisions are those that meet at least one of the following conditions:

- The assessment was previously approved by voters—or by all the property owners at the time the assessment was created.
- All the funds raised from the assessment are pledged to bond repayment.
- All the funds raised from the assessment are used to pay for sidewalks, streets, sewers, water, flood control, drainage system or vector control programs (such as mosquito abatement).

✔ Major Provisions

- Only "special benefits" are assessable. Local governments may not impose assessments to pay for the cost of providing a general benefit to the community.
- No property owner's assessment may exceed his or her proportionate share of the cost of the special benefit.
- Property owners must vote to approve all assessments. Property owners' votes are weighted in proportion to the amount of assessments they would pay.

Fees

✔ Which are affected?

- All new and existing “property-related” fees.
- There is little consensus as to what constitutes a “property-related fee”, however, Proposition 218 explicitly exempts from this definition gas and electric charges and fees imposed as a condition to property development.

✔ Major Provisions

- No property owner’s fee may exceed his or her proportionate share of costs for the property-related service.
- Local governments may not divert property-related fee revenues to pay for other governmental programs.
- Local governments may not impose a property-related fee for a service not immediately available to the property owner.
- Local government must notify all property owners before imposing a property-related fee. Some fees would be subject to voter approval.

Initiatives and Taxes

✔ Major Provisions

- Any local tax, assessment or fee may be reduced or repealed through the initiative process.
- General taxes imposed after December 31, 1994 without a vote of the people must be placed on the ballot for ratification within two years.
- Charter cities must submit proposed general taxes to a majority vote of the people.
- Local government must secure two-thirds voter approval for any tax to be used for special purposes, even if the tax revenues are to be placed in a locality's general fund.

Fiscal Effect

IF PROPOSITION 218 IS ADOPTED BY THE VOTERS, WE ESTIMATE THAT:

- Local government revenue reductions statewide would likely exceed $100 million annually in the short run—and potentially hundreds of millions of dollars annually over the longer term. (The actual fiscal impact would depend on local government actions, voter decisions and court interpretations.)
- Individual and business payments to local government would decline by comparable amounts.
- In general, these local government revenue losses would result in similar reductions in spending for local public services. Because local governments vary significantly in their reliance upon taxes, fees, and assessments, this measure's impact on individual communities would differ greatly.
- Local governments would have increased costs to hold elections, recalculate fees and assessments, notify the public, and defend their fees and assessments in court. These local increased costs are unknown, but could exceed $10 million initially, and lesser amounts annually after that.
- School and community college districts, state agencies, cities and counties, and other public agencies would have increased costs to pay their share of assessments. The amount of this costs is not known, but could total over $10 million initially, and increasing amounts in the future.

Summary

- ✔ Proposition 218 is a major measure with significant implications for local governments, property owners, businesses, and California residents.

- ✔ The measure would restrict local government's ability to raise most forms of revenue. This restriction would result in lower payments by individuals and businesses to local government—and less spending for local public services.

- ✔ Proposition 218's (1) requirement that many existing fees, assessments and taxes be recalculated and submitted to a vote, (2) expansion of the initiative powers, and (3) shift of burden of proof in lawsuits challenging fee and assessment amounts all serve to *increase* local residents' direct control over local government finances, but *decrease* the certainty in local government finance.