

CSMFO Chapter Meetings
October 2023

A California Local Government Finance Update

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The California Local Government Finance Almanac



California State Budget 2023

- ◆ \$311.7 billion budget
including a \$226 billion General Fund
- ◆ \$26.5 billion in in budget solutions
- ◆ General Fund reserves \$37.8 billion



The Risk of the State Foisting It's Financial Troubles Onto Local Gov't is Lower Than in the Past

- ✓ State has strong reserve levels
- ✓ State can use interfund borrowing as a kind of additional reserve
- ✓ Core city county and special district revenues have strong constitutional protection
- ✓ Unfunded program/cost shifts from state to locals are much more difficult for the state



... but Risks Remain and We Must Remain Vigilant Partners

- ✓ Tax exemptions and cost shift proposals
- ✓ Clawbacks
- ✓ Wacky & unworkable constitutional measure in Nov 2024



Statewide Ballot Measures 2024

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California Propositions March 2024

☐ **Proposition 1.** Behavioral Health Services Program and Bond Measure

- ✓ Renames Mental Health Services Act (2004) to the Behavioral Health Services Act and expands purpose to include substance use disorders;
- ✓ Changes how revenue from the 1% tax on income above \$1 million is spent under the law, including requiring 30% of the Behavioral Health Services Fund be allocated to housing intervention programs;
- ✓ Increases the oversight commission from 16 to 27 voting members;
- ✓ Issues \$6.380 billion in bonds to fund housing for homeless individuals and veterans with mental health or substance use disorders.

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October 2023



California Propositions November 2024*

- ❑ 1... Public Housing Projects. *Legislative Constitutional Amendment.*
- ❑ 2... Marriage Equality. *Legislative Constitutional Amendment.*
- ❑ 3... Local Government – 55% vote. *Legislative Constitutional Amendment.*
- ❑ 4... Pandemic Detection and Prevention Tax. *Initiative Constitutional.*
- ❑ 5... Employee Lawsuits for Labor Law Violations. *Initiative Statute.*
- ❑ 6... \$18 Minimum wage. *Initiative Statute.*
- ❑ 7... New Oil and Gas Wells Near Homes, Schools and Hospitals. *Referendum.*
- ❑ 8... Prohibit State Limitations on Local Rent Control. *Statutory Initiative.*
- ❑ 9... Limits Ability of Voters and Gov'ts to Raise Revenues for Public Services. *Init. Const.*
- ❑ 10... Constitutional Initiatives – Equivalent Votes (ACA13) *Legislative Constitutional.*



California Propositions November 2024

❑ 1... Public Housing Projects. *Legislative Constitutional Amendment.*
Repeals Article XXXIV of the California Constitution which requires voter approval for the development, construction, or acquisition of a low-rent housing project by any state or local government agency.

- ❑ 2... Marriage Equality. *Legislative Constitutional Amendment.*
- ❑ 3... Local Government – 55% vote. *Legislative Constitutional Amendment.*
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- ❑ 2... Marriage Equality. *Legislative Constitutional Amendment.*
- ❑ 3... Local Government – 55% vote. *Legislative Constitutional Amendment.* Authorizes a city, county, city and county, or special district to, with the approval of 55% of the voters in the jurisdiction, fund the construction, reconstruction, rehabilitation, or replacement of public infrastructure, affordable housing, including downpayment assistance, or permanent supportive housing, or the acquisition or lease of real property for those purposes:
 - a) levy an *ad valorem* tax to service bonded debt (general obligation bond),
 - b) levy a sales & use tax, transaction & use tax, or parcel tax
- ❑ 4... Pandemic Detection and Prevention Tax. *Initiative Constitutional.*
- ❑ 5... Employee Lawsuits for Labor Law Violations. *Initiative Statute.*
- ❑ 6... \$18 Minimum wage. *Initiative Statute.*
- ❑ 7... New Oil and Gas Wells Near Homes, Schools and Hospitals. *Referendum.* October 2023

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Increases tax on personal income over \$5 million by 0.75% for 10 years, generating \$500 million to \$1.5 billion over ten years.
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To be finalized and numbered by early July 2024

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❑ 5... Employee Lawsuits for Labor Law Violations. *Initiative Statute.*

Repeals the Private Attorneys General Act (PAGA) that allows employees to file lawsuits against employers to recover monetary penalties for certain state labor-law violations. Replaces it with a new law that would:

- double statutory and civil penalties for willful violators;
- require that 100% of monetary penalties be awarded to harmed employees;
- provide resources to employers to ensure labor compliance; and
- require the Division of Labor Standards Enforcement (DLSE) to be a party to all labor complaints

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❑ 6... \$18 Minimum wage. *Initiative Statute.*

Current law increases the minimum wage to \$15.50/hr for all employers by January 2023 and annually thereafter according to inflation (US CPI-W). This instead increases the minimum wage to \$18/hr by 2025 (2026 for employers <25) and annually thereafter according to inflation (US CPI-W).

- ❑ 7... New Oil and Gas Wells Near Homes, Schools and Hospitals. *Referendum.*
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- ❑ **8...** Prohibit State Limitations on Local Rent Control. *Statutory Initiative.*
Repeals the Costa-Hawkins Rental Housing Act (1995), allows cities and counties to limit rent on any housing, and prohibits the state from limiting "the right of any city, county, or city and county to maintain, enact or expand residential rent control."

California Propositions November 2024

❑ **8...** Prohibit State Limitations on Local Rent Control. *Statutory Initiative.*

- ❑ **9...** Limits Ability of Voters and Gov'ts to Raise Revenues for Public Services. *Initiative Constitutional.*
Requires statewide election and voter approval for state tax increases. For local citizen initiative special taxes, raises vote requirement from majority to two-thirds. Expands definition of "taxes" to include certain fees and charges.

- ❑ **10...** Constitutional Initiatives – Equivalent Votes (ACA13) *Legislative Constitutional.*
Requires an initiated constitutional amendment proposing increased voter approval thresholds for state or local measures to be approved by the same voter threshold it is proposing. For example, an amendment proposing a two-thirds (66.67%) vote must also be approved by two-thirds of voters.

Initiative #21-0042A1

Huge Threat to Public Services

Draconian, Impractical Ballot
Initiative Headed to the
November 2024 Ballot

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Draconian, Impractical Ballot Initiative – November 2024

Initiative #21-0042A1: Limits Ability of Voters and State and Local Governments to Raise Revenues for Government Services. Initiative Constitutional Amendment

Chokes local tax authority. Requires:

- Requires voter approval for taxes applied to territory that is annexed
- Requires sunset date on all new taxes
- General tax ballot label must say “for general government use”
- Repeals *Upland* exception for initiative special taxes
- Local tax advisory measures are prohibited (the Measure A/B approach).

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Draconian, Impractical Ballot Initiative – November 2024

Initiative #21-0042A1: Limits Ability of Voters and State and Local Governments to Raise Revenues for Government Services. Initiative Constitutional Amendment

Restricts local fee authority

- Fees by limiting limited “actual cost” of providing the product or service for which the fee is charged. “Actual cost” is defined as the “minimum amount necessary.”
- Fees - including for use of government property - must be “reasonable to the payor”
- Repeals fee for “special benefit” exception to Prop 26 “tax” definition
- Fees must be adopted by legislative body by ordinance, not staff or a commission
- Changes legal standard from “preponderance of the evidence” to “clear and convincing evidence” to prove a fee or charge is not a tax and does not exceed “actual cost.”



Draconian, Impractical Ballot Initiative – November 2024

Initiative #21-0042A1: Limits Ability of Voters and State and Local Governments to Raise Revenues for Government Services. Initiative Constitutional Amendment

Also ...

- Fines require “adjudicatory process”
- No VMT tax or fee as condition of development or occupancy
- Retroactive window: taxes, fees approved after Jan 1, 2022 will sunset in Dec 2025 if not readopted in compliance with the initiative
 - At least \$2 billion of taxes approved in 2022-2024 must be re-adopted in 2025
 - New ballot language, new sunsets, new voter thresholds
 - \$ Billions of fees must be readopted to comply in 2025



Local Tax and Bond Measures



Tax Measures – Proper Design



All ballot measures that increase taxes. Elections Code § 13119.

Ballot question (label):

- ✓ must say *“Shall the measure (stating the nature thereof) be adopted?”*
- ✓ must state the
 - amount of money to be raised annually
 - rate of the tax
 - duration of the tax. (e.g., “until ended by voters,” etc.)
- ✓ *“shall be a true and impartial synopsis of the purpose of the proposed measure, and shall be in language that is neither argumentative nor likely to create prejudice for or against the measure.”*



Tax Measures – Proper Design

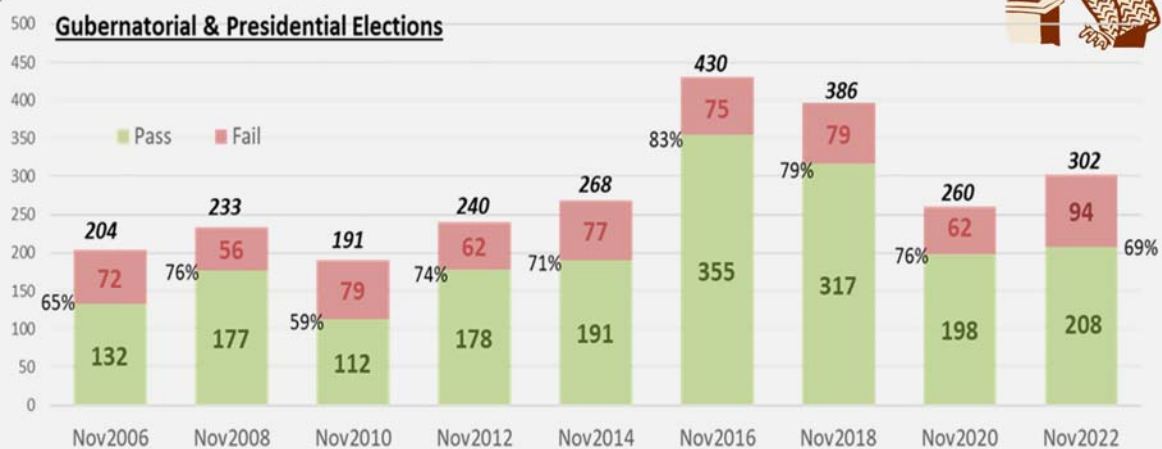


General Obligation bond measures. Elections Code § 9401.

Ballot book must include estimates of:

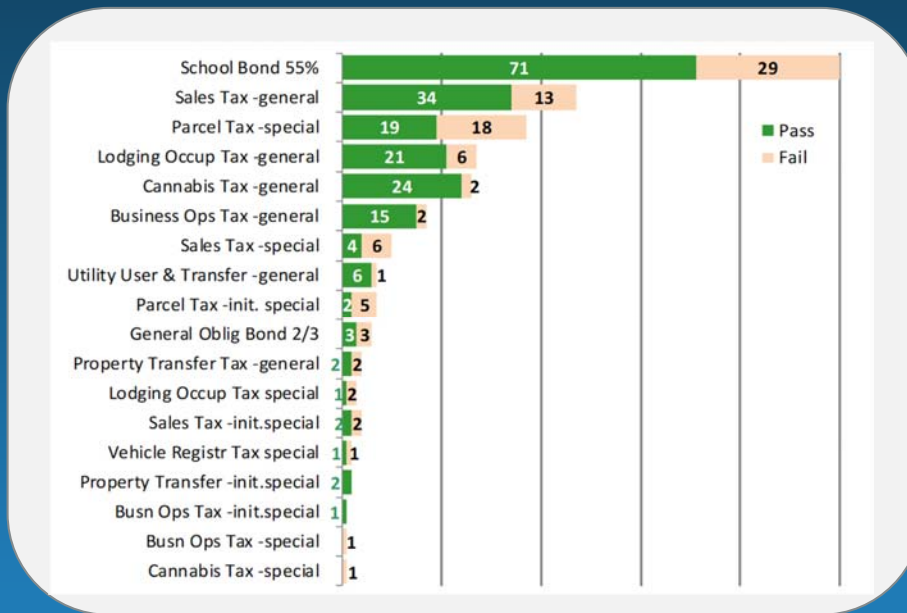
- ✓ average annual tax rate (expressed as \$-- per \$100 of assessed valuation)
- ✓ duration
- ✓ highest tax rate and year in which that rate will apply
- ✓ total debt service, including the principal and interest

Local Tax & Bond Measures



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Local Tax & Bond Measures Nov. 2022



Local Tax Measures – Best Practices

- ✓ Majority-vote general tax “for general government use”
- ✓ Open, inclusive citizen engagement: budget/financial plans
- ✓ Compare with your neighbors
- ✓ Pick one – avoid same-ballot pile-on
- ✓ High turnout elections (even year November) are best
- ✓ Get good advice: legal, polling, prep, campaign

