

June 26, 2018

Expands Requirement for Supermajority Approval to Enact New Revenue Measures. Initiative Constitutional Amendment.

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:

Senate Committee on Budget and Fiscal Review

Hon. Holly J. Mitchell, Chair





LAO Role in Initiative Process



Fiscal Analysis Prior to Signature Collection

- State law requires our office, alongside the Department of Finance, to prepare an impartial fiscal analysis of each initiative.
- State law requires this analysis to provide an estimate of the measure's fiscal impact on state and local governments.
- A summary of the fiscal impact is included on petitions that are circulated for signatures.



Analysis After Measure Receives Sufficient Signatures to Qualify for the Ballot

- State law requires our office to provide impartial analyses of all statewide ballot propositions for the statewide voter information guide.
- This analysis includes a description of the measure and its fiscal effects.
- We are currently in the process of preparing these materials for initiatives that have qualified—or have a reasonable likelihood of qualifying—for the November 2018 ballot.



Background: State Taxes and Fees

- State Budget Primarily Funded Through Taxes.*** This year's state budget spends about \$185 billion. Over 80 percent of the budget is funded through taxes, with the remainder funded through fees and other charges.

- Vote Thresholds for Changing State Taxes and Fees.*** The State Constitution requires that state tax increases receive a two-thirds vote of each house of the Legislature. The Legislature can increase fees and other charges with a majority vote of each house. Voters, on the other hand, can increase any state tax, fee, or other charge with a majority vote of the statewide electorate.



Background: Local Taxes and Fees

- Local Government Finance.** The largest local government revenue source is the property tax, which raises \$60 billion annually. Other local taxes include sales taxes, utility taxes, and hotel taxes. In addition, local government budgets are funded through fees and other charges.

- Vote Thresholds for Increasing Local Taxes and Fees.** Compared with the state, local governments face greater restrictions in raising revenue. For example, local tax increases require either a majority vote or two-thirds vote approval by the electorate in the local jurisdiction, depending upon the use of the revenue. In general, it is easier for local governments to increase taxes that can be used for any purpose. Local governments generally can increase fees without voter approval.



Proposal

- Expands Definition of Tax.*** The measure amends the Constitution to expand the definition of taxes to include some charges that state and local governments currently treat as fees.
- Increases Vote Thresholds for Some Local Taxes.*** Under the measure, any increase in local taxes would have to be approved by either a (1) two-thirds vote of the local governing body and two-thirds vote of the electorate in the case of taxes sought by local governing bodies or (2) two-thirds vote of the electorate in the case of citizen initiatives.
- Requires Allowable Uses of Tax Revenue to Be Specified.*** The measure requires state and local laws that increase taxes to say how the revenues can be spent.
- Increases Vote Thresholds for Some Local Government Fees.*** The measure requires that certain fees and other charges be approved by either a (1) two-thirds vote of a local governing body in the case of local fees or (2) two-thirds vote of the electorate in the case of local citizen initiative fees. The measure also allows fees imposed by a local governing body to be stopped by citizen referenda.



Fiscal Effects

- ☑ **Reduced State Revenue.** Because the revenue sources affected by the measure are a small part of the state budget, the fiscal effects of the measure on the state likely would be minor.

- ☑ **Reduced Local Government Revenue.** Roughly half of the majority-vote tax measures enacted since 2012—raising hundreds of millions of dollars annually—did not receive the two-thirds vote of the electorate that would have been required if the measure had been in effect. Therefore, the future reduction in local tax revenue could be substantial.