January 3, 2002

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code 9005, we have reviewed the proposed initiative entitled "Local Revenue Accountability Act (Option 1)" (File number SA2001RF0037, Amendment #1-NS).

MAJOR PROVISIONS OF THE INITIATIVE

This measure amends the state Constitution to expand the conditions under which the state must provide a subvention of funds to local governments.

Provisions Relating to Reimbursements

The California Constitution currently requires the state to reimburse local governments for the cost of implementing a state-mandated "new program" or "higher level of service," unless the mandate pertains to a crime or infraction or other conditions apply.

This measure expands the circumstances under which the state is obligated to reimburse local governments. Specifically, the state would be required to provide reimbursement to schools, cities, counties, and special districts if the Legislature enacted a law or any state agency passed a regulation that:

- Reduced the amount of resources a local government received from local revenues (taxes, assessments, or fees).
- Increased a local government's costs for a public program, the costs of which are shared between the state and local governments.
- Reduced the amount of resources a local government received from the vehicle license fee, court fines and forfeitures, or the realignment program.

Provisions Authorizing Suspension of Subventions

Under current law, the state is not required to reimburse local governments for a mandate if:

- The local government requested the law or regulatory change.
- The state law or regulation relates to the definition of a new crime or changing the existing definition of a crime.

Likewise, reimbursements under this measure would not be required if the changes were requested by a local government or related to the definition of a crime. In addition, the measure allows the Legislature to suspend the payment of otherwise required subventions to local governments for two years in any given ten-year period. In order to suspend a subvention, the Legislature would need to enact legislation by a two-thirds majority vote.

Provisions Relating to "Burden of Proof"

Under current law, local governments bear the burden of proof in determinations as to whether a reimbursement is required because the state has mandated a new program or higher level of service. This measure shifts the burden of proof to the state. This new burden of proof would apply to all reimbursement claims filed after January 1, 2002.

Provisions Requiring Local Government Reporting

Under current law and practice, most local governments adopt annual budgets and undergo financial audits. Many local governments also produce documents describing local performance goals and service levels.

This measure specifies that *all* local governments must produce a written description of local service goals and priorities. In addition, at the end of the year, every local government must (1) issue a report evaluating the extent to which local expenditures conformed to its local service goals and priorities and (2) undergo a financial audit.

FISCAL EFFECT

We estimate that this measure would have the following major fiscal effects on the state and local governments.

Reimbursement Requirement—State Government

Under current law, state and local government revenues and financial obligations vary over time, as economic conditions and program needs change. For example, over the last two decades the state has shifted the allocation of property taxes and vehicle license fees among local governments, reduced taxation on certain sales transactions and vehicle ownership, and transferred part of the financial obligation for trial courts and welfare programs from counties to the state.

Because this measure greatly expands the circumstances under which the state is required to provide a subvention of funds to local governments, this measure would reduce the state's flexibility in implementing changes that involve local revenues or programs funded by state and local governments. This measure, therefore, likely would result in higher state program or state reimbursement costs—or lower state revenues—than would exist in the absence of this measure. In addition, by shifting the burden of proof in mandate determinations from local governments to the state, some state actions may be determined to be mandates that would not have been found to be a mandate under existing law.

While it is not possible to predict future state actions, or the impact of changing the burden of proof, our review of past state actions indicate that the measure could have a major state fiscal impact—possibly several billion dollars annually.

Reimbursement Requirement—Local Governments

Because the measure limits the state's ability to implement changes regarding local revenues or jointly funded state-local programs, local governments likely would experience higher revenues and/or lower program costs than would be the case in the absence of this measure. The magnitude of this local fiscal impact would tend to "mirror" any state impact.

For K-12 school districts, state reimbursements provided under this measure may not result in an overall increase in financial support for education. This is because the state may be able to decrease *other* state support for education to partially or fully offset the increased state reimbursement requirements.

Administrative Costs

Increased State Administrative Costs. By (1) expanding the number of state actions eligible for local subventions and (2) shifting the burden of proof for reimbursement determinations to the state, this measure would increase state administrative costs. The amount of increased costs would depend on the number and type of claims for subventions submitted by local governments, but probably would exceed a $1 million annually.

Increased Local Administrative Costs. Some local governments would experience increased costs to comply with the performance review and audit requirements specified in the measure. Statewide, these costs could exceed several million dollars annually.

SUMMARY

The initiative would have the following major fiscal effects:

- Higher state costs than otherwise would have occurred, potentially several billion dollars annually. Commensurate increase in funding to cities, counties, and special districts.

- Increased costs to schools, cities, counties, and special districts to develop financial and performance reports, possibly exceeding several million dollars annually.

Sincerely,

Elizabeth Hill
Legislative Analyst

B. Timothy Gage
Director of Finance