LAO

PROPOSITION 41

Prohibits New State Taxes That Exclude Revenues From State Spending Limit. Requires Audits for New State Special Taxes. Initiative Constitutional Amendment.

ANALYSIS OF MEASURE

BACKGROUND

Elections Administration. The Secretary of State oversees elections across the state and prepares and mails the state *Voter Information Guide* (VIG).

Voter Initiative Process. California citizens may propose state laws and constitutional amendments through the statewide initiative process. Supporters of an initiative collect signatures from registered voters to qualify their initiative for the ballot. State law sets how many valid signatures supporters must collect to qualify their initiative for the ballot. Supporters notify the Secretary of State once they have gathered 25 percent of the necessary signatures.

Special Taxes. State taxes can be raised by the Legislature or by voters. When a "special tax" is created, the revenue from that tax is dedicated to a specific purpose or program. For example, certain fuel taxes can only be used to pay for public roads and other transportation programs.

California State Auditor's Office (State Auditor). The State Auditor is an independent and nonpartisan office in state government. It reviews how well the state and local governments follow the law, use money, and run their programs. These reviews are called audits. An audit may give recommendations to help improve government operations and efficiency. Some audits happen regularly over time while other audits are done only once.

PROPOSAL

Requires One-Time Audits Before Special Taxes Appear on the Ballot Through the Voter Initiative Process. Proposition 41 requires the State Auditor to review each program that would receive funds from a new or increased special tax proposed through the voter initiative process. This audit would occur after supporters collect 25 percent of the signatures needed to qualify a measure for the ballot, which is before it is known whether the initiative will qualify for the ballot. Proposition 41 specifies what the State Auditor would include in these audits, including identifying ways to reduce an audited program's annual costs by 10 percent. Proposition 41 requires the State Auditor to write a summary of each audit. If a proposed voter initiative with a special tax qualifies for the ballot, Proposition 41 requires the State Auditor's summary to be included in the VIG. If voters approve the special tax, the cost of the one-time audit would be paid from the new tax revenues.

Ongoing Audits of Programs Receiving Funds From New or Increased Special Taxes. Proposition 41 also requires the State Auditor to periodically review programs that receive funding from special taxes created or increased by the Legislature or by voters after January 1, 2026. These ongoing audits would happen every four years. Proposition 41 specifies what the State Auditor will include in these audits, including recommendations to improve program efficiency. Proposition 41 specifies that the costs of this ongoing work will be paid using the new tax revenue.

State Appropriations Limit. The State Constitution limits how much tax revenues the state can spend each year. The limit applies to both General Fund taxes and special taxes. However, certain types of spending, for example for infrastructure, are excluded from this limit. Under Proposition 41, the state might not be able to exclude new special tax spending from the limit.

Potential Interactions With Other Propositions

If Proposition 41 receives more "yes" votes than Proposition 40 on this same ballot, then Proposition 40 could be stopped from becoming law even if it gets yes votes from a majority of voters. This is because the courts could find that Proposition 41 conflicts with Proposition 40.

FISCAL EFFECTS

Increased State Auditor Costs, Mostly Paid by New Revenues. Proposition 41 would increase State Auditor costs by creating new and ongoing audit requirements. The costs would depend on (1) the number of new or increased special taxes that are proposed and approved and (2) the complexity of the programs being audited. These costs likely would be in the range of the low millions of dollars per year but would grow over time. The one-time and ongoing audit costs associated with special taxes approved by voters or the Legislature would be paid from the revenues collected by the special taxes. One-time audit costs associated with special taxes that do not ultimately appear on the ballot or are rejected by voters would be paid from the state's General Fund. (The General Fund is the account the state uses to pay for most public services, including education, health care, and prisons.)

Higher Costs to Print and Mail VIG. Proposition 41 would require a summary of the State Auditor's review to appear in the VIG when a voter initiative with a special tax appears on the ballot. These audit summaries could add several pages to the VIG, which would increase state printing and mailing costs by a few hundred thousand dollars per qualified initiative.

Possible Savings if State Auditor Recommendations Are Implemented. Proposition 41 requires the State Auditor to make recommendations for programs to reduce costs or improve efficiency. Proposition 41 could result in savings or improved services if policymakers implement the State Auditor's recommendations and those recommendations prove effective. Any resulting savings would depend on future decisions and are not known.

Net Effect Not Known. The net fiscal effect of Proposition 41 is unknown as it depends on future decisions by voters, the Legislature, and other policymakers.

YES/NO STATEMENT

A **YES** vote on this measure means: When special taxes are proposed by voter initiatives, the California State Auditor would review programs funded by the tax before the initiative appears on the ballot. The California State Auditor also would regularly review programs funded by special taxes approved by voters or the Legislature. In addition, the state might not be able to exclude any new special tax spending from its spending limit.

A **NO** vote on this measure means: The California State Auditor's responsibility to review government programs would not change. The state spending limit requirements would not change.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT

- Unknown net fiscal effect. Increased costs for the California State Auditor to implement new one-time and ongoing audit requirements of programs funded by special taxes. These costs would be mostly paid from the new revenues collected from the special taxes. Possible savings associated with implementing recommendations from the audits.

BALLOT LABEL

Fiscal Impact: The net fiscal effect is unknown as it depends on future decisions by voters, the Legislature, and other policymakers.