



POTENTIAL ATTACK ON PROP 1A

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Special districts and other local agencies dodged a bullet during the State's most recent budget process as it relates to raiding property taxes and violating Proposition 1A. However, the State is re-loading its' weapons and may be willing to pull the trigger during the next budget cycle in finding out a way to circumvent Proposition 1A.

Proposition 1A was approved by 84% of voters

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in November 2004, after the State had shifted \$700 million in property taxes away from Special Districts in order to help fill

a \$10 billion budget gap in the 2004 budget.

The intent of Proposition 1A was to protect special districts' property tax revenues from being shifted to the State. Proposition 1A allows the State to borrow local government property taxes on the condition that the property taxes be paid back within three years. Any such borrowing is subject to a two-thirds vote of each house of the legislature and can only be taken in the event of a fiscal emergency or a severe state financial hardship, as declared by the Governor. Any borrowing is limited in scope and the State is prohibited from borrowing more than twice in a ten year period unless the first borrowing is repaid.

Fortunately, due to the efforts of the Special Districts and ACWA, involvement of any additional raids on the property taxes this past

budget cycle was averted. Yet the State is potentially re-loading its arsenal of weapons to stage another attempt at attacking the property tax of special districts in this upcoming budget cycle. This attack may be based on the premise that Proposition 1A does not preclude the State from redirecting or redistributing local property tax within a given county as long as the net property tax within a county stays the same and isn't shifted to the State.

The current State budget is running a deficit in the billions of dollars so it is predictable that the State will make another attempt at raiding property tax revenue of local agencies to help make up the shortfall. These attempts can range from the Legislative Analyst's Office (LAO) proposals to circumvent the intent of Proposition 1A to actually exercising the borrowing provisions under Proposition 1A. The LAO's proposals would permanently shift away the very property tax revenues that were supposed to be protected under Proposition 1A. Such a shift can only take place in the case of a severe state financial hardship; however, the legislature could change the law by a two-thirds vote by both the Assembly and the Senate.

What can be done to defense against these attacks on local property taxes? There has been a formation of a working group comprised of attorneys representing agencies that are members of ACWA and CASA and have substantial property tax revenue at stake. This working group has been exchanging information and legal strategies regarding how any action taken by the Legislature can be challenged in court. This working group helped to prevent the

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COMPETITOR #3	51	14.09%	4,928.0	3
COMPETITOR #4	37	10.22%	1,401.8	4
COMPETITOR #5	20	5.52%	2,470.6	5
COMPETITOR #6	17	4.70%	488.4	6
COMPETITOR #7	15	4.14%	1,688.9	7
COMPETITOR #8	12	3.31%	129.5	8
COMPETITOR #9	10	2.76%	934.7	9
COMPETITOR #10	10	2.76%	536.5	10

*Source: Thomson Financial Securities Data Co. 2007

LAO's proposals from ultimately moving forward in last year's budget cycle and will be very active in this year's budget cycle.

It appears the State isn't going to let up on its efforts, even in the face of a legal challenge in court. Special districts need to hold the State accountable for upholding the voter-approved law. This can be done through legislative advocacy, a consistent and coordinated message to their customers, activism through organizations such as ACWA, CASA and CSDA, and by providing funding for the legal effort of the working group. ♦

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