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To: County Administrative Officers
County Legislative Coordinators
County Public Works Directors

From: Paul McIntosh, Executive Director

Re: **Facts About Proposition 1A Suspension Provisions**

The rumor mill has been churning in Sacramento and throughout the state regarding the various options available to the state to assist in closing its estimated \$14 billion budget deficit. Counties will recall that 2008-09 is the first year for which the suspension provisions of Proposition 1A (2004) are available to the state. Thus, this suspension has cropped up as one of the options the state has available during times of fiscal crisis. This memo is intended to outline and clarify the suspension provisions of Prop 1A.

Section 25.5 of Article XIII of the California Constitution outlines the property tax protection provisions of Proposition 1A. This section includes suspension provisions under the following circumstances:

- The Governor must issue a proclamation that declares that, due to a severe state fiscal hardship, the property tax protection provisions of Prop 1A must be suspended.
- The Legislature must enact an urgency statute, requiring a two-thirds vote of each house, that suspends the property tax protection provisions of Prop 1A. This measure may not contain any other provision. The Constitution limits the amount of property taxes that may be shifted to 8 percent of the prior year's total property tax allocation to local agencies. It is fair to interpret this language to mean that the allocation of such a reduction may be negotiable.
- A second statute must then be enacted that outlines the provisions of full repayment for the loss of local property taxes as a result of the suspension. The repayment must include interest and must be fully repaid within three years.
- Proposition 1A may not be suspended more than twice in ten years and may not be suspended until prior losses are repaid. (Recall that the suspension could not occur if the VLF Gap Loan had not been repaid. This loan was repaid to local governments in the 2005-06 state budget.)

Similar provisions exist in the Constitution for suspension of Proposition 42, the 2002 measure that dedicated revenues from the state sales tax on gasoline for transportation purposes. Another Proposition 1A (this time in 2006) provided protections for those revenues that included borrowing provisions modeled after those described above.

It is important to note that no proposal to suspend Prop 1A has been formally proposed or discussed at this time. In the event that it is, CSAC will, of course, take a strong stand against a shift of local revenues to resolve the state's budget crisis. If you have questions regarding this memo, please don't hesitate to contact me or Jean Kinney Hurst of the CSAC staff at jhurst@counties.org or 916.327.7500 ext. 515.

cc: County Caucus
CSAC Legislative Staff