

Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: California Proposition 13 Costs San Diego Hotel Tax.

Fitch Ratings-New York-12 September 2014: A recent state appellate court ruling that invalidated a hotel tax in San Diego offers the latest example of the far-reaching effects of Proposition 13 on California's local governments, Fitch Ratings says. The tax was intended to fund a major expansion of the city's convention center and was struck down on the basis that it had not been approved by local voters as required since its enactment in 1978.

The San Diego ruling will likely affect only a small number of potential future financings, but highlights the enduring impact of Proposition 13. California's local governments continue to face obstacles to raising new revenues as a result of this 35-year old voter initiative while expenditure requirements, fueled by population growth and rising employee pension and health care costs, continue to soar. The resulting imbalance between revenue and expenditure growth remains a defining feature of local government finance in the state.

The San Diego case involved a class of financing put in place by California's legislature in 1982 as a means for local governments to support growth despite the new limitations of Proposition 13. Named for its legislative sponsors, Henry Mello and Mike Roos, the Mello-Roos law enabled local governments to establish community facilities districts with authority to issue debt backed by taxes on future property owners to fund schools, parks, infrastructure, and municipal services. The financing mechanism has been especially popular in the state's fastest growing communities. More than \$20 billion in Mello-Roos financings were completed in California between 1992 and 2012.

Most Mello-Roos districts are established for undeveloped land with no residents, and are unaffected by the new decision. In districts with existing residents the original Mello-Roos law required an affirmative vote of two-thirds of the electorate for the imposition of new taxes, but allowed such elections to be limited to landowners when the tax was borne by them alone. In San Diego's case, the new tax was limited to hotel owners and lessees, but the court determined that under Proposition 13 all registered voters in the city should have a say in the election. A previous, similar hotel financing for a San Jose convention center appears to be grandfathered.

Contact:

Stephen Walsh
Director
U.S. Public Finance
+1 415 732-7573
650 California Street
San Francisco

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159
33 Whitehall Street

New York, NY

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available on www.fitchratings.com.

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com