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## **Fitch Ratings: Prop 6 Highlights Impact of Voter Initiatives on CA**

Fitch Ratings-New York-24 September 2018: An initiative on the California ballot in November highlights the extent to which voter initiatives can limit the state of California's operating flexibility, according to Fitch Ratings.

Proposition 6 would repeal legislatively authorized tax increases dedicated to transportation improvement projects and make it more difficult for the state to increase transportation related fees and taxes in the future. The initiative uses the ballot to counter revenue raising decisions made by the legislature to support significant spending actions, illustrating the ways in which California voters can directly affect state operations. Adding a requirement to seek voter approval of transportation fee and tax increases could also increase the likelihood that infrastructure spending demands, often funded through use of dedicated funds, may to a greater extent compete with general operating needs.

Proposition 6 would repeal the tax increases incorporated in the "Road Repair and Accountability Act of 2017" and require voter approval for increases in gas and vehicle taxes going forward. Voter approval would be in addition to the legislative two-thirds vote that is already required to increase taxes and fees. The Road Repair and Accountability Act, passed as Senate Bill 1 (SB1), increased transportation-related taxes and fees and dedicated the increased revenue to improving the state's transportation infrastructure. Voters further protected the revenues by passing Proposition 69 in June 2018 to constitutionally limit spending of SB1 revenues to transportation. The state estimates SB 1 will generate over \$5 billion annually, allowing the state to direct an estimated \$54 billion to transportation improvement projects over the next ten years. Approximately two-thirds of the money is to be directed toward highway and road repairs, with the balance applied to other programs, including mass transit.

Proposition 6, which is contentious but has received support in a high-profile election year, highlights the impact of voter initiatives on California's operating flexibility. Passage of SB1, albeit along partisan lines in the Democratically- controlled legislature, represented a breakthrough in funding for backlogged infrastructure projects that had accumulated through a period of budget shortfalls and a deadlocked legislature. Repeal of the SB1 tax increases would likely cause delays or cancellation of projects, even as supporters of Prop 6 indicate that funding for state transportation projects can be found elsewhere in the budget. The fiscal 2019 budget includes approximately \$35 billion in transportation funding, of which approximately \$12 billion comes from the state, an amount which has increased by approximately 75% over the last two years with the additional SB1 funds.

A requirement for voter approval of future tax increases may factor into Fitch's assessment of the state's operating resiliency related to its ability to raise revenues. As with all states, California has an unlimited legal ability to raise revenues, even with a requirement for a two-thirds vote in the legislature. If Proposition 6 passes, the state would continue to have extensive control over its revenues, but the voter approval requirement of future transportation tax increases would create a

limit on at least a portion of that revenue raising ability. Additional extensions of voter approval requirements for state revenue increases could erode the state's revenue framework and ultimately its ability to manage its budget in response to changes in the economy.

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