FM3 RESEARCH | FAIRBANK, MASLIN, MAULLIN, METZ & ASSOCIATES

TO	Interested Parties
FROM	Fairbank, Maslin, Maullin, Metz & Associates (FM3)
RE:	Success of California Local Finance Measures in the November 2018 Election
DATE	January 18, 2019

The November 6th, 2018 midterm General Election is headed for the history books, with record-high numbers (313) and proportions (more than 81 percent) of local finance measures winning approval from California voters – more than in any previous midterm election.

In our research among voters in communities throughout the state, FM3 identified a number of trends and themes which we believe contributed to the record-breaking support for local tax and bond measures this year. The story of this election is therefore the confluence of these individual factors—the synergy of which produced an outcome far more decisive than what any of them might have produced on their own.

The specific factors that our research indicates impacted local finance measures in this election include:

1 PERCEPTION OF NEED

As was the case in 2016, the proportion of voters in many jurisdictions who perceived that their local government agencies required additional funds to provide the level of services they wanted and needed was remarkably high. This appears to continue to be driven by factors which include:

1) A sense of worry and/or unease about events in national politics, on the world stage, and current events (such as natural disasters/mass shootings/terrorism) which brought a **continuing focus on safety**;

2) The sense of pessimism felt by many California voters regarding the ability of the federal (and to a lesser degree, state) governments to adequately address the problems that impact their lives resulted in **increased pressure for proactive local governments to fill that void** – and a willingness to provide the funds necessary for doing so; and

3) Concern over **current or potential future cutbacks in federal support** for local infrastructure (such as transportation), services (such as public safety), and environmental protections (including for clean air and clean water) under the Trump Administration.

Overall, voters' perceptions of local agencies' financial needs as they related to key, top-of-mind issues helped secure two-thirds supermajority approval for local finance measures in Los Angeles County (for clean water), San Mateo County (transportation), San Benito County (transportation), and Sonoma County (parks and open space), among other jurisdictions.

2   CONTINUING ADOPTION OF BEST PRACTICES BY LOCAL AGENCIES

The unprecedented success of local tax and bond measures this year was aided by continuing gains in the adoption of finance measure best practices by the local government community throughout California. In our experience, more agencies than ever helped position their measures for success by utilizing strategies such as:

1) Beginning the planning process for their finance measure **earlier in the election cycle**;
2) Utilizing research to develop **clear, resonant ballot label language** that effectively communications **how measure funds will be used and how accountability will be provided**;
3) Conducting **legally-permissible public outreach and education**;
4) Leveraging voters' continuing **trust in local agencies and local elected officials** and their **perceptions of greater accountability at the local level**; and
5) Deploying "general tax" measures that can win approval with a **simple majority vote**.

The advantages provided by adopting these best practices were perhaps illustrated most visibly this year by the successful, high-profile statewide campaign to defeat Proposition 6, the proposed gas tax repeal. The No on Prop 6 campaign leveraged research to develop and inform public communications that resonated with voters by informing them of the local road safety and transportation improvement projects that would be eliminated if the measure were approved. This information was augmented with statements about accountability and local control of funds as established by the passage of Proposition 69 in June 2018 to assure voters that funds would be used effectively, efficiently, and as promised. Additionally, because the No on Prop 6 campaign engaged early, beginning in the summer, opponents effectively framed the issue and entered the fall with a strategic advantage that set the stage for a decisive victory despite most political prognosticators believing the repeal measure would be approved.

3   HIGH TURNOUT

In past years, local agencies have generally preferred to wait for a Presidential Election to place tax and bond measures on the ballot—in hopes that their measure will benefit from the (historically) greater turnout among specific groups of voters, such as registered Democrats, younger voters, renters, and voters of color, that have been consistently more supportive of local finance measures than the demographics but which have been less likely to vote in in lower-turnout midterm elections. However, thanks at least in part to President Trump and the reaction to him by his opponents, November 2018 saw the highest voter turnout for a California midterm election in at least a dozen years, as indicated by **Table 1** on the following page.

Table 1: California Midterm Election Voter Turnout

Election	Statewide Voter Turnout (%)[1]
November 2018	64.5%
November 2014	42.2%
November 2010	59.6%
November 2006	56.2%

This year's higher-than-usual voter turnout brought these same voters who have consistently been more supportive of local finance measures to the polls in large numbers, providing a tailwind for otherwise marginal local tax and bond measures throughout the state.

4 GROWING GENDER GAP

Historically, female voters of all stripes have tended to provide greater support for local tax and bond measures throughout California than their male counterparts. As was the case in partisan races throughout the country, this 'gender gap' widened in the November 2018 election, with much of the movement coming from female voters (particularly those with higher levels of education) who were more supportive of local finance measures than in prior midterm elections.

5 CANNABIS

The remarkably broad consensus in support of taxing cannabis at the local level was one of the key takeaways from this election. Importantly, **support for local cannabis tax measures came both from those who support permitting cannabis businesses locally, and from those who do not.** Among the latter group, a critical mass in many communities believed that cannabis businesses would be permitted locally regardless of their personal policy preferences, and were therefore open to taxing these businesses if they were going to locate in their community anyway.

The widespread success of cannabis tax measures this cycle (72 of 79 were approved, a passage rate of 91 percent) was also the result of nearly all such measures being drafted as "general" (rather than "special") taxes, enabling them to qualify for passage with simple majority support. Only two cannabis tax measures on the November 2018 ballot were drafted as "special" taxes requiring two-thirds supermajority approval, which neither one received.

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[1] Voter turnout data courtesy of the California Secretary of State

A COMPLICATING FACTOR: AB-195 IMPACT ON LOCAL SCHOOL BOND MEASURES

State legislation passed in 2017 (AB-195) changed California law regarding ballot label language for local bond measures (including school bonds) by required detailed disclosure of the financial and property tax implications of the bond. This increase in finance-related language was confusing for voters, and also left fewer words in the 75-word ballot label to describe the uses of funds from the measure. In FM3's surveys, this change led to substantially lower support for many bond measures – in some cases 10-15 points. Several agencies that had been considering General Obligation bond measures chose not to place them on the ballot this cycle because their voter opinion research showed the measures were not viable using ballot label language that complied with AB-195. However, for those that placed bond measures on the ballot, the success rate was high and consistent with opinion research.

LOCAL FINANCE MEASURE OUTLOOK FOR 2020 & BEYOND

With two consecutive record-breaking election cycles for California local finance measures (2016 and 2018, respectively) now behind us, public agencies are likely wondering if the trend will continue through the Presidential Election cycle of 2020. While any attempt to predict the political climate nearly two years in advance is likely a fool's errand, it is worth noting that many of the factors that bolstered local finance measures in 2018 appear unlikely to shift dramatically over the next 14-23 months—while new developments appear to have the potential to reinforce them. At the same time, several potential obstacles that could negatively impact support for local finance measures in 2020 may be mitigated by the actions of the newly-expanded Democratic supermajorities in the California legislature and the state's ambitious new governor, Gavin Newsom.

For one thing, the dramatic growth in local finance measures by cities, counties, and special districts has been tied closely to factors such as (1) rapidly rising costs for public safety and other vital local services, (2) the growing fiscal pressure from pension costs via CalPERS, and (3) the legalized status of cannabis, none of which appears to be in doubt over the short- or medium-term. At the same time, many of the broader factors that appear to be driving California voters' sense of need for additional local agency funding – such as deadly wildfires/drought, mass shootings, homelessness/housing affordability, anxiety about world affairs and the national political climate, and federal cutbacks/policy changes – also seem unlikely to shift dramatically, for at least as long as the Trump Administration remains in office, and in some cases (such as wildfires and drought), may be part of a "new normal" as the state's climate warms. In addition, the trend toward wider adoption by local agencies of best practices for finance measures also seems unlikely to reverse if the old adage "don't fix what isn't broke" continues to hold currency.

Some of the specifics of the 2020 election cycle itself also appear to provide a strong opportunity for local finance measures, from a March Presidential Primary that – given the realities of incumbency – is likely to be dominated by Democratic and No-Party-Preference (NPP) voters to the extended, eight-month-long general election campaign that provides additional time for tasks such as planning and communicating with voters. The 2020 campaign is also likely to play out under the shadow of a President who knows how to stoke voter turnout, among both his supporters and his opponents, and who does so constantly.

Finally, and perhaps most significantly, depending on the outcome of pending litigation, 2020 may be the first election cycle in which voters are able to pass "special tax" measures and general obligation bonds with a simple majority (50% + 1) vote, putting to bed the longstanding requirement for a two-thirds (or in the case of school bonds, 55 percent) supermajority to pass these measures. Three such measures, each placed on the ballot via the initiative process in order to qualify for the reduced passage threshold, have already been approved by voters in San Francisco in June and November 2018; one of these measures is currently serving as a test case in litigation that may advance all the way to the California Supreme Court.

On the other side of the ledger, factors that could negatively influence the success of local finance measures in 2020 include California's local sales tax limit, which more jurisdictions reached in 2018 (particularly within Los Angeles County) than in any previous election. If the new legislature and governor do not raise this limit, some cities and counties will be prevented from being able to pass new, additional sales tax measures in the future – and may as a result turn to other types of finance measures that either raise less revenue, are more challenging to pass, or both. In a similar vein, higher existing tax rates—the result of prior successful measures—could increase the potential for pushback against future proposed increases.

In addition, 2020 will be the first election cycle in which many California voters will feel the full force of the federal tax changes enacted in 2017 – including the new limits on deductions for State and Local Taxes (SALT). The limit on SALT deductions could influence voters' willingness to support new local finance measures that involve increases to local property taxes such as school bonds – particularly in communities with high property values where the deduction limit is likely to increase the federal tax liabilities of a greater proportion of the local electorate. FM3's research tracked this issue in numerous communities throughout the 2018 campaign, and although the SALT deduction did not appear to be a major factor in voters' thinking regarding local finance measures this year, we believe the issue merits continued monitoring as the impacts of the 2017 federal tax law become more widely felt.

Finally, state legislation (such as Assembly Bill 195 of 2017) that further constrains the content of the 75-word ballot label language used to communicate essential information about every local ballot measure to voters could produce a suppressing effect on support for local finance measures, as fewer words and less language in each measure's unique ballot label would be available to describe the measure's purpose, proposed uses of funds, and accountability provisions.

Fortunately, several of these potential negative externalities are within the purview of the newly-elected governor and legislature to address; and with historic Democratic supermajorities in both chambers of the legislature, support for the needs and interests of local governments may be growing in Sacramento.

For California local agencies anticipating, or even just considering, placing a local finance measure before voters in 2020, the takeaway is clear – **now is the time to start planning your measure**. The best practices of planning and researching early in the cycle, developing clear and resonant ballot label language, communicating with and educating the public regarding how measure funds would be used and what accountability provisions will be in

place, and leveraging the continuing public trust in local government and local public officials each have an impact; deploying them in combination will put your measure in position to succeed in March or November of 2020.