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### **Article XIII B**

An initiative to amend the California Constitution entitled “Limitation of Government Appropriations” was approved on November 6, 1979 thereby adding Article XIII B to the California Constitution (“**Article XIII B**”). Under Article XIII B state and local governmental entities have an annual “appropriations limit” and are not permitted to spend certain moneys that are called “appropriations subject to limitation” (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the “appropriations limit.” Article XIII B does not affect the appropriations of moneys that are excluded from the definition of “appropriations subject to limitation,” including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the “appropriations limit” is to be based on certain 1978-79 expenditures and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities’ revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

The District is of the opinion that its rates and charges for water, sewer and recycled water services do not exceed the costs it reasonably bears in providing such services and therefore are not subject to the limits of Article XIII B, and that tax revenues and other revenues received by the District which may constitute the “proceeds of taxes” are appropriated for debt service or qualified capital outlay projects and are not subject to the limits of Article XIII B.

### **Proposition 1A**

Proposition 1A, which was approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in fiscal years 2004-05 and 2005-06. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe State financial hardship, the shift is approved by two thirds of both houses and certain other conditions are met. See the caption “THE IRVINE RANCH WATER DISTRICT—1% Property Tax Revenues” above.

### **Future Initiatives**

Article XIII A, Article XIII B, Proposition 218, Proposition 1A and Proposition 26 were each adopted as measures that qualified for the ballot pursuant to California’s initiative process. From time to time other initiative measures could be adopted, further affecting ability of the District to collect or expend Revenues.