

September 29, 2006

# Proposition 88

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LEGISLATIVE ANALYST'S OFFICE

Presented To:

Joint Hearing of Senate and Assembly

Education Committees and

Revenue and Taxation Committees





## Revenue Proposal

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### ***Parcel Tax Provisions:***

- Establishes Statewide Parcel Tax.*** Proposition 88 adds a new section to the State Constitution establishing an annual \$50 tax on most parcels on land in California.
- Applies to Most Property Owners.*** A parcel is defined as any unit of real property in the state that currently receives a separate local property tax bill—meaning the vast majority of individuals and businesses that currently pay property taxes would be subject to the new tax.
- Exempts Some Property Owners.*** Parcel owners are exempt from the new tax if they: (1) reside on the parcel; (2) are eligible for the state's existing homeowner's property tax exemption; *and* (3) are either 65 years of age or older, or severely and permanently disabled.
- No Specified Rate Increase.*** The measure contains no provision for adjusting the dollar amount of the parcel tax over time.

### ***Offset Provision:***

- Includes "Hold Harmless" Provision.*** The measure ensures that funding for other government programs is not affected. Specifically, it authorizes a transfer of parcel tax revenue to the state General Fund to offset any loss in state income tax revenue resulting from increased property-related tax deductions.



## Analysis of Revenue Provisions

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- We estimate the statewide parcel tax would raise roughly \$450 million in net new tax revenue for K-12 schools.
- This net figure takes into account that some parcel tax revenues (roughly \$30 million) would need to be transferred annually to the state General Fund to offset the related decline in state income and bank and corporation tax revenues.
- This net figure also takes into account the revenues (approximately \$1 million annually) that would be transferred to counties to pay for tax administration.



## Expenditure Proposal

<b>Proposition 88 Allocation of Parcel Tax Revenues</b>	
<b>Program</b>	<b>Annual Target Amount (In Millions)<sup>a</sup></b>
K-12 class size reduction	\$175
Instructional materials	100
School safety	100
Facility-related grants	85
Data system	10
<b>Total</b>	<b>\$470</b>

<sup>a</sup> Amounts adjusted annually, on a proportional basis, to reflect actual revenues available.

- Bulk of Funding Allocated Using Per Student Formula.** Funding for K-12 class size reduction, instructional materials, and school safety would be allocated to school districts, charter schools, and county offices of education using a new per student formula to be created by the Legislature.
- Some Funding for Facility-Related Grants.** Funding for facility-related grants would be allocated to school districts and charter schools using a flat funding rate (capped at \$500) for each student enrolled in certain schools with above-average academic performance.
- Set Aside for Data System.** The measure also provides \$10 million for a data system, but it does not specify how or to whom funding would be allocated.
- Annual Audit Required.** School districts receiving any of these funds would be required to conduct an annual independent audit showing how they spent them. The audit reports are to be posted online.



## Analysis of K-12 Expenditure Provisions

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### **K-12 Class Size Reduction (CSR)**

- The state currently spends \$1.8 billion for the K-3 CSR program, which provides funds to reduce K-3 classroom to no more than 20 students.
- The additional \$175 million provided by the measure could be used to further reduce class size in grades K-3 or for any other CSR initiative.
- The new funds, for example, would be sufficient to reduce the average class size of fourth grade by about four students (reducing it from a statewide average of about 29 students to 25 students).



### **Instructional Materials**

- The state currently provides more than \$400 million annually for instructional materials. This equates to about \$66 per K-12 student, which is sufficient to purchase one new core textbook.
- The additional \$100 million provided by the measure could be used for purchasing any state-approved instructional materials.
- The new funds likely would be sufficient to provide about 25 percent of K-12 students with one additional core textbook each year.



### **School Safety**

- The state currently provides slightly more than \$650 million for various after school and school safety programs. This equates to about \$110 per K-12 student.
- The additional \$100 million (or about \$16 per student) provided by the measure could be used for school community policing and violence prevention, gang-risk intervention, and after school and intersession programs.



## Analysis of K-12 Expenditure Provisions

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### Facility-Related Grants

- The state currently funds school facilities primarily using general obligation bonds. In addition, it has provided \$9 million annually for the last several years to help charter schools in low-income areas cover some of their facility lease costs.
- To be eligible for the \$85 million in facility-related grants under Proposition 88:
  - School districts and charter schools cannot previously have received any state general obligation bond monies for school facilities.
  - In addition, charter schools are only eligible if they are governed or operated by a nonprofit public benefit corporation.
- If the above conditions are met, then school districts and charter schools would receive funding for each student enrolled in a school with above-average academic performance.
- Grants could be used for any general purpose.
- School districts and charter schools receiving such grants would be prohibited from receiving future state general obligation bond monies unless the bond expressly allowed them to receive such funding.
- We estimate about 40 noncharter schools (serving less than 1 percent of all noncharter enrollment) and 100 charter schools (serving about 25 percent of all charter enrollment) would be eligible for these grants.



### Data System

- The state currently provides virtually no funding for the ongoing collection and maintenance of student-level and teacher-level data.
- The additional \$10 million provided by the measure would be for an integrated longitudinal data system.