

December 7, 2009

Hon. Edmund G. Brown Jr.
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Krystal Paris
Initiative Coordinator

Dear Attorney General Brown:

Pursuant to Elections Code 9005, we have reviewed a proposed constitutional amendment initiative relating to the requirements for approving local taxes for public education (A.G. File No. 09-0068).

BACKGROUND

Funding for K-12 Schools and Community Colleges. School and community college districts receive funding from a variety of sources. The primary source of funding is from Proposition 98 appropriations. Adopted by the voters in 1988 and amended in 1990, Proposition 98 establishes a set of formulas that are used to annually calculate a minimum funding level for K-12 education and the California Community Colleges. Proposition 98 funding is provided from the state's General Fund and base local property tax revenues. In 2008-09, the state provided \$49 billion in Proposition 98 funding—approximately two-thirds of ongoing revenues for K-12 schools and community colleges. In addition to Proposition 98 funding, schools and community colleges also receive funding from the federal government, student fees (for community colleges only), the state lottery, and locally approved tax revenues.

Local Parcel Tax Revenues. In addition to the base local property tax revenues used to meet the state's Proposition 98 obligations, school and community college districts have several options for raising additional revenues by taxing property. One of these options is to pass a parcel tax, which is a flat fee charged for each parcel of land. Such taxes currently require approval of two-thirds of voters. According to data compiled by EdSource (a nonprofit research organization), from 1983 through June 2009, K-12 school districts placed 486 parcel tax measures on the ballot. In total, 54 percent of these measures received the two-thirds vote required for enactment. An additional 33 percent of the parcel tax measures received more than 55 percent voter approval but not enough votes to meet the two-thirds requirements. In total, school districts in California raise

approximately \$200 million a year from parcel taxes, accounting for less than 1 percent of annual revenues for K-12 education. No comparable data exists for the community colleges.

PROPOSAL

This proposal authorizes school and community college districts to adopt a parcel tax if it is proposed by two-thirds of the district's governing board and approved by 55 percent of voters. The tax must be assessed on each parcel of land in the district and cannot exceed \$250 per parcel. (Beginning July 2011, the maximum amount would be adjusted annually for inflation.) Parcels owned and occupied by a person over the age of 65 would be exempt from the tax.

Use of Tax Revenues. The proposal restricts any local parcel tax measures approved under this proposal from using resulting revenue to pay for administrator salaries. The resulting revenues also must benefit all students in the district, including students attending charter schools operated or authorized by the district. Aside from these restrictions, the revenues could be used for any educational purpose, but the specific activities intended to be funded must be identified in the tax measure. The proposal also prohibits the Legislature from reducing state funding as a result of those revenues. Any tax approved under this measure must include a requirement that the governing board of the district (1) conduct an annual, independent audit of the funds collected and spent from the new tax and (2) establish a citizens' oversight committee to review all expenditures and financial audits.

FISCAL EFFECTS

Increases in Local Tax Revenues for Education. Because it reduces the existing vote threshold for adopting a parcel tax, the measure would likely increase the approval rate of parcel tax measures and result in more local tax revenues for K-12 schools and community colleges. The magnitude of such increases would depend on future school board and voter decisions. Over time, revenues could increase annually by a few hundred million dollars.

Summary of Fiscal Effects

This measure would have the following fiscal effect:

- Increases in school parcel tax revenues and spending. Depending on local voter approval of future tax proposals, increased revenues and spending could total a few hundred million dollars annually.

Sincerely,

Mac Taylor
Legislative Analyst

Michael C. Genest
Director of Finance