



October 25, 2017

Hon. Xavier Becerra  
Attorney General  
1300 I Street, 17<sup>th</sup> Floor  
Sacramento, California 95814

Attention: Ms. Ashley Johansson  
Initiative Coordinator

Dear Attorney General Becerra:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative related to taxes on Californians to fund public schools and colleges (A.G. File No. 17-0028).

## **Background**

***Public Education System.*** The State Constitution requires the Legislature to provide for a system of free K-12 schools. The Constitution establishes the University of California (UC) system and authorizes funding of a state public education system, which currently consists of K-12 schools, community colleges, and state universities and colleges (including the UC and California State University [CSU] systems).

***State and Local Taxes Fund Education System.*** According to U.S. Census Bureau data, Californians pay around \$230 billion in state and local taxes each year, as well as around \$100 billion in fees and other charges levied by state and local governmental entities. State and local governments currently provide around \$100 billion in tax revenues annually to California's public education system—primarily to K-12 schools. This system also receives some non-tax revenue. The vast majority of taxes used for the public education system comes from the state General Fund (revenues of which come primarily from personal income, but also sales taxes and other revenues) and local property taxes. In levying taxes and fees, the state and local governments currently do not distinguish between people who are and people who are not parents of public school students.

## **Proposal**

***Changing Rules for Tax Paid by Those Who Are Not Public School Parents.*** This measure amends the State Constitution to prohibit state and local governments from levying taxes and fees on "California residents who do not have students they are financially responsible for enrolled in" the public education system in order to pay for components of that system. (For simplicity, we refer below to these residents as ones who are not parents of public school

students, although the group affected by this provision may be somewhat larger than that group alone.) The measure provides that these tax changes would occur, notwithstanding any provision of the Constitution to the contrary.

### **Fiscal Effects**

***May Affect Tens of Billions of Dollars of Public Revenues.*** Those in the state who are not parents of public school students pay tens of billions of dollars in state and local taxes and fees each year. It is difficult, however, to make a precise estimate of this amount or of the share of those taxes now used for public education. This measure, however, could affect over \$30 billion of annual public education funding that could be said to be paid by these California residents. This measure would change those taxes and/or the way that these taxes are distributed to public programs.

***Uncertainty Depending on Manner of Implementation.*** This measure could require reducing taxes and fees substantially for all those people who do not have a financial responsibility for a student in California's public education system. This could perhaps reduce state and local revenues by over \$30 billion annually. In response, governments would have to take actions to bring their budgets into balance—by reducing spending and/or raising revenues. It is possible, however, that the measure could be interpreted to allow the state to leave taxes and fees relatively unchanged and instead “ earmark ” existing state and local funds from non-parents of public school students to fund non-education programs, while using taxes and fees paid by public school parents to fund education programs. Under this interpretation, there might be little impact on governmental finances.

***Summary of Fiscal Effect.*** This measure would have the following fiscal effect:

- Potential reduction of state and local taxes and fees totaling in the low tens of billions of dollars per year. The state and local governments potentially could have to take actions to bring their budgets into balance—by reducing spending and/or raising other taxes or fees.

Sincerely,

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Mac Taylor  
Legislative Analyst

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Michael Cohen  
Director of Finance