

September 29, 2006

Proposition 88

LEGISLATIVE ANALYST'S OFFICE

Presented To:

Joint Hearing of Senate and Assembly

Education Committees and

Revenue and Taxation Committees





Revenue Proposal

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

- 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

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

^a 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



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

(Continued)



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.