Proposition 88
Education Funding, Real Property Parcel Tax

Background

State and local governments in California impose several types of taxes and use the resulting revenue to support a variety of government activities. The most significant state taxes are on personal income, the sale of most types of goods (such as cars, appliances, and furniture), and corporate profits. At the local level, the most significant tax is on the assessed value of property (such as family-owned land and houses, retail stores, and industrial facilities). In California, the revenue generated from these various taxes is used to fund many types of government programs, including education, health, social, and environmental programs.

Local Property Taxes. Local governments in California impose a tax based on the assessed value of property. Under such a tax, the amount owed increases as the value of the property increases. Some local governments also impose a type of property tax known as a parcel tax. Under this type of tax, the amount owed is typically the same for each parcel—or unit—of land. (Currently, state government does not impose either type of property-related tax.)

Use of Local Parcel Tax Revenue. Local parcel tax revenue may be used for virtually any designated purpose. In recent years, for example, parcel taxes have been approved by voters in several school districts and used to fund class size reduction (CSR), school libraries, education technology, and other education programs. In those school districts that have a parcel tax, this revenue can be a significant source of funding for kindergarten through grade 12 (K-12) education programs. Statewide, however, the parcel tax is a minor source of funding for school districts.

Proposal

Proposition 88 creates a statewide parcel tax and uses the resulting revenue to fund specific K-12 education programs. It would take effect July 1, 2007.

Creates a Statewide $50 Parcel Tax

The measure adds a new section to the State Constitution that establishes an annual $50 tax on most parcels of land in California. (This dollar amount would not change over time.) For purposes of the measure, a "parcel" is defined as any unit of real property in the state that currently receives a separate local property tax bill. This definition would result in the vast majority of individuals and businesses that currently pay property taxes being subject to the new parcel tax. The measure exempts from the new tax any parcel owner who: (1) resides on the parcel, (2) is eligible for the state's

existing homeowner's property tax exemption, *and* (3) is either 65 years of age or older or a severely and permanently disabled person.

The measure also includes a provision that ensures funding for other government programs is not affected. Specifically, the measure authorizes a transfer of parcel tax revenue to the state General Fund to offset any loss in state income tax revenue. A loss would occur because of additional property-related deductions resulting from the state parcel tax.

Funds Specific K-12 Education Programs With Tax Proceeds

Most of the revenue generated by the statewide parcel tax would be transferred to a new state special fund. Of the monies initially deposited in this fund, the measure allocates $470 million for various K-12 education programs and initiatives, as shown in Figure 1. The annual allocation of funding would be adjusted on a proportional basis—up or down—to reflect actual revenues received. These monies would have to supplement existing monies provided for these programs.

Figure 1

Proposition 88 Allocation of Parcel Tax Revenues

Program	Annual Target Amount *(In Millions)*[a]
K-12 class size reduction	$175[b]
Instructional materials	100[b]
School safety	100[b]
Facility grants	85[c]
Data system	10[d]
Total	**$470**

a Amounts adjusted annually, on a proportional basis, to reflect actual revenues available.

b School districts, county offices of education, and public charter schools would be eligible to receive funding. Funding to be distributed using a weighted per student formula.

c School districts and public charter schools meeting certain criteria would be eligible to receive funding. Funding to be based on an equal per student amount that is capped at $500.

d The measure does not specify how or to whom funds would be distributed.

The measure allocates monies to school districts (and other local education agencies) in various ways. The bulk of funding (amounts for K-12 CSR, instructional materials, and school safety) would be allocated to school districts, public charter schools, and county offices of education using a new per student formula to be created by the Legislature. The formula likely would provide higher per student funding rates for higher-cost students. (Specifically, the formula is to account for cost differences resulting from students' disabilities, English language skills, or socioeconomic status.) Facility grants would be allocated to school districts and public charter schools using a

flat funding rate (capped at $500) for each student enrolled in certain schools performing above average. For the data system, the measure does not specify how or to whom funding would be allocated. (Future legislation likely would be needed clarifying such issues.) School districts receiving any Proposition 88 funds would be required to conduct an annual independent audit showing how they spent these monies and post the audit reports online.

K-12 CSR. Currently, the state provides $1.8 billion for the CSR program for Kindergarten through grade 3 (K-3). This program funds school districts for reducing the size of their K-3 classrooms to no more than 20 students. The additional $175 million provided by this measure could be used to further reduce class size in grades K-3 or for any other CSR initiative. For example, the funds 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. Currently, the state provides over $400 million annually for instructional material purchases. This equates to about $66 per K-12 student. This is sufficient to purchase one new core textbook for most students in most grades each school year. The additional $100 million provided by this measure could be used for purchasing any textbooks or other instructional materials that were approved by the State Board of Education. Funds likely would be sufficient to provide about 25 percent of K-12 students with one additional core textbook each year.

School Safety. Currently, the state provides $548 million (or about $90 per student) for after school programs, $97 million (or about $40 per grade 8-12 student) for general school safety programs, and $17 million (or about $3 per student) for competitive school safety grants. The additional $100 million (or about $16 per student) provided by this measure could be used for school community policing and violence prevention, gang-risk intervention, and afterschool and intersession programs.

Facility-Related Grants. Currently, the state provides funds for school facilities primarily using general obligation bonds. In addition, it has provided $9 million annually for the last several years to help public charter schools in low-income areas cover some of their facility lease costs. The $85 million provided by this measure would be for school districts and charter schools that have not yet received any state general obligation bond monies for school facilities. In addition, charter schools are only eligible if they are governed by or operated by a nonprofit public benefit corporation. If those conditions are met, then school districts and charter schools would receive funding for each student enrolled in a school ranking in the top 50 percent based on the state's standardized test scores. They could use the grants for any general purpose. Districts and 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 that about 40 noncharter schools (serving less than 1 percent of all noncharter enrollment) would be eligible for grants. For charter schools, we estimate

about 100 schools (serving about 25 percent of all charter enrollment) would be eligible for grants.

Data System. Currently, the state provides virtually no state funding expressly for the ongoing collection and maintenance of student-level and teacher-level data. The additional $10 million provided by this measure would be for an integrated longitudinal data system. Such a system would allow the state to measure student and teacher performance over time. The measure requires school districts to collect and report the data needed to create and maintain the system.

Fiscal Effects

We estimate the statewide parcel tax would result in roughly $450 million in new tax revenue each year. Given that the dollar amount of the tax would not increase, total parcel tax revenues would grow slowly over time as new parcels of land were created (such as by new subdivisions of property). Roughly $30 million of the parcel tax revenue would be transferred annually to the state General Fund to offset a projected decline in state income tax revenues (due to increased property-related tax deductions). In addition, the measure sets aside no more than 0.2 percent (or approximately $1 million annually) for county administration of the parcel tax. The remainder of new tax revenue would be allocated to schools for the specified education programs. These revenues likely would be somewhat less than that needed to meet the measure's designated funding levels. If so, the program allocations would be adjusted downward proportionally.