

WHAT WOULD PROPOSITION 88 MEAN FOR CALIFORNIA?

Proposition 88, which will appear on the November 2006 ballot, would impose a statewide tax of \$50 on each parcel of property in the state to increase funding for K-12 education. Revenues would be directed to specific purposes, including class size reduction, school safety and after school programs, instructional materials, and a data system to track student and teacher performance. Proposition 88 is sponsored by EdVoice, an education advocacy group. This *Brief* discusses the provisions of Proposition 88 and examines a number of policy issues raised by the initiative. The California Budget Project neither supports nor opposes Proposition 88.

What Would Proposition 88 Do?

Proposition 88 would impose a statewide tax of \$50 on each parcel of property in the state.¹ The new revenues would provide funds to California's public schools.² The measure would allocate:

- **\$175 million to reduce class sizes in grades K through 12.** The Legislative Analyst's Office (LAO) estimates that these new revenues would be sufficient to reduce the average fourth grade class size by four students, to an average of 25 students per class.³ The state currently provides funding for class size reduction in grades K through 3 to 20 or fewer students per teacher.
- **\$100 million for textbooks and other instructional materials.** The LAO estimates that \$100 million would be sufficient to provide one additional textbook each year to approximately one-quarter of the students in grades K through 12.⁴
- **\$100 million for school safety programs, including after school, policing, gang-risk intervention, and community violence prevention programs.** The new money would be in addition to amounts currently allocated for these purposes by Proposition 49 of 2002. In 2006-07, the state budget allocated \$548 million for after school programs as required by Proposition 49, \$57.9 million for school safety programs

for students in grades 8 through 12, and \$17.4 million for competitive school safety grants.⁵

- **\$85 million for "Academic Success" grants.** These grants would be allocated to districts that have never received funds from state school bonds for construction or modernization.⁶ In addition, the measure would only award grants to "academically successful" charter schools or to school districts with one or more "academically successful" schools. The measure defines academically successful schools as those performing in the top half of schools with similar characteristics on the Academic Performance Index (API).⁷ Since most medium to large districts have received state bond funds, these grants would largely be awarded to charter schools, which served only 3.2 percent of California's students in 2005-06. The LAO estimates that only 40 non-charter schools and 100 charter schools would be eligible for these grants. "Academic Success" grants could be used for any purpose.
- **\$10 million for a data system to track student and teacher performance over time.** In 2002, the state authorized the development of a data system to track student performance over time. However, the state has not yet implemented this system.

What Is a Parcel Tax?

A parcel tax is a tax imposed on an individual unit of land. Parcel taxes are imposed in addition to the property tax, which is assessed as a percentage of property values.⁸ In contrast, parcel taxes are typically imposed as flat dollar amounts regardless of the value of the property. As a result, a parcel tax of a given amount represents a higher percentage of the value of low-valued property than it does of higher valued property. For example, a parcel tax of \$50 equals .009 percent of the value of a home valued at \$567,000 and just .003 percent of the value of a \$2 million home.⁹

School districts, counties, cities, and special districts currently have the authority to impose parcel taxes.¹⁰ Local governments must submit parcel taxes to the voters for approval by a two-thirds vote. In recent years, parcel tax measures have been passed to support a variety of purposes including fire protection, public safety, and K-12 education (see Appendix A). Recent parcel tax measures have ranged from a \$12 parcel tax to support animal control operations in the Town of Paradise to a \$3,250 tax on commercial parcels to support water capital improvements in the Muir Beach Community Services District. Voters approved 208 out of 405 local parcel tax measures dedicated to schools between 1983 and 2005.¹¹

How Much Money Would Proposition 88 Raise?

Proposition 88 assumes that the new tax would raise \$470 million annually for K-12 education. The LAO, however, estimates that the tax would raise approximately \$450 million in additional funds each year. Of this amount, \$30 million would be transferred to the state's General Fund to make up for the revenue loss attributable to increased income tax deductions and approximately \$1 million would be allocated to counties to administer the tax. The measure states that funding allocations would be adjusted proportionally each year if revenues are higher or lower than the \$470 million assumed in the measure.¹² Proceeds of the new tax would not count toward the appropriations limits of either the state or local school districts. Revenues from the new tax would be in addition to, and would not count toward, the Proposition 98 school funding guarantee.

The revenues raised by Proposition 88 would equal roughly \$66 per pupil, based on 2005-06 enrollment. In 2004-05 – the most recent year for which data are available – California ranked 35th among the 50 states and the District of Columbia in per pupil spending. The additional funds would raise California's ranking by only one place, to 34th in per pupil spending.¹³

How Would the New Money Be Distributed to Local Schools?

Proposition 88 would allocate funds to school districts, county offices of education, and charter schools for class size reduction, instructional materials, and school safety programs based on enrollment. The Legislature would be required to allocate funds on a per student basis, adjusted to take into account student needs based on "disabilities, English proficiency, or socioeconomic status."¹⁴

Eligible charter schools and school districts would receive \$500 for each student enrolled at an "academically successful" school under the measure's "Academic Success" grant provisions. Funds raised by Proposition 88 could not be used for administrative or oversight purposes. The measure would also require districts to conduct an annual independent audit indicating how the new monies were spent.

What Policy Issues Does Proposition 88 Raise?

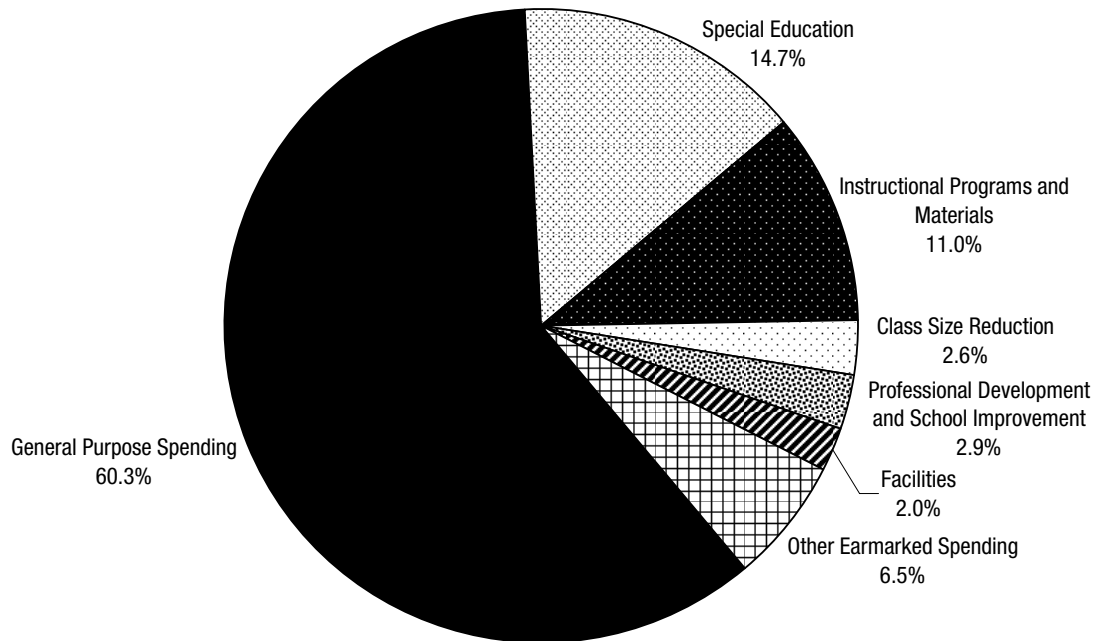
Should Voters Determine the Allocation of Funds for Education at the Ballot Box?

Proposition 88 would impose a new parcel tax and dedicate the revenues to specified uses. Critics of so-called "ballot box budgeting" argue that the initiative process limits voters to an up-or-down choice in isolation from other potential uses of funds. They further argue that earmarking the proceeds from a certain revenue source would limit the ability of legislators to use the same source for other education spending priorities, to make programmatic changes, or to modify spending in response to

How Do Districts Currently Spend Their Funds?

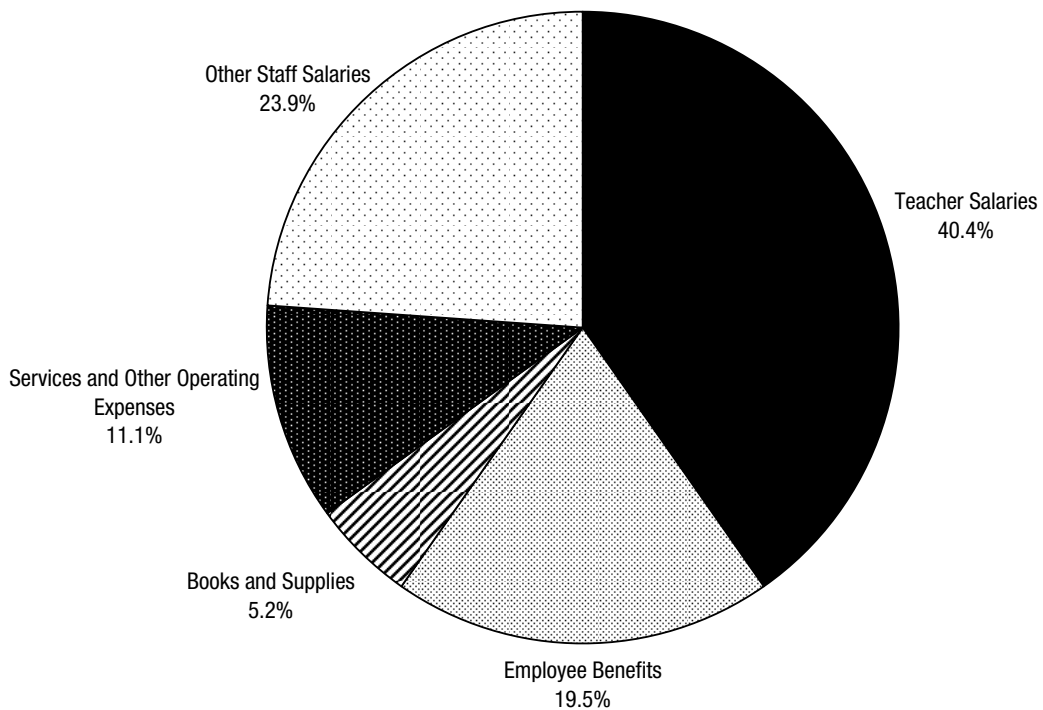
Education spending can be viewed in two different ways. The first would look at whether funds are available for any purpose or for specific programs. The second would look at what these funds actually purchase, such as staff salaries, benefits, or supplies. In 2004-05, general purpose funds accounted for more than half of district expenses (Figure 1). Special education and instructional programs and materials accounted for the largest shares of funds earmarked for specific purposes. In terms of expenditures, California's school districts spent more than three-fourths of their budgets on salaries and benefits for teachers and other staff in 2004-05 (Figure 2).

Figure 1: More Than Half of District Spending Is for General Purposes, While Special Education Accounts for the Largest Share of Earmarked Spending, 2004-05



Source: California Department of Education

Figure 2: Salaries and Benefits Account for More Than Three-Fourths of District Expenses, 2004-05



Note: Other staff salaries includes salaries for counselors, instructional aides, clerical staff, supervisors, and administrators.

Source: California Department of Education

economic, budget, and demographic shifts. Finally, opponents argue that California faces ongoing budget shortfalls and that any increase in revenues should be used to ensure that current education programs are adequately funded prior to taking on additional responsibilities.

However, proponents of initiative-based spending argue that the two-thirds vote requirement for legislative approval of tax increases makes it difficult, if not impossible, to raise revenues to support program expansions in education. Given this difficulty, they maintain, it is appropriate to offer voters the ability to raise taxes to fund education programs supported by a majority of the voters.

Is the New Money Appropriately Targeted?

Critics argue that Proposition 88's "Academic Success" grants would benefit only a small portion of California's students. Based on the LAO's estimates, only 1.5 percent of schools statewide would be eligible to receive these grants. In addition, "Academic Success" grants would largely be awarded to charter schools, which serve 3.2 percent of the state's students. Proponents counter that these grants would benefit schools that have never received funds from school bonds, and thus the additional funding would be appropriate.

How Much Money for After School Programs Is Enough?

Critics of Proposition 88 question whether schools need additional funds for after school and safety programs. The 2006-07 budget allocates \$548 million for after school programs as required by Proposition 49 of 2002. The LAO suggests that districts will be unable to spend all of this amount in the near future, due to problems arising from the state's contracting system and because the low reimbursement rate and local match requirements have discouraged some schools from participating in the program.¹⁵ It is unclear whether the new program would experience similar problems. Proponents counter that local schools would have the authority to use these funds for school safety rather than after school programs if there is a greater need. However, Proposition 88 would limit districts' ability to use these funds for purposes other than after school and safety programs.

Should the State Use the Parcel Tax as a Revenue Source?

Some opponents argue that Proposition 88 would use one of the few options available for local governments to raise revenues, and that a statewide tax could make it more difficult to win voter approval for local tax measures. Specifically, some education

advocates question whether Proposition 88 would compete with parcel tax measures for local school districts and make it more difficult to raise funds to support local priorities. Proponents counter that Proposition 88 would impose a small tax on property owners and use the money for a worthy cause.

Would the New Revenues Keep Pace with Program Costs?

The tax imposed by Proposition 88 would not increase over time. As a result, the purchasing power of the tax would decrease due to inflation. While the number of parcels may increase over time, the increase in parcels is not likely to keep pace with inflation. Critics argue that revenues from a flat \$50 parcel tax may not keep pace with Proposition 88 program costs. For example, if a district were to hire two additional teachers for class size reduction, the salaries of those teachers would increase, while parcel tax revenues would not. In order for Proposition 88 programs to continue to receive the same level of support, supplemental monies may be needed from other funding sources.

What Do Proponents Argue?

Proponents argue that:

- Proposition 88 would increase needed funds for schools, specifically for smaller classes, additional textbooks and safer schools;
- The annual audits required by the measure would ensure that "every dollar raised goes directly into the classroom;"¹⁶ and
- Local schools would have the authority to spend Proposition 88 funds as they see fit, and that the measure would allocate resources "where they're needed most."¹⁷

What Do Opponents Argue?

Opponents argue that:

- A statewide \$50 parcel tax would not be fair to all parcel owners, since it would mean a larger percentage tax on lower valued parcels in comparison to higher valued parcels;
- "Academic Success" grants would benefit only a small fraction of California's students;
- A statewide parcel tax may limit the ability of local entities to approve parcel taxes for purposes specific to local needs; and
- The proposed distribution of funds for class size reduction, after school programs, and instructional materials may not reflect the funding priorities of all school districts. For example, some schools may need additional instructional materials funds instead of additional after school funds.

Conclusion

Public opinion research shows that a majority of voters support increasing funds for K-12 education. However, voters should consider whether a statewide parcel tax would be an appropriate revenue source for education, whether Proposition 88 would raise a significant amount of funds for schools, and whether “locking in” spending for certain programs would be the most appropriate use of new revenues for education.

Nirupama Jayaraman prepared this Budget Brief. Support for this Budget Brief was provided by grants from the William and Flora Hewlett Foundation and the Walter and Elise Haas Fund. The California Budget Project (CBP) neither supports nor opposes Proposition 88. This Budget Brief is designed to help voters reach an informed decision based on the merits of the issues. The CBP was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

Appendix A: Recently Approved Parcel Tax Measures Vary by Amount and Purpose, November 2004 to June 2006

County	Agency	Amount of Tax	Date Approved	Purpose of Parcel Tax
Alameda	City of Albany	\$24 per parcel	June 2006	Public library
Alameda	City of Albany	\$96 per parcel	June 2006	Street and storm drain improvements
Kern	Bear Valley Community Services District	\$75 per parcel	June 2006	Public safety
Modoc	Surprise Valley Hospital District	\$225 per parcel	June 2006	Public health
Sonoma	Cloverdale Health Care District	\$36 per parcel	June 2006	Hospital and health care facilities
Trinity	Hayfork Fire Protection District	\$100 per unimproved parcel	June 2006	Public safety
Yolo	City of Davis	\$49 per parcel	June 2006	City parks and swimming pools
Alameda	Albany City Unified School District	\$250 per parcel	November 2005	K-12 school programs
Inyo	Southern Inyo Healthcare District	Hospital parcel tax*	November 2005	Health care services
Lake	Cobb Area Water District	\$55 per parcel	November 2005	Purchase Schwartz Springs
Marin	Muir Beach Community Services	\$3,250 per commercial parcel; \$300 per residential parcel	November 2005	Water capital improvements
Riverside	Palo Verde Health Care District	\$32 per parcel	November 2005	Health services
San Mateo	City of East Palo Alto	\$75 per multi-family residential parcels; \$100 per single-family residential parcels; varying rates for commercial and industrial parcels	November 2005	Public safety
San Mateo	La Honda-Pescadero Unified School District	\$100 per parcel	November 2005	Attract teachers, improve library services
Santa Cruz	Santa Cruz City Elementary School District	\$70 per parcel	November 2005	K-12 school programs and teachers
Santa Cruz	Santa Cruz City High School District	\$28 per parcel	November 2005	K-12 school programs
Siskiyou	Pleasant Valley	\$1 to \$28 per parcel, depending on type and number of parcels owned	November 2005	Fire protection
Ventura	City of Fillmore	\$15 per parcel	November 2005	Swimming pool
Alameda	Berkeley Unified School District	\$50 per unimproved parcel	November 2004	K-12 school programs and facilities
Alameda	City of Albany	Assess commercial and industrial properties based on square footage*	November 2004	Paramedic services
Alameda	City of Oakland	\$45.07 to \$88 per parcel	November 2004	Violence prevention and safety
Alameda	City of Piedmont	\$221 to \$806 per parcel, depending on size and type	November 2004	Police, fire, and paramedic services
Alameda/ Contra Costa	Alameda-Contra Costa Transit Special District Area 1	\$48 per parcel	November 2004	Public transportation
Alameda/ Contra Costa	East Bay Regional Park District Zone 1	\$12 per single-family parcel; \$8.28 per multi-family parcel	November 2004	Park access, wildfire protection, public safety, and environmental maintenance
Alameda/ Contra Costa	Livermore Valley Joint Unified School District	\$120 per parcel	November 2004	K-12 school equipment, programs, and teachers
Butte	Town of Paradise	\$12 per parcel	November 2004	Animal control operations

Appendix A: Recently Approved Parcel Tax Measures Vary by Amount and Purpose, November 2004 to June 2006

County	Agency	Amount of Tax	Date Approved	Purpose of Parcel Tax
El Dorado	County Service Area 10, Zone E	\$20 per apartment	November 2004	Library
Lassen	Hallelujah Junction Fire Protection District	\$161.54 to \$260.53 per parcel	November 2004	Fire protection and emergency medical services
Los Angeles	Altadena Library	Continue existing parcel tax*	November 2004	Library
Los Angeles	City of Huntington Park	\$629.14 per parcel	November 2004	Public safety
Marin	Mill Valley School District	Annual 5 percent increase to existing parcel tax	November 2004	K-12 school programs
Marin	Tamalpais Union High School District	\$199.97 per parcel, with a 3 percent annual increase	November 2004	K-12 school programs
Marin/Sonoma	Petaluma Joint Union High School District	\$50 per parcel	November 2004	K-12 school programs
Mendocino	City of Fort Bragg	\$18 per parcel	November 2004	Fire equipment
Placer	Foresthill Fire Protection District	\$96 per parcel; \$384 per commercial or industrial parcel	November 2004	Fire protection services
San Diego	Borrego Springs Fire Protection District	\$75 per residential parcel; \$150 per non-residential parcel	November 2004	Fire and paramedic services
San Mateo	Burlingame School District	\$104 per parcel	November 2004	K-12 school facilities
Santa Clara	Alum Rock Union School District	\$100 per parcel	November 2004	K-12 school facilities
Santa Clara	Campbell Union High School District	\$85 per parcel	November 2004	K-12 school facilities
Santa Clara	Fremont Union High School District	\$98 per parcel	November 2004	K-12 school facilities
Santa Clara	City of San Jose	\$25 per parcel for single family residences; proportional amount for other properties	November 2004	Public library
Sonoma	Palm Drive Health Care District	\$155 per parcel, excluding low-value parcels	November 2004	Hospital facilities

* Parcel tax amount not specified.

Note: Does not include June 2005 local election results.

Source: State Treasurer's Office

ENDNOTES

- ¹ Proposition 88 would not impose the tax on parcels that are currently exempt from the property tax. Property owners would also be exempt from the tax if they are currently eligible for a homeowner's property tax exemption, reside on the parcel, and are either 65 years of age or older or are severely and permanently disabled.
- ² The measure would also allocate no more than 0.2 percent of revenues to counties to administer the tax. In addition, the measure would transfer a portion of revenues to the state budget to offset any decrease in state income tax revenues due to larger tax deductions taken as a result of the new tax.
- ³ Legislative Analyst, "Proposition 88. Education Funding. Real Property Parcel Tax. Initiative Constitutional Amendment and Statute," in Secretary of State's Office, *Official Voter Information Guide, November 7, 2006*, p. 78. The average fourth grade class size in California is currently 29 students per class. The California Department of Education calculates average fourth grade class size by dividing the number of students enrolled in fourth grade classes by the number of fourth grade classes. Data on the number of students per teacher are not available by grade.
- ⁴ Legislative Analyst, "Proposition 88. Education Funding. Real Property Parcel Tax. Initiative Constitutional Amendment and Statute," in Secretary of State's Office, *Official Voter Information Guide, November 7, 2006*, p. 78.
- ⁵ School safety funds can be used for policing, gang-risk intervention or violence prevention. Proposition 49 "locks in" current funding for after school programs. Funding levels for school safety programs can be adjusted by the Legislature through the annual budget act.
- ⁶ School districts receiving "Academic Success" facility grants would also be ineligible for facility funds from future school bonds unless the law authorizing these bonds explicitly states otherwise.
- ⁷ These characteristics include demographics, the share of students receiving free or reduced price lunches, and the share of teachers with full credentials. The Academic Performance Index (API) is a scale that reflects a school or district's academic performance based on the results of various standardized exams.
- ⁸ Proposition 13, which voters approved in June 1978, capped, with limited exceptions, property tax rates at 1 percent of the value of property at the time of purchase, adjusted by no more than 2 percent annually for inflation. For a more comprehensive discussion of *Proposition 13*, see *California Budget Project, Proposition 13: Its Impact on California and Implications for State and Local Finances* (April 1997).
- ⁹ The California Association of Realtors estimates the median home price in California at \$567,360, as of July 2006.
- ¹⁰ Special districts include school districts, redevelopment agencies, and municipal utility districts.
- ¹¹ Education Data Partnership, *School District Bond and Tax Elections* (January 2006), downloaded from <http://www.ed-data.k12.ca.us/Articles/Article.asp?title=School%20District%20Bond%20and%20Tax%20Elections> on July 25, 2006.
- ¹² For example, since Proposition 88 would allocate \$175 million out of \$470 million in parcel tax revenues to reducing class sizes, 37.2 percent of revenues would go to class size reduction each year regardless of the actual level of revenues.
- ¹³ CBP analysis of National Education Association data. Spending per pupil is calculated based on the Average Daily Attendance (ADA) of pupils.
- ¹⁴ The measure does not specify which particular student disabilities would be taken into account or how the formula would be weighted.
- ¹⁵ Legislative Analyst's Office, *Analysis of the 2006-07 Budget Bill* (February 2006), pp. E-104 through E-105.
- ¹⁶ EdVoice and Tax Payers for Accountability & Better Schools, downloaded from www.voteformbetterschools.org on September 13, 2006.
- ¹⁷ EdVoice and Tax Payers for Accountability & Better Schools, downloaded from www.voteformbetterschools.org on September 13, 2006.