

**Proposition 88 – Education Funding, Real Property Parcel Tax (Constitutional Amendment and Statute)**

**Board Recommendation (10/13/06):**

**OPPOSE**

**Rationale:**

Proposition 88 bypasses the clear intent of Prop 13 -- which requires property taxes to be approved by a 2/3 vote of the people – and can be passed with a simple majority vote. If this measure passes, it opens the door to new property tax initiatives without the 2/3-vote requirement of Prop 13.

There is no sunset provision for this new tax. Even if it is proven ineffective, it will continue to burden taxpayers for years to come. It is also unclear if any San Diego County Education Districts would benefit from this proposal.

**Background:**

California students are falling behind the nation's other students, ranking among the bottom six states in reading and math. To improve their performance, proponents introduced Prop 88 to the ballot. Proponents believe that allocating additional resources to education will lead to an increase in the performance of California schools. Specifically, the measure calls for class size reduction, more money for textbooks, and more money for school safety, facility grants, and starting a statewide data system.<sup>1</sup> To pay for all this, proponents propose a \$50 tax on all land parcels in California.

Currently \$67.1 billion is spent on education, an all-time high<sup>2</sup>. This includes money that schools receive from local, state, and the federal government. In total, K-12 schools are receiving \$11,264 per student<sup>3</sup>. Over 40% of the state budget is spent on education<sup>4</sup>.

In 1978, Proposition 13 was passed requiring new property taxes had to be approved by a 2/3 vote of the people. However, statewide property taxes are not subject to this restriction.<sup>5</sup>

On June 23, 2006, the measure qualified for the November ballot.<sup>6</sup>

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<sup>1</sup> Proposition 88, Section 2: Findings and Declaration of Purpose

<sup>2</sup> State Budget Highlights, 2006-2007: K-12 Education

<sup>3</sup> OC Register, *Storming the Prop 13 Battlements: Prop 88's statewide parcel tax would begin to chip away at state's property-tax protections*, 8/27/2006

<sup>4</sup> Chart C of Department of Finance: General Fund Program (Expenditure) Distribution

<sup>5</sup> San Diego Union Tribune, "No on Prop 88: Among many flaws, it undercuts Prop 13", 9/8/2006

<sup>6</sup> San Francisco Chronicle, Parcel tax measure for education qualifies for November ballot, 6/23/2006

## **Proposal:**

The Ballot Title for Proposition 88 reads:

### **EDUCATION FUNDING. REAL PROPERTY PARCEL TAX. INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE.**

- Provides additional public school funding for kindergarten through grade 12.
- Funded by \$50 tax on each real property parcel.
- Exempts certain elderly and disabled homeowners.
- Funds must be used for class size reduction, textbooks, school safety, Academic Success facility grants, and data system to evaluate educational program effectiveness.
- Provides for reimbursement to General Fund to offset anticipated decrease in income tax revenues due to increased deductions attributable to new parcel tax.
- Requires school district audits, penalties for fund misuse.
- Revenue excluded from minimum education funding (Proposition 98) calculations.<sup>7</sup>

Proposition 88 would amend the California Constitution, the Government Code, and the Education Code by adding sections to them<sup>8</sup>. If passed it would take effect July 1, 2007.<sup>9</sup>

The measure creates a statewide \$50 parcel tax and uses the resulting revenue to fund specific K-12 education programs. Those exempted from the tax are 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 disabled person. This measure has a provision that ensures government funding for other programs is not affected by transferring a portion of the parcel tax revenue to the General Fund to compensate in any potential loss in income tax revenue.<sup>10</sup>

It is estimated that the parcel tax would create \$470 million in funding for the specific K-12 programs and initiatives.<sup>11</sup> This funding is supposed to supplement the funding that these programs are currently receiving. The funding is to be distributed by the legislature using a per-student formula, favoring students that are higher-cost. These include students with disabilities, English language skills needs, and lower socioeconomic status.<sup>12</sup> Schools that receive these funds must submit an annual audit.<sup>13</sup>

The funds received from the parcel tax and placed in the Classroom learning and accountability Fund can only be used for: (1) K-12 Class size reduction, (2) Instructional materials, (3) School safety, (4) Facility grants, and (5) a data system.

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<sup>7</sup> Proposition 88: Ballot Title

<sup>8</sup> Proposition 88: Introduction

<sup>9</sup> Proposition 88: Section 14

<sup>10</sup> Proposition 88: Section 4

<sup>11</sup> Legislative Analyst's Office: Analysis by the Legislative Analyst

<sup>12</sup> Proposition 88: Section 3

<sup>13</sup> Proposition 88: Section 8

## Proposition 88 Allocation of Parcel Tax Revenues

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

<sup>a</sup> Amounts adjusted annually, on a proportional basis, to reflect actual revenues available.  
<sup>b</sup> 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.  
<sup>c</sup> 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.  
<sup>d</sup> The measure does not specify how or to whom funds would be distributed.

### *K-12 Class Size Reduction (CSR)*

The measure provides an additional \$175 million for CSR<sup>14</sup> on top of the state’s \$1.8 billion for the CSR program<sup>15</sup> (which funds CSR programs for grades K-3). This is about a 10% increase in CSR funding. However the additional amount comes with no restrictions on what grades it is used for.

### *Instructional Materials*

The state currently provides over \$400 million annually for instructional materials purchases.<sup>16</sup> The measure would provide for \$100 million more (25% increase) to go to schools to purchase instructional materials, including textbooks, that are approved by the State Board of Education.<sup>17</sup>

### *School Safety*

The measure will provide \$100 million more dollars (15% increase) to enhance the safety and security of students, teachers, and school staff through school community policing, gang-risk intervention, afterschool and intersession student support and development, and school community violence prevention.<sup>18</sup> The state currently provides \$662 million for after school programs, general school safety programs, and competitive safety school grants.<sup>19</sup>

<sup>14</sup> Proposition 88: Section 3

<sup>15</sup> Legislative Analyst’s Office: Analysis by the Legislative Analyst

<sup>16</sup> Legislative Analyst’s Office: Analysis by the Legislative Analyst

<sup>17</sup> Proposition 88: Section 3

<sup>18</sup> Proposition 88: Section 3

<sup>19</sup> Legislative Analyst’s Office: Analysis by the Legislative Analyst

### *Facility-Related Grants*

The measure provides \$85 million to school districts and charter school that have not yet received any state general obligation bond money for school facilities. Schools will receive this funding for each student enrolled in the school that scores in the top 50 percent based on the state's standardized test scores. These grants can be used for any purpose. Districts and schools receiving such grants will be prohibited from receiving future state general obligation bond monies unless the bond expressly allows them to receiver such funding.<sup>20</sup>

### *Data System*

The additional \$10 million would create a data system which would allow the state to measure student and teacher performance over time.<sup>21</sup>

### **Fiscal Effect:**

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.<sup>22</sup>

### **Effect on San Diego:**

In 2004-2005 San Diego County had 498,186 students in the County school districts.<sup>23</sup> The state of California had 6,322,083 students.<sup>24</sup> Therefore San Diego students comprise about 8% of the students in the state.

Current school funding for the programs supported by this proposition are as follows: \$52 million for classroom size reduction<sup>25</sup> (about 7% of CA total), \$27,5 million for instructional materials<sup>26</sup> (7.5%), and \$6.6 million for school safety<sup>27</sup> (7.5%).

The fiscal effects of this Proposition on the County are unknown. The funding generated by this proposition would be directed to a special fund, set up exclusively to implement Prop 88, for

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<sup>20</sup> Proposition 88: Section 3, 9

<sup>21</sup> Proposition 88: Section 3, 10

<sup>22</sup> Legislative Analyst's Office: Fiscal effects

<sup>23</sup> Ed-Data: San Diego County school enrollment: 2004-2005 data

<sup>24</sup> Ed-Data: State of California school enrollment: 2004-2005 data

<sup>25</sup> CA Dept of Education, CSR allocation for 2005-2006

<sup>26</sup> CA Dept of Education, Instructional Materials allocation for 2005-2006

<sup>27</sup> CA Dept of Education, School Safety Funding Results for 2005-2006

statewide distribution. The funding will be distributed based on a formula derived by the legislature.<sup>28</sup> It cannot be determined how the formula will be calculated so the percentage of the parcel tax that San Diego school districts will receive is unknown.

### **Arguments of the Proponents:**

Prop. 88 will provide dedicated funding to:

- Reduce class size so students get more individualized instruction
- Provide textbooks and other learning materials, so teachers don't have to pay for these fundamental necessities out of their own pockets
- Make schools safer for students and teachers and help stop campus violence and gangs

Prop. 88 will put over \$500 million a year directly into our local schools through a nominal (about 14¢ per day/\$50 per year) property parcel assessment. Funds from Prop. 88 will be used to invest in our teachers and students, providing local schools with needed resources, like textbooks, computers, and other materials.

To protect those on fixed incomes, Prop 88 exempts senior and disabled homeowners [Section 21.5(b)].

Funds from Prop. 88 are prohibited from being used for administrative overhead and the Legislature cannot redirect the money to other programs [Section 6.2].

To ensure that funds go to classrooms and student learning, Prop. 88 requires annual independent audits [Section 6.2.(5)c] and penalties for misuse.

Taxpayers have invested in our school system by approving local and state bonds to build new classrooms and remodel out of date facilities. But bonds don't pay for teachers, textbooks, or other learning materials and supplies. Prop. 88 puts funds in our classrooms and allows local educators to use the funds where they are most needed.<sup>29</sup>

### **Signors for the Arguments in Support of Prop. 88:**

**REED HASTINGS**, Past President, California State Board of Education

**JACK O'CONNELL**, California State Superintendent of Public Instruction

**SHELBI WILSON**, California Teacher of the Year, 2006

**RUSSELL "RUSTY" HAMMER**, Former Chamber of Commerce Executive

**STEPHANIE PRIDMORE**, Local PTA President

### **Arguments of the Opponents:**

All Californians want better schools, but the promoters of Proposition 88 have taken the wrong approach. Here's why:

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<sup>28</sup> Proposition 88: Section 3

<sup>29</sup> Argument in Favor of Proposition 88

- Proposition 88 does nothing to assure that funds raised in your community are spent on your schools. Proposition 88 lets the State Legislature give your tax money to any school district in the state.
- Proposition 88 creates a whole new kind of statewide property tax. Currently, all property taxes are collected locally and are used for local services, such as improving your local schools, reducing traffic congestion, improving health care, and increasing firefighting, paramedic, and law enforcement capabilities. The Prop. 88 property parcel tax goes to the State first.
- Proposition 88 would impose the first statewide property tax since 1910 and would encourage other special interests to pass more and bigger property parcel taxes for their self-interest causes.
- Opening the door to the new property parcel tax could lead to huge new property taxes, contrary to the clear intent of Proposition 13 to limit property taxes. We could see owners of small homes or mom-and-pop stores taxed out of their homes and shops.
- This new tax is never ending; we will pay it forever, whether it does anything to help schools or not!
- Proposition 88 gives Sacramento politicians increased power to decide where and how to spend your money.
- Proposition 88 uses a loophole to get around the two-thirds vote requirement in Proposition 13 to increase taxes. Proposition 13 requires a two-thirds voter approval to impose a local property parcel tax. Proposition 88 would impose a new statewide property parcel tax with only a simple majority vote. As a result, it is much easier to impose new statewide parcel taxes than a local parcel tax. This is another good reason to stop statewide property parcel taxes now before we are flooded with property parcel tax propositions.<sup>30</sup>

**Signors for the Arguments in Opposition to Prop. 88:**

**DR. TOM BOGETICH**, Executive Director, California State Board of Education (Ret.)

**JON COUPAL**, President, Howard Jarvis Taxpayers Association

**JOEL FOX**, President, Small Business Action Committee

**CLIFFORD CORIGLIANO, SR.**, Teacher of the Year, 2003

**ART PEDROZA**, Member, California and American Federations of Teachers, AFL-CIO

**LORIE McCANN**, Parent-Teachers Association Local President

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<sup>30</sup> Argument in Opposition of Proposition 88