

## **PTA ANALYSIS OF BALLOT MEASURE - NOVEMBER 2012 GENERAL ELECTION**

### **PROPOSITION 38**

#### ***Tax to Fund Education and Early Childhood Programs. Initiative Statute***

California State PTA has voted to SUPPORT Proposition 38, an initiative statute, which will appear on the November 2012 General Election Ballot. Proposition 38 would temporarily raise personal income tax rates on a sliding scale and allocate the new revenues directly to K-12 education, early childhood education and repayment of state general obligation bond debt. The California Attorney General has provided the following Title and Summary for Proposition 38:

***Tax to Fund Education and Early Childhood Programs. Increases taxes on earnings using sliding scale, for twelve years. Revenues go to K-12 schools and early childhood programs, and for four years to repaying state debt. Fiscal Impact: Increased state tax revenues for 12 years—roughly \$10 billion annually in initial years, tending to grow over time. Funds used for schools, child care, and preschool, as well as providing savings on state debt payments.***

The Legislative Analyst's Office has estimated that the amount raised from personal income tax increases in the initial years would generate around \$10 billion per year after 2012-13, and revenues would tend to grow over time. (In fiscal year 2013-14 only, additional revenues would be about half that amount.) Revenues would likely vary from year to year largely due to the swings in the income of upper-income taxpayers.

#### **BACKGROUND INFORMATION**

Proposition 38, the "Our Children, Our Future: Local Schools and Early Childhood Investment and Bond Debt Reduction Act" is sponsored by the Advancement Project Co-Director Molly Munger. It proposes to increase personal income tax rates beginning in 2013 and remain in effect for twelve years, through 2024. The increase would be progressive, starting at 0.4percent at the low end and 2.2percent at the highest. According to the LAO, these higher tax rates would result in higher tax liabilities on roughly 60 percent of state PIT returns. (Personal, dependent, senior, and other tax credits, among other factors, would continue to eliminate all tax liabilities for many lower-income tax filers even if they have income in a bracket affected by the measure's rate increases.) Revenues raised would be deposited into a newly created California Education Trust Fund (CETF) and would be dedicated exclusively to the stated purposes of Proposition 38.

Proposition 38 could be amended only by a future ballot measure.

Proposition 38 would establish a five-member Fiscal Oversight Board to oversee the expenditure of Proposition 38 funds and ensure that annual auditing and reporting requirements are met. The five members of the board are the State Controller, State Auditor, State Treasurer, Attorney General and the Director of Finance.

A second measure on the November ballot, Proposition 30, also proposes to increase personal income tax rates. If the voters approve both measures, the measure receiving more “yes” votes would prevail.

### **K-12 Schools**

Schools will receive roughly 60percent of the revenues raised by the personal income tax rate increases through 2016-17 and roughly 85percent each year thereafter. Funds received by school districts from Proposition 38 must be spent at the specific school whose students generated the funds.

Proposition 38 requires the funds be in addition to Proposition 98 General Fund support for schools and to be distributed through three grant programs:

- Education Program Grants (70percent of funds) –These funds will be distributed based on the number of students at each school. The specific per-student grant would depend on the grade level of students, with schools receiving more funds for students in higher grades. Grants could be spent on a broad range of activities, including instruction, school support staff (such as counselors and librarians) and parent engagement.
- Low-Income Student Grants (18percent of funds) – Funds will be allocated on a statewide rate based on the number of low-income students defined as the number of students eligible for free school meals enrolled in each school. The low-income student grants could be spent on the same broad range of educational activities as the educational program grants.
- Training, Technology and Teaching Materials Grants (12percent of funds) – The remaining funds would be allocated at one statewide rate based on the number of students at each school, but could only be used for training school staff and purchasing up-to-date technology and teaching materials.

Proposition 38 allows up to 1percent of a school district’s allocation to be spent on budgeting, reporting and audit requirements. It prohibits CETF school funds from being used to provide salary or benefit increases or to replace state, local or federal funding. Proposition 38 also requires school district governing boards to seek input on CTEF school fund spending decisions at open public meetings and to create and publish an online budget for each of their schools.

### **Early Childhood Care and Education**

Early childhood programs will receive 10 percent of the revenues raised by Proposition 38 through 2016-17 and 15 percent annually thereafter. About 20 percent of these funds would be used to restore recent state budget reductions to child care slots and provider payment rates and implementing statewide activities designed to support the early childhood education system. Remaining funds would be used as follows:

- 52percent to provide preschool to more children from low-income families;
- 17percent to establish new program for infants and toddlers from low income families;

- 12percent to establish a quality rating system and provide higher payments to higher quality providers.

**State Debt Payments (State Deficit Reduction)**

In 2010-11 the state made \$4.7 billion in general obligation bond debt-service payments, which includes \$3.2 billion in debt service on school and university facilities. Until the end of 2016-17 at least 30 percent of Proposition 38 revenues would be used by the state for debt service with these funds used first for debt-service for pre-K through University facilities.

After 2015-16 Proposition 38 allocations to schools and early childhood programs could not increase at a rate greater than the average growth in California per capita person income over the previous five years. Any excess monies over this amount would be used instead for state debt payments and state General Fund relief. In addition to the estimated state General Fund savings of roughly \$3 billion annually through 2016-17, there is the potential for additional General Fund savings beginning in 2016-17 that can be used for other purposes such as higher education and other state funded services and make it easier to balance the budget in these years. State savings would vary from year to year, but could be several hundred million dollars annually.

**ARGUMENTS FOR**

Proponents argue that policymakers have cut education spending by \$20 billion since 2008, and Proposition 38 provides guaranteed funding to restore a well-rounded education and improve educational outcomes. They say it provides billions of dollars to local schools to reduce class sizes or restore art, music, math, science and other programs lost due to funding cuts. Proposition 38’s revenues cannot be diverted or borrowed by the Legislature or spent to increase staff salaries. Spending decisions will be made locally after public input, and school districts will be required to report how the revenues are spent. It will also restore budget cuts to early childhood education, improved quality and expand access to preschool.

**ARGUMENTS AGAINST**

Opponents argue that Proposition 38 is flawed and does not require any of the funds to be used specifically for deficit reduction. They say that it is a massive income tax hike for middle class taxpayers while creating a costly new bureaucracy. It does nothing to improve student performance.

**SUPPORTERS**

- Tom Torlakson, Superintendent of Public Instruction
- Delaine Eastin, Former Superintendent of Public Instruction
- California School Boards Association (CSBA)
- Los Angeles Universal Preschool (LAUP)
- California Association for the Education of Young Children
- California Alliance for Arts Education
- California Association for Bilingual Education (CABE)
- California Head Start Association
- Black Economic Council
- Education Trust-West
- More than 30 local school boards and school districts

Numerous other organizations

### **OPPONENTS**

Stop the Middle-Class Income Tax Hike: No on Proposition 38

No on Proposition 38: Californians Against Higher Taxes, A Coalition of Taxpayers and Employers

California Democratic Party

California Chamber of Commerce

### **RATIONALE FOR PTA SUPPORT POSITION ON PROPOSITION 38**

A recent poll of PTA leaders showed that our leaders overwhelmingly consider adequate funding for education to be their number one priority. California State PTA believes that Proposition 38, the *Our Children Our Future* education initiative, will provide more adequate and secure funding for K-14 education in California, funding that will restore vital programs like the arts, science and physical education and reduce class size.

PTA believes that the state must annually provide sufficient revenues to fund necessary and desired allocations to public schools in amounts required to provide a quality education program. PTA supports legislation to provide needed public services for all children and youth with the continued constitutional guarantee of financial support for public schools as the first claim on all state revenues in the general fund. This was affirmed in 2007 delegates to state PTA convention when they passed the resolution *Financing California's Public Schools*.

### **CONCLUSION**

The highest priority for the California State PTA and its members is school funding. The California State PTA was an early supporter of Proposition 38, participated in the drafting and signature gathering effort to qualify it for the ballot, and has been an integral part of the campaign to ensure passage in November. Proposition 38 will transform our public schools and provide all students with access to the programs and services they need to succeed. Proposition 38 will expand and improve the quality of early childhood programs and reduce the state's bonded indebtedness providing much-needed relief to the state's General Fund.