

## **California State PTA Legislation Action Committee**

### **Study/Analysis of Initiative: Tax Extension to Fund Education and Healthcare Initiative Constitutional Amendment 1773. (15-0115A1)**

With Proposition 30 taxes scheduled to sunset, an initiative to extend the Prop 30 income tax provisions is currently circulating and appears headed toward the November 2016 General Election ballot. Because the funding provisions in the initiative would impact public education funding, the LAC committee deemed it important enough to consider even though it has not yet qualified for the ballot. A study committee was convened to study the initiative and report back to the Legislation Action Committee with a recommendation. Members of the committee: Barbara Inatsugu, chair; Carol Green; Jeff Price.

### **BACKGROUND**

The recession that began in 2008 was particularly hard on California, a state in which a large portion of General Fund Revenue comes from personal income taxes (PIT), and the state was forced to make significant cuts in education and social safety net programs. In 2012, voters approved Proposition 30, which temporarily raised the state sales tax by  $\frac{1}{2}$  of 1% and implemented new income tax rates for the wealthiest taxpayers. This helped stabilize the state's budget situation and avoided the need for further cuts. Many cuts to health and social safety programs have not been restored.

The sales tax increase will expire at the end of 2016 and the increased income tax rates will expire at the end of 2018. Although the income tax provisions do not expire until 2018 and an initiative to renew could be placed on the 2018 general election ballot, proponents are currently collecting signatures to place this initiative on the 2016 General Election ballot because it is widely believed that the November 2016 presidential election provides the last opportunity for a high turnout among voters who are more likely to support the tax extension before it sunsets in 2018 (PPIC, *The Debate Over Extending Proposition 30*, [www.ppic.org/main/blog\\_detail.asp?i=1673](http://www.ppic.org/main/blog_detail.asp?i=1673).)

California participates in the federal Medicaid program (called Medi-Cal in California), which provides insurance to low-income residents of California. The costs of the program are shared between the federal and state governments. In FY2016, California will spend about \$18B of General Fund Revenues on Medi-Cal. California has one of the lowest reimbursement rates for providers of any Medicaid programs in the country. This is having the effect of limiting participants' access to care. The federal government currently pays all the costs resulting from the expansion of Medi-Cal under the Affordable Care Act (ACA), but the state will have to pay 10% of these costs by 2020.

### **THE PROPOSAL:**

This is an initiative Constitutional Amendment that extends the tax provisions of Proposition 30. If passed by the voters it would:

- Extend by twelve years (from 2018 to 2030) the temporary personal income tax increases enacted in 2012 on earnings over \$250,000 (for single filers; over \$500,000 for joint filers; over \$340,000 for heads of household).
- Allocate education tax revenues as follows: 89% to K-12 schools and 11% to California Community Colleges (see Fiscal Effects, below for more detail).
- Allocate up to \$2 billion per year in certain years for healthcare programs; i.e., it would provide that some of the additional revenue generated by the income tax surcharges (up to \$2B/year) be allocated to support Medi-Cal, but NOT to supplant existing state spending on Medi-Cal). The amount available would depend on how much of the revenue from the tax surcharges is needed to meet any increased Prop 98 guarantee.

- Bar the use of education revenues for administrative costs, but provide local school governing boards discretion to decide, in open meetings and subject to annual audit, how revenues are to be spent.
- Increase state revenue by billions of dollars per year, likely in the \$5 billion to \$11 billion range, although the amount would depend heavily on trends in the stock market and the economy.

Note 1: This ballot initiative is the result of a compromise between two competing initiatives. One, proposed by the CTA would simply have extended the Prop 30 PIT by 12 years. The second, sponsored by the California Hospital Association would have made the Prop 30 income tax increases permanent, but used the money to increase funding for Medi-Cal and early childhood education. The compromise is closer to the CTA proposal.

Note 2: Although this compromise was issued title and summary by the Attorney General as recently as February 4, 2016, it had already reached 25% of signatures needed to qualify by March 7 2016. Clearly, it has traction and the ability to gather enough signatures to qualify for the November ballot, barring any unforeseen circumstances.

To read the full text of the initiative: [http://www.oag.ca.gov/system/files/initiatives/pdfs/15-0115%20Temporary%20Tax%20Increase%29\\_0.pdf](http://www.oag.ca.gov/system/files/initiatives/pdfs/15-0115%20Temporary%20Tax%20Increase%29_0.pdf)?

## THE FISCAL EFFECTS

(Excerpts from Legislative Analyst fiscal analysis. The full analysis can be accessed at: <http://www.lao.ca.gov/BallotAnalysis/Initiative/2015-115>)

**Increased State Tax Revenues.** Currently, the Proposition 30 income tax rate increases are scheduled to expire at the end of 2018. This measure would increase state income tax revenues by billions of dollars per year above current expectations for the years 2019 through 2030. (This would result in increased tax revenues for fiscal years 2018-19 through 2030-31.) The precise amount of this revenue in any given year would depend heavily on trends in the stock market and the economy. For example, if the stock market and economy were weak in 2019 (the first year of the proposed tax increase extension), this measure might generate around \$5 billion of increased revenue. Conversely, if the stock market and economy were strong at that time, the measure might raise around \$11 billion. Near the midpoint of this range—around \$7.5 billion—is one reasonable expectation of the additional revenue that this measure would generate in 2019. Thereafter, through 2030, that amount would rise or fall each year depending on trends in the stock market and the economy.

**Increased School and Community College Funding.** Under current law, the expiration of Proposition 30 is expected to slow the growth of state tax revenues, thereby slowing the growth of the Proposition 98 minimum funding level. Under this measure, the amount of Proposition 98 funds provided to schools and community colleges each year probably would increase by a few billion dollars, compared to what these entities would receive if all of Proposition 30's tax increases expired. The amount of increased school spending over the 2019-2030 period could vary significantly, depending on such factors as the Proposition 98 variables and the state of the economy during the period.

**Increased Budget Reserves and Debt Payments.** Under current law, the expiration of Proposition 30 will result in less revenue available for budget reserves and debt payments compared to when Proposition 30 was in effect. This measure would increase the amount of money used for budget reserves and debt payments, particularly when the economy and stock market are doing well. Because the measure would increase the amount of money used for budget reserves, it would be more likely that the total amount of reserves would reach the 10 percent maximum established by Proposition 2. If this occurred, the measure could result in more funding being used to build and maintain infrastructure.

**Increased Medi-Cal Funding.** The amount of increased Medi-Cal spending could vary significantly each year, ranging from \$0 to \$2 billion. The measure delegates to DOF the authority to make this estimate by implementing this measure's provisions.

**Remaining Funding Generally Available for Any Purpose.** After satisfying requirements that the state tax revenues raised by this measure be allocated for (1) school and community college funding, (2) budget reserves and debt payments, and (3) the Medi-Cal program, the state could use any remaining funds for any budget purpose. The use of that funding would depend on decisions by future legislatures and governors.

**Fiscal Summary.** This measure would have the following major fiscal effects:

- Increased state revenues annually from 2019 through 2030—likely in the \$5 billion to \$11 billion range initially—with amounts varying based on stock market and economic trends.
- Increased revenues would be allocated under constitutional formulas to schools and community colleges, budget reserves and debt payments, and health programs, with remaining funds available for these or other state purposes.

## PTA AUTHORITIES

### General Principles

- Establishment of and adherence to fiscal responsibility in government, with concern for fair taxation, but keeping priorities for the needs of all children and youth foremost.
- Strong and broadly based tax structures at state and local levels.
- Budgets and financial support 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.

### Legislation Planks

- To secure financing for public education that will be sufficient to provide optimum educational opportunity for all students, including state aid to school districts for building purposes as well as state funds to cover excess costs of all programs mandated by the Legislature.

### Resolutions

- Adequate and Equitable State School Finance System (1987/2009) - **RESOLVED**, That the California State PTA and its units, councils and districts actively seek a new method of public school finance which includes, but is not limited to: A level of funding which provides adequate resources to give all students **equal access** to optimum educational opportunity.
- Post Proposition 13 Funding of Public Education (1979/2010) - **RESOLVED**, That the California State PTA urge the Legislature and the Governor to enact an ongoing method of financing public schools such that the sources will be dependable, long-range, and adequate to provide optimum educational opportunity for all elementary and secondary students, with allowance for inflation and a mechanism for funding state, federal and court mandates.
- Financing California's Public School (2007) – **RESOLVED**, That the California State PTA and its units, councils and districts advocate for adequate funding for every student; **RESOLVED**, That the California State PTA and its units, councils and districts support the ongoing efforts to explore new models of public school funding to ensure a quality education for every student; **RESOLVED**, That the California State PTA and its units, councils and districts continue to make financing our public schools, both programs and facilities, a top priority in order to ensure a quality education for every student.
- PTA Priority: Support of Public Education (1980) – **RESOLVED**, That the California State PTA focus its resources on obtaining adequate financing for public education; and be it further **RESOLVED**, That the California State PTA, its units, councils and districts, affirm as a top priority its commitment to the preservation, maintenance and strengthening of our public school system, as pledged by the National PTA...

## Position Statement

- Health Care Access for Children, Youth, Pregnant Women, and Their Families (1992/2014) Health Commission. The California State PTA understands the importance of good health to a child's quality of life and believes that: Appropriate, timely health care is necessary for each child to have the opportunity to develop to his or her fullest potential, both physically and mentally.
- The California State PTA recognizes that: A child's ability to learn is directly related to his or her state of health and that inadequate health care can be a barrier to education.

## **WHAT DO PROPONENTS AND OPPONENTS SAY?**

It's still early in the signature gathering process for this initiative, so most organizations have not yet taken a position. We do know that the League of Women Voters of California supports the initiative and CTA and the California Hospital Association as proponents are gathering signatures. CSBA will be bringing the question to its Delegate Assembly in April. The following information has been gathered primarily from proponents (including ballot measure findings, purpose and intent), supporters, opponents, news articles and presentations. CTA has provided a FAQ for this study (see Attachment A).

### Proponents/Supporters Say:

- The rationale for the initiative is to keep our state budget balanced, and prevent devastating cuts to programs affecting students, seniors, working families, and health care.
- Public school funding was cut to the bone during the recession. Our schools and colleges are just starting to recover, and we should be trying to protect education funding instead of gutting it all over again. Unless we act now to temporarily extend the current income tax rates on the wealthiest Californians, our public schools will soon face another devastating round of cuts due to lost revenue of billions of dollars a year.
- Access to a quality education is fundamental to the success of California's children. Even with adequate schools, children cannot obtain an education if illness prevents them from attending.
- Underfunding health care programs also harms California financially. Every new state dollar spent on health care for children and their families is automatically matched by federal funds. Improved reimbursement for health services helps ensure that children have access to doctors and hospitals.
- This measure does not increase taxes on anyone earning under \$250,000. It does not extend the temporary sales tax increases that voters previously approved in 2012.
- These funds will be subject to an independent local audit every year to ensure they are spent only for the purposes set forth in this measure. Elected officials will be subject to prosecution and criminal penalties if they misuse the funds.
- Maintaining the state's rainy day fund will stabilize the budget, avoid the boom and bust cycles of the past, and protect our children, seniors, and disabled Californians from cuts in school and healthcare funding during future economic downturns.
- Funds placed in the Education Protection Account are continuously appropriated for the support of school districts, county offices of education, charter schools, and community college districts and for healthcare, as described in the initiative.

## Opponents Say:

- Former State Senator Gloria Romero: “*Prop 30 was creatively advertised and sold to the voters by a union, the California Teachers Association, which depicted it as a ‘temporary’ tax to support public schools. But even while Prop 30 was being pitched to voters as a temporary tax increase, no one in the political world actually believed it.* [www.ocregister.com/articles/voters-687234-tax-percent.html](http://www.ocregister.com/articles/voters-687234-tax-percent.html)
- CalWatchDog.com: *Many economists fear that any Prop. 30 income tax extension could backfire and further drive high-income earners out-of-state. California’s \$115 billion GF budget has become increasingly dependent on income tax revenue, which frequently fluctuates based on the stock market.*
- Los Angeles Daily News editorialized in December 2015: *In a time of financial crisis, Prop. 30 made sense, but the state is no longer in crisis, and any ballot measure playing off the fear of a return to dark days should be seen for the political ploy it is by unionists seeking to protect their own interests.* [www.dailynews.com/opinion/20151208/proposition-30-tax-hikes-should-expire-as-promised](http://www.dailynews.com/opinion/20151208/proposition-30-tax-hikes-should-expire-as-promised)
- Jon Coupal, president, Howard Jarvis Taxpayers Association: *Voters were told that Prop. 30 funds would be audited, and there is a presumption among the voters that that audit would be conducted in a timely manner. And to be told that the audit ... isn’t going to be completed until the month before the election is not exactly full transparency.*
- Funds placed in the Education Protection Account are continuously appropriated and not subject to the annual budget process.
- Howard Jarvis Taxpayers Association: *...a better question would be whether those tax hikes (Prop 30) were needed at all, or better yet, did they inflict more harm than good? There is compelling evidence that California would today (2014) be a bigger slice of the national economic recovery had it not passed Proposition 30 at all.*
- Jerry Nickelsburg, a senior economist for the UCLA Anderson Forecast: The initiative to extend Prop. 30 taxes, rather than solving a problem, creates a worse one. Our current greater dependence on high-income earners to balance the state budget makes us more vulnerable. In fact, an extension of Prop 30 could make the situation worse than it was during the Schwarzenegger and Davis budget crises. Our current greater dependence on high-income earners to balance the state budget makes us more, not less, vulnerable. The impact was not as pronounced in the early years of our current tax structure (1967-1990) because the California economy was dominated by large manufacturing firms, which paid middle-class wages to their workers. As innovation, technology, and their concomitant entrepreneurial activity replace large-scale manufacturing, the importance of high-income earners soared. In good times, these entrepreneurs and their team rake in profits. But when the economy tanks, so do their incomes. It is just not the same as, for example, a 15 percent reduction in the workforce at the GM plant in Van Nuys hitting revenues. It is a virtual wipeout of a major source of revenues. Nickelsburg suggest that a better alternative would be to change the tax system such that it generates a smoother revenue stream available to the general fund over the business cycle and prevents the kinds of drastic cuts we have become accustomed to. [www.sandiegouniontribune.com/news/2015/nov/18/extending-prop-30-tax-not-right-solution/](http://www.sandiegouniontribune.com/news/2015/nov/18/extending-prop-30-tax-not-right-solution/)  
[www.foxandhoundsdaily.com/2015/11/the-unintended-consequences-of-extending-proposition-30/](http://www.foxandhoundsdaily.com/2015/11/the-unintended-consequences-of-extending-proposition-30/)  
[www.zocalopublicsquare.org/2015/11/18/the-unintended-consequences-of-extending-proposition-30/](http://www.zocalopublicsquare.org/2015/11/18/the-unintended-consequences-of-extending-proposition-30/)

## GENERAL COMMENTS:

- According to PPIC surveys conducted in 2014 and 2015, identical results showed a slim majority of support for a Prop 30 tax extension, suggesting that “a tax extension is in the realm of the possible, but far from a sure thing. PPIC also notes that their findings further indicate that “the fate of a Proposition 30 tax extension in 2016, as was the case for Proposition 30 in 2012, will likely depend on how the voters perceive its effects on K-12 education. (*PPIC, The Debate Over Extending Proposition 30, [www.ppic.org/main/blog\\_detail.asp?i=1673](http://www.ppic.org/main/blog_detail.asp?i=1673) and [www.ppic.org/main/pressrelease.asp?i=1861](http://www.ppic.org/main/pressrelease.asp?i=1861)* )
- An August 2015 PACE/USC Rossier poll shows 63 percent of voters are in favor of extending the tax increase on high incomes...only 28 percent of voters in that poll said both tax provisions in Prop 30 should be allowed to expire. The poll also shows that six in 10 voters said California should be spending more on schools, as opposed to 26 percent who said the state’s public schools have enough money. *The latest results indicate a growing confidence in our public school system, as voters are clearly willing to provide greater financial support to education.* <https://news.usc.edu/85531/poll-california-voters-back-prop-30-extension>
- The LAO and Director of Finance note that *under this measure, the amount of Proposition 98 funds provided to schools and community colleges each year probably would increase by a few billion dollars, compared to what these entities would receive if all of Prop 30’s tax increases expired.*
- If Proposition 30 were allowed to sunset, it would slow the growth of the Proposition 98 minimum funding level, negatively impacting an already underfunded system and leading to a new round of painful budget cuts. The California Budget & Policy Center notes in a Fact Sheet dated March 2016: *The expiration of Prop 30’s PIT rate increase would leave a permanent gap in state General Fund revenues – an estimated \$4.4 billion in 2018-19 and \$7.7 billion in 2019-20, with annual revenue losses continuing indefinitely. To put these amounts in perspective, Governor Brown’s proposed budget for 2016-17 includes a total of \$8.0 billion in General Fund support for the California State University, University of California, and Student Aid Commission combined.* <http://calbudgetcenter.org/wp-content/uploads/The-Expiration-of-Proposition-30%20%99s-Tax-Increases-Would-Leave-a-Permanent-Gap-in-State-Revenues.pdf>
- Increased Medi-Cal funding. This amended version of the Prop 30 tax extension includes healthcare-related provisions, as part of the compromise between CTA and the California Hospital Association. Section (F) starts off by stating: *In order to enhance the ability of all California school children and their families to receive regular, quality healthcare and thereby minimize school absenteeism due to health-related problems ....* This initiative states and acts on the well-understood link between children’s health, school attendance and success in school. CAPTA has been directly involved in these issues
- The funds placed in the Education Protection Account established by Prop 30, under the provisions of this initiative, will be continuously appropriated for schools, county offices of education, charter schools, and community colleges, and for healthcare and require no legislative action to take effect. In other words, the allocation of money shall not be delayed or affected by the failure of the legislature and governor to enact an annual budget bill.

## **COMMITTEE DISCUSSION**

Committee members agreed that in an ideal world, a Prop 30 tax extension would not be important to keeping school funding stable and moving forward. Nor would a sunset clause be necessary. Schools would be funded at a level that provides sufficient revenues and resources to provide a teaching and learning environment necessary to meet state standards and offer both access and opportunity to all students. Proposition 13 provisions related to (split role) corporate property taxes would be placed on a statewide ballot and approved by the voters.

HOWEVER, given that we don't live in an ideal world, we must deal with the possible and not let the imperfect stand in our way. According to a PPIC poll, published on September 30, 2015, likely voters favor extending the temporary tax increase by a small margin, but that support declines when those same likely voters are asked about making the increases permanent. (PPIC press release, [www.ppic.org/main/pressrelease.asp?i=1861](http://www.ppic.org/main/pressrelease.asp?i=1861) )

We must also look at what is available to us today. Experts, committees, pundits and many more have spent years deliberating on the issue of a stable tax structure. Recommendations have been discussed and submitted to the legislature or brought before the voters. There has not been the political will or public support to date to adopt these recommendations, for a variety of reasons. PPIC and other polling shows us that public opinion is changing, which means public pressure at some point may enable political will. UNTIL THAT DAY...we are faced with current circumstances and must turn to options available to us now.

## **RECOMMENDATION:**

Based on our study and analysis, the committee recommends that the Legislation Action Committee recommend a position of SUPPORT on the Initiative Constitutional Amendment: Tax Extension to Fund Education and Health Care to the California State PTA Board of Managers.

## **Submitted by:**

Barbara Inatsugu, chair

Carol Green

Jeff Price

**ATTACHMENT "A"**  
**Q&A Provided by California Teachers Association (Proponent)**

**The Children's Education and Health Care Protection Act of 2016**

<b>Question</b>	<b>Answer</b>
Is the initiative an extension of Proposition 30?	Yes. This initiative temporarily extends the income tax rates on the wealthiest Californians created under Prop. 30. Revenues from the extension will increase funding for public schools and colleges, increase revenues in the Rainy Day Fund. At the same time, it will free up dollars in the general fund and, if certain criteria are met, increasing funding
Are the taxes in this new initiative temporary?	Yes. The current Prop. 30 income tax rates would be temporarily extended for 12 years.
Does the initiative continue the Prop. 30 sales tax increase?	No. The quarter-cent sales tax increase will expire in 2016.
How much revenue will this initiative bring in?	An estimated \$8-11 billion annually.
Where do the revenues from the initiative go?	Simply, the extension revenues do 3 things: <ol style="list-style-type: none"> <li>1. Increase funding for public schools and colleges.</li> <li>2. Increase funding into Rainy Day Fund.</li> <li>3. By helping the state to meet and expand its obligation to schools and colleges, the initiative frees up budget dollars to be spent on healthcare and other priorities.</li> </ol>
Does the initiative increase funding for education and the Prop. 98 guarantee, the public education spending requirement?	Yes. Revenues will continue to be deposited into the Education Protection Account, a special fund that goes to fund K-12 public schools and community colleges. These funds will be used to help students by reducing class sizes, updating textbooks, hiring new educators and education support professionals, and helping to keep tuition costs from skyrocketing. None of the money can be spent on administrative costs. <p>In addition, by helping the state maintain and fund critical resources for education, the state will then be freed up to use funds that would have otherwise been necessary for education, to help fund critical services like health care and other essential services, invest in the Rainy Day Fund and maintain a balanced budget.</p>

<b>Question</b>	<b>Answer</b>
Will this initiative expand health care coverage for low-income children and families?	Yes. If certain budgetary requirements are met, the initiative will provide up to \$2 billion annually in funds for health care for low-income children and their families.
Does the initiative help maintain a balanced budget?	Yes. This initiative has built-in flexibility that allows for restoration of general fund spending cuts and provides for relief in budget emergencies.
Are there auditing and disclosure requirements?	Yes. This initiative is subject to full audit and disclosure requirements. They include audits by the State Controller and audits of each school district and community college receiving funds. Districts and colleges must post on their websites how the funds were spent.
What are the tax rates and tax brackets?	<p>This Initiative temporarily extends the original Prop. 30 income tax rates and brackets:</p> <p style="padding-left: 40px;">10.3%- \$250-\$299 K</p> <p style="padding-left: 40px;">11.3%- \$300-\$499 K</p> <p style="padding-left: 40px;">12.3%- \$500 K+</p> <p style="padding-left: 40px;"><i>All brackets double for joint filers</i></p> <p>Note: Incomes over \$1,000,000 are taxed an additional 1% surcharge due to Proposition 63.</p>
Are income brackets indexed for inflation?	Yes.
Are the revenues subject to Prop. 2, the Rainy Day Fund?	Yes.
Are the revenues subject to the Gann state appropriations limit?	Yes. California passed an initiative that limits how much money the state can spend in a single year (Gann Limit). Any money that the state receives over that limit must be split evenly between refunds to taxpayers and spending on public education. In this initiative, revenues above the limit will continue to be split between taxpayer refunds and public education spending.

<b>Question</b>	<b>Answer</b>
What amendments were filed to the current version of the initiative?	<p>1. Revenues will now be subject to the Rainy Day Fund provisions of Proposition 2.</p> <p>2. Remaining funds – those that are left after the state meets its Proposition 98, general fund budget, and Proposition 2 requirements – would now be split 50/50 (rather than 55/45) between the General Fund and Health care programs.</p>
When I supported Prop. 30 in 2012, I was told it was temporary? Did I misunderstand?	No. The sales tax increase included in Prop. 30 expires this year. The Children's Education and Health Care Protection Act simply temporarily extends the income tax rates on the wealthiest Californians – couples who earn more than half a million dollars a year and individuals who earn more than \$250,000 a year.
Doesn't California have a surplus and a balanced budget?	We do right now, but only because Prop. 30 helped stop the bleeding after years of deficits and devastating cuts to education. Education funding is just getting back to the level it was before the Great Recession. And unless we pass the Children's Education and Health Care Protection Act, California will fall right back into the days of deficits and cuts, facing \$5 billion in education cuts and a \$3 billion budget deficit the first year alone.
I already pay too much in taxes. Doesn't California already have the highest taxes in the country?	This initiative doesn't raise taxes, it just prevents the richest 2% of Californians from getting a tax break. It continues the current income tax rates on couples earning half a million dollars and individuals earning a quarter million. And it actually lets the sales tax rate drop by a quarter percent, helping all Californians keep more money in their pockets.
My school district didn't see any additional funding through the Local Control Funding Formula.  Why should I support this initiative?	ALL schools received additional funding thanks to Prop. 30. In fact, public education funding has seen the largest increases in state history for the last two years. We are moving in the right direction, and it's critical that we continue our investment in all California students. According to state revenue projections, if we reduce taxes on the wealthy, all our students will lose once again and public schools will face \$5 billion in cuts annually beginning in 2019. We owe it to our students to continue to restore art, music and P.E. programs; reduce class sizes; hire more educators and support professionals; prioritize student learning over testing and make it easier to attend a California college.