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Information/Action Item

California Student Aid Commission

Update on state and federal issues and legislation and consideration of positions on bills and initiatives affecting Commission programs, including Proposition 30: Temporary Taxes To Fund Education. Guaranteed Local Public Safety Funding. Initiative Constitutional Amendment; and Proposition 38: Tax To Fund Education And Early Childhood Programs. Initiative Statute.

This tab provides an update on the disposition of Commission bills of the 2012 Legislative Session as well as a discussion of the federal appropriations bills as they relate to student financial aid.

Included with this tab is a summary of Proposition 30, also known as the Governor's Tax Initiative, and Proposition 38, otherwise known as the Molly Munger Tax Initiative.

Recommended Action: Adopt the following resolution in support of Proposition 30:

Resolved, *that the California Student Aid Commission endorses Proposition 30 on the November 2012 General Election ballot, the Governor's Tax Initiative to fund education and guarantee local public safety funding, given that it protects the public higher education segments from further cuts and their students from harmful fee increases.*

Responsible Person(s): Ed Emerson, Chief
Federal Programs & Policy Division

Lori Nezhura, Legislative Director
Executive Division

STATE LEGISLATIVE UPDATE

A little after midnight on September 1, 2012, the 2011-12 Legislative Session ended. As it was the second of the two-year cycle, any outstanding bills not enrolled and sent to Governor Brown died. December 3, 2012 begins the next biennial session.

A total of 100 state legislative seats are up for election this November--20 in the Senate and all 80 in the Assembly. The Senate may see two or more new members, while the Assembly is likely to have at least 36 new members. Coupled with the new "Top Two Primary" held this year, and redistricting, we may see changes in the number of Democrat and Republican seats for 2013-14.

Following is a snapshot of the current status of 2012 Commission bills as of the preparation of this tab. Commission staff will provide an oral update of any Governor signatures or vetoes that take place prior to the Commission meeting.

Bill No. and Author	Position (taken on April 27, 2012)	House of Origin			Second House			H.O.O. for Concurrence	Enrolled	Signed by Governor	Notes
		Policy Cmte	Fiscal Cmte	Floor	Policy Cmte	Fiscal Cmte	Floor				
SB 1103 (Wright)	Support							N/A			Awaiting Governor's action
SB 1289 (Corbett)	Support										Awaiting Governor's action
SB 1466 (De León)	Support*										Gut-and-amended; no longer a Cal Grant bill
AB 970 (Fong)	Oppose*										Significantly amended in July; awaiting Governor's action
AB 1501 (Pérez)	Support										Failed to pass off the Senate Floor
AB 1723 (Fuentes)	Support										Awaiting Governor's action
AB 1899 (Mitchell)	Support							N/A			Awaiting Governor's action
AB 2296 (Block)	Support in Concept										Awaiting Governor's action
SB 721 (Lowenthal)	Watch										Awaiting Governor's action
AB 1637 (Wieckowski)	Watch										Failed to pass out of Assembly Higher Education Committee
AB 2190 (Pérez)	Watch										Held in Assembly Appropriations

* Staff is recommending a position change. Please see following pages.

COMMISSION BILL SUMMARIES

SB 721 (Lowenthal) State Postsecondary Education: State Goals
Summary: States the intent of the Legislature that budget and policy decisions regarding postsecondary education generally adhere to three specified goals, and to identify and define metrics to monitor the progress in achieving those goals by 2025. Requires the Legislative Analyst's Office (LAO) to convene a working group to develop the metrics and interim targets to be submitted by January 31, 2013. Requires LAO to release an annual statewide performance report along with an analysis of goal achievement beginning January 1, 2014.
Existing Existing Commission Position: Watch
Disposition: Enrolled and awaiting Governor's action

SB 1103 (Wright) Cal Grant Program: Annual Report
Summary: Requires the Student Aid Commission to provide searchable access on its Internet Web site to the enrollment, persistence, completion, placement rates, and wage and salary information submitted annually by Cal Grant participating institutions. Also requires the Commission to provide links to workforce data such as the local occupation profiles available though the Employment Development Department's Labor Market Information Data Library.
Existing Commission Position: Support
Disposition: Enrolled and awaiting Governor's action

SB 1289 (Corbett) Postsecondary Education: Private Student Loans
Summary: Requires a public or private postsecondary educational institution (except California Community Colleges) to make specified disclosures related to private student loans in financial aid material and private loan applications provided or made available by the institution.
Existing Commission Position: Support
Disposition: Enrolled and awaiting Governor's action

SB 1466 (De León) Peace Officers: City of Los Angeles
Summary, As Enrolled on: Provides that an officer of the Department of General Services who was transferred to the Los Angeles Police Department is a peace officer if he or she is designated by the Chief of Police of the Los Angeles Police Department, or his or her designee, and the peace officer's primary duty is the enforcement of the law in or about properties owned, operated, or administered by the City of Los Angeles or when performing necessary duties, as specified.
Formerly: Prior to the gut-and-amend of August 27, 2012, this bill expanded the Cal Grant income ceilings up to $120,000 and paid for the increase in Cal Grant eligibility with a special fund through SB 1356.
Existing Commission Position: Support. *Staff recommends formally withdrawing Support as this bill no longer deals with the same subject matter or other Commission priorities.*
Disposition: Enrolled and awaiting Governor's action

AB 970 (Fong) University of California and California State University: Systemwide Student Fees
Summary: Establishes the Working Families Student Fee Transparency and Accountability Act. Prescribes public notice and student consultation procedures prior to the adoption of a mandatory systemwide fee increase. Provides that in instances where the Governor's proposed budget, the Legislature's enacted budget, or a Governor's veto reduces General Fund appropriations for UC or CSU operational support, certain notice and consulation provisions do not apply or are significantly decreased. Requires the Regents and Trustees to develop a list of factors that shall be taken into consideration when developing recommendations to adjust mandatory systemwide fees.
Existing Commission Position: Oppose. *Staff recommends the Commission change its position to Support as the July amendments to this bill reduce the process for fee increases from 11 months down to three, include student association consultation as part of the the fee adjustment process, and provide exemptions to the process in the event that UC or CSU experience reductions in their General Fund support. As a result of these amendments, CSU now Supports and UC has taken a Neutral position on the bill.*
Disposition: Enrolled and awaiting Governor's action

AB 1501 (Peréz) Student Financial Aid: Middle Class Scholarship Program
Summary, As Amended on August 31, 2012: Establishes the Middle Class Program under the administration of the California Student Aid Commission commencing in the 2012-13 fiscal year. Provides that a UC or CSU resident or eligible exempt student with a household income equal to or less than $150,000 would receive a scholarship credit that, combined with other publicly funded grant aid, would cover 60% of mandatory systemwide fees. Eligibility for the scholarship credit mirrors certain requirements of the Cal Grant Program, and requires the attainment of at least a 2.0 high school or community college GPA. Requires the Commission to annually report the amount of the scholarship credit for each student to the Franchise Tax Board and the aggregate of all scholarship credits to the Department of Finance. Continuously appropriates $150 million from the General Fund to the California Community College Chancellor's Office for grants to students to reduce the impact of enrollment fees or help cover the cost of texbooks and other educational expenses. Includes provisions regarding Proposition 98.
Existing Commission Position: Support
Disposition: Dead

AB 1637 (Wieckowski) Cal Grant Program: Student Default Risk: Index Score
Summary: Amends the Cal Grant Program to require qualifying institutions to calculate, as specified, and certify to the Student Aid Commission its Student Default Risk Index (Index) score by October 1 of each year in lieu of the current Cohort Default Rate (CDR). Makes a qualified institution ineligible for initial and renewal Cal Grant awards if the institution's Index score exceeds 15.
Existing Commission Position: Watch
Disposition: Dead

AB 1723 (Fuentes) Postsecondary Educational Institutions: Meetings" Live Video and Audio Transmissions
Summary: Amends existing law requiring the Board of Governors of the California Community Colleges, the Trustees of the California State University, and the Student Aid Commission, and requesting the Regents of the University of California, to provide live video and audio transmissions of each open meeting and to archive and post the video

and audio on the entity's Internet Web site within 48 hours following the meeting for a period of 12 months.
Existing Commission Position: Support
Disposition: Enrolled and awaiting Governor's action

AB 1899 (Mitchell) Postsecondary Education Benefits: Crime Victims
Summary: Requires students who are victims of trafficking, domestic violence, and other serious crimes to be exempt from paying nonresident tuition at the public colleges and universities, and to be eligible for all student financial aid programs and scholarships administered by a public postsecondary educational institution and the State, to the same extent as individuals who are admitted to the United States as refugees under specified federal law.
Existing Commission Position: Support
Disposition: Enrolled and awaiting Governor's action

AB 2190 (Pérez) Postsecondary Education: California Higher Education Authority
Summary: Establishes the California Higher Education Authority under the administration of a 13-member board of directors. Specifies duties including but not limited to developing, presenting, and monitoring postsecondary education goals for the State, recommending strategic finance policy to the Governor and Legislature, and acting as a clearinghouse for postsecondary education information. Deletes the statute for the establishment and duties of the California Postsecondary Education Commission.
Existing Commission Position: Watch
Disposition: Dead

AB 2296 (Block) California Private Postsecondary Education Act of 2009
Summary: Amends the California Private Postsecondary Education Act of 2009 to prohibit offering associate, baccalaureate, and master's degree programs without making specified disclosures to prospective students. Requires a school catalog to include a statement regarding whether the institution is accredited by an approved accrediting agency and limitations of the programs such as whether or not graduates will be eligible to sit for applicable state licensure examinations or whether or not students are eligible for federal student financial assistance. Requires the School Performance Fact Sheet for each program offered to include salary or wage information and the most recent 3-year Cohort Default rate (CDR) reported by the U.S. Department of Education. Revises the definition of "graduates employed in a field" and allows the Bureau of Private Postsecondary Education until July 2014 to define measures and standards for determining whether a graduate is gainfully employed.
Existing Commission Position: Support in Concept
Disposition: Enrolled and awaiting Governor's action

FEDERAL LEGISLATIVE UPDATE

Congressional Action

The House passed its 2013 spending bill and the Pell Grant maximum for the 2013-14 award year would be at its scheduled maximum of $5,635. The Federal Supplemental Educational Opportunity Grant (FSEOG) and Federal Work-Study (FWS) programs received level funding. The bill reflects the Senate Bill with a few exceptions.

The House Bill proposes the following provisions for student aid:

- Eliminates the in-school interest subsidies for undergraduate students
- Eliminates the student aid eligibility expansions enacted by the College Cost Reduction and Access Act (CCRAA), including auto-zero eligibility and Income Protection Allowance
- Proposes an undefined a maximum income cap for Pell Grant eligibility
- Eliminates Pell Grant eligibility for less-than-half-time students
- Eliminates the automatic increases in the maximum Pell award above $5,550
- Eliminates the mandatory funding for Pell Grants
- Eliminates Pell and Campus-Based Aid Administration Cost Allowances (ACA)
- Repeals the mandatory funding for College Access Challenge Grants ($150 million in FY 2013). Again, since there is no corresponding increase in the discretionary side, in effect this either cuts this program or will result in $150 million in additional cuts in FY 2013 to all other discretionary education programs.
- Allows interest rates on subsidized Stafford loans to double on July 1 from 3.4% to 6.8% (The interest rate issue was recently resolved in an amendment to a transportation funding bill)

The Senate bill would limit a student's eligibility to borrow subsidized Stafford loans to a period that totals 150 percent of current program length. The Senate Bill would also restore the ability-to-benefit option for students who are enrolled in adult and postsecondary education for career development for purposes of Pell Grant eligibility only.

<u>The Democratic-controlled Senate and the Republican-controlled House may find it challenging to reach an agreement on the Labor-HHS-Education spending bill. It is unlikely that there will be any agreement until after the Nov. 2012 elections.</u>

Other Relevant Information

1. Spending on Pell Grants has nearly doubled in the last 4 years from $15.4 billion to $34.8 billion.
2. The newly constituted Consumer Financial Protection Bureau (CFPB) consolidates many consumer financial protection responsibilities into one agency. The CFPB initiated the "**Know Before You Owe**" campaign, which is aimed at simplifying and consolidating disclosure forms for mortgages, credit cards, and **student loans.**
3. Currently there are 12 different federal Tax Credits available to Taxpayers with Children in College totally $93 billion dollars

The largest of these higher education tax expenditures is the American Opportunity Tax Credit (AOTC), which Congress created in 2009 at the behest of the Obama administration. The AOTC is a $2,500 annual income tax credit that families with incomes up to $180,000 can claim for up to four years of college. The credit is partially refundable, meaning that low-income families who do not have any tax liabilities can receive a payment from the government of up to $1,000 a year for each student in college.

- Lifetime Learning Tax Credit
- Exclusion of Scholarship and Fellowship Income
- Parental Personal Exemption for Students aged
- Exclusion of Employer-Provided Education Benefits*
- Deduction for Student Loan Interest
- Exclusion of Tax on Earnings of Qualified Tuition Programs
- Deduction for Tuition and Fees*
- Exclusion of Tuition Reductions
- Exclusion of interest of Coverdell Education Savings Accounts
- Exclusion of Certain Discharged Student Loans
- Exclusion of Interest On Education Savings Bonds

Proposition 30 and Proposition 38

Proposition 30 Summary: This initiative would increase personal income tax on annual earnings over $250,000 for seven years and increase sales and use tax by ¼ cent for four years. It would allocate 89% of these temporary tax revenues to K–12 schools and 11% to community colleges. Proposition 30 prohibits the use of these funds for administrative costs, but provides local school governing boards discretion to decide, in open meetings and subject to annual audit, how funds are to be spent. The measure guarantees annual funding for public safety services realigned from state to local governments in 2011.

For the complete summary and analysis of Proposition 30, visit the Secretary of State's Internet Web site at http://vig.cdn.sos.ca.gov/2012/general/pdf/30-title-summ-analysis.pdf. A copy has also been included in this tab (attachment 9.c.1) for your convenience.

Background: If Proposition 30 fails, the 2012 budget plan requires that state spending be reduced by almost $6 million in the budget year to account for the tax revenues not generated. The "trigger cuts" that would go into effect would reduce K-14 spending by $5.4 billion, UC and CSU by $250 million each, and various public safety programs by another $99 million. In future years, the Legislature and the Governor would have to consider more of the same or different methods to balance the state budget given the lower level of revenues.

Furthermore, AB 1502 (Chapter 31, Statutes of 2012) was passed with the 2012 Budget Act, appropriating $125 million each to the University of California and the California State University in 2013-14, contingent on the following two actions:

- Passage and enactment of Proposition 30 on the November 2012 General Election ballot, and
- UC and CSU commitment to maintain 2012-13 mandatory systemwide fees at the 2011-12 fee levels.

For the UC, that means they cannot consider a tuition increase until Fall 2013, and for the CSU, that means rescinding a fee increase of nine percent approved by the Trustees in November 2011 for implementation beginning Fall 2012. The CSU has already charged students the fee increase for Fall 2012. Thus, in order to receive the appropriation included in AB 1502, the CSU Board of Trustees would need to rescind the fee increase at a future meeting (conditioned on passage of Proposition 30), and process credits or refunds to students who paid the higher rate in the fall term.

Proposition 38 Summary: This initiative would increase personal income tax (PIT) rates on annual earnings over $7,316 using sliding scale from .4% for lowest individual earners to 2.2% for individuals earning over $2.5 million, from 2013 through 2024. During the first four years, it would allocate 60% of revenues to K–12 schools, 30% to repaying state debt, and 10% to early childhood programs. Thereafter, it would allocate 85% of revenues to K–12 schools and 15% to early childhood programs. This initiative explicitly prohibits the Legislature from directing new funds and otherwise amending the initiative statute; that can only be done through a future ballot measure.

For the complete summary and analysis of Proposition 38, visit the Secretary of State's Internet Web site at http://vig.cdn.sos.ca.gov/2012/general/pdf/38-title-summ-analysis.pdf. A copy has also been included in this tab (attachment 9.c.2) for your convenience.

What Happens if Voters Approve Both Proposition 30 and Proposition 38?

If provisions of two measures approved on the same statewide ballot conflict, the California State Constitution specifies that the provisions of the measure receiving more "yes" votes prevail. Proposition 30 and Proposition 38 on this statewide ballot both increase personal income tax (PIT) rates and, as such, could be viewed as conflicting.

According to the official summary prepared by the Attorney General, Proposition 30 and Proposition 38 both contain sections intended to clarify which provisions are to become effective if both measures pass:

- *If Proposition 30 Receives More Yes Votes.* Proposition 30 contains a section indicating that its provisions would prevail in their entirety, and none of the provisions of any other measure increasing PIT rates—in this case Proposition 38—would go into effect.
- *If Proposition 38 Receives More Yes Votes.* Proposition 38 contains a section indicating that its provisions would prevail and the tax rate provisions of any other measure affecting sales or PIT rates— in this case Proposition 30—would not go into effect.
- Under the latter scenario, the spending reductions known as the "trigger cuts" would take effect as a result of Proposition 30's tax increases not going into effect.

Staff Recommendation

Commission staff recommends the Commission adopt the following resolution in support of Proposition 30:

Resolved, *that the Student Aid Commission endorses Proposition 30 on the November 2012 General Election ballot, the Governor's Tax Initiative to fund education and guarantee local public safety funding, given that it protects the public higher education segments from further cuts and their students from harmful fee increases.*

PROPOSITION 30 TEMPORARY TAXES TO FUND EDUCATION. GUARANTEED LOCAL PUBLIC SAFETY FUNDING. INITIATIVE CONSTITUTIONAL AMENDMENT.

OFFICIAL TITLE AND SUMMARY — PREPARED BY THE ATTORNEY GENERAL

TEMPORARY TAXES TO FUND EDUCATION. GUARANTEED LOCAL PUBLIC SAFETY FUNDING. INITIATIVE CONSTITUTIONAL AMENDMENT.

- Increases personal income tax on annual earnings over $250,000 for seven years.
- Increases sales and use tax by ¼ cent for four years.
- Allocates temporary tax revenues 89% to K–12 schools and 11% to community colleges.
- Bars use of funds for administrative costs, but provides local school governing boards discretion to decide, in open meetings and subject to annual audit, how funds are to be spent.
- Guarantees funding for public safety services realigned from state to local governments.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Additional state tax revenues of about $6 billion annually from 2012–13 through 2016–17. Smaller amounts of additional revenue would be available in 2011–12, 2017–18, and 2018–19.
- These additional revenues would be available to fund programs in the state budget. Spending reductions of about $6 billion in 2012–13, mainly to education programs, would not take effect.

ANALYSIS BY THE LEGISLATIVE ANALYST

OVERVIEW

This measure temporarily increases the state sales tax rate for all taxpayers and the personal income tax (PIT) rates for upper-income taxpayers. These temporary tax increases provide additional revenues to pay for programs funded in the state budget. The state's 2012–13 budget plan—approved by the Legislature and the Governor in June 2012—assumes passage of this measure. The budget, however, also includes a backup plan that requires spending reductions (known as "trigger cuts") in the event that voters reject this measure. This measure also places into the State Constitution certain requirements related to the recent transfer of some state program responsibilities to local governments. Figure 1 summarizes the main provisions of this proposition, which are discussed in more detail below.

Figure 1

Overview of Proposition 30

State Taxes and Revenues

- Increases sales tax rate by one-quarter cent for every dollar for four years.
- Increases personal income tax rates on upper-income taxpayers for seven years.
- Raises about $6 billion in additional annual state revenues from 2012–13 through 2016–17, with smaller amounts in 2011–12, 2017–18, and 2018–19.

State Spending

- If approved by voters, additional revenues available to help balance state budget through 2018–19.
- If rejected by voters, 2012–13 budget reduced by $6 billion. State revenues lower through 2018–19.

Local Government Programs

- Guarantees local governments receive tax revenues annually to fund program responsibilities transferred to them by the state in 2011.

STATE TAXES AND REVENUES

Background

The General Fund is the state's main operating account. In the 2010–11 fiscal year (which ran from July 1, 2010 to June 30, 2011), the General Fund's total revenues were $93 billion. The General Fund's three largest revenue sources are the PIT, the sales tax, and the corporate income tax.

Sales Tax. Sales tax rates in California differ by locality. Currently, the average sales tax rate is just over 8 percent. A portion of sales tax revenues goes to the state, while the rest is allocated to local governments. The state General Fund received $27 billion of sales tax revenues during the 2010–11 fiscal year.

Personal Income Tax. The PIT is a tax on wage, business, investment, and other income of individuals and families. State PIT rates range from 1 percent to 9.3 percent on the portions of a taxpayer's income in each of several income brackets. (These are referred to as marginal tax rates.) Higher marginal tax rates are charged as income increases. The tax revenue generated from this tax—totaling $49.4 billion during the 2010–11 fiscal year—is deposited into the state's General Fund. In addition, an extra 1 percent tax applies to annual income over $1 million (with the associated revenue dedicated to mental health services).

Proposal

Increases Sales Tax Rate From 2013 Through 2016. This measure temporarily increases the statewide sales tax rate by one-quarter cent for every dollar of goods purchased. This higher tax rate would be in effect for four years—from January 1, 2013 through the end of 2016.

Increases Personal Income Tax Rates From 2012 Through 2018. As shown in Figure 2, this measure increases the existing 9.3 percent PIT rates on higher incomes. The additional marginal tax rates would increase as taxable income increases. For joint filers, for example, an additional 1 percent marginal tax rate would be imposed on income between $500,000 and $600,000 per year, increasing the total rate to 10.3 percent. Similarly, an additional 2 percent marginal tax rate would be imposed on income between $600,000 and $1 million, and an additional 3 percent marginal tax rate would be imposed on income above $1 million, increasing the total rates on these income brackets to 11.3 percent and 12.3 percent, respectively. These new tax rates would affect about 1 percent of California PIT filers. (These taxpayers currently pay about 40 percent of state personal income taxes.) The tax rates would be in effect for seven years—

Figure 2

Current and Proposed Personal Income Tax Rates Under Proposition 30

Single Filer's Taxable Income[a]	Joint Filers' Taxable Income[a]	Head-of-Household Filer's Taxable Income[a]	Current Marginal Tax Rate[b]	Proposed Additional Marginal Tax Rate[b]
$0–$7,316	$0–$14,632	$0–$14,642	1.0%	—
7,316–17,346	14,632–34,692	14,642–34,692	2.0	—
17,346–27,377	34,692–54,754	34,692–44,721	4.0	—
27,377–38,004	54,754–76,008	44,721–55,348	6.0	—
38,004–48,029	76,008–96,058	55,348–65,376	8.0	—
48,029–250,000	96,058–500,000	65,376–340,000	9.3	—
250,000–300,000	500,000–600,000	340,000–408,000	9.3	1.0%
300,000–500,000	600,000–1,000,000	408,000–680,000	9.3	2.0
Over 500,000	Over 1,000,000	Over 680,000	9.3	3.0

[a] Income brackets shown were in effect for 2011 and will be adjusted for inflation in future years. Single filers also include married individuals and registered domestic partners (RDPs) who file taxes separately. Joint filers include married and RDP couples who file jointly, as well as qualified widows or widowers with a dependent child.

[b] Marginal tax rates apply to taxable income in each tax bracket listed. The proposed additional tax rates would take effect beginning in 2012 and end in 2018. Current tax rates listed exclude the mental health tax rate of 1 percent for taxable income in excess of $1 million.

For text of Proposition 30, see page 80.

starting in the 2012 tax year and ending at the conclusion of the 2018 tax year. (Because the rate increase would apply as of January 1, 2012, affected taxpayers likely would have to make larger payments in the coming months to account for the full-year effect of the rate increase.) The additional 1 percent rate for mental health services would still apply to income in excess of $1 million. Proposition 30's rate changes, therefore, would increase these taxpayers' marginal PIT rate from 10.3 percent to 13.3 percent. Proposition 38 on this ballot would also increase PIT rates. The nearby box describes what would happen if both measures are approved.

What Happens if Voters Approve Both Proposition 30 and Proposition 38?

State Constitution Specifies What Happens if Two Measures Conflict. If provisions of two measures approved on the same statewide ballot conflict, the Constitution specifies that the provisions of the measure receiving more "yes" votes prevail. Proposition 30 and Proposition 38 on this statewide ballot both increase personal income tax (PIT) rates and, as such, could be viewed as conflicting.

Measures State That Only One Set of Tax Increases Goes Into Effect. Proposition 30 and Proposition 38 both contain sections intended to clarify which provisions are to become effective if both measures pass:

- ***If Proposition 30 Receives More Yes Votes.*** Proposition 30 contains a section indicating that its provisions would prevail in their entirety and none of the provisions of any other measure increasing PIT rates—in this case Proposition 38—would go into effect.
- ***If Proposition 38 Receives More Yes Votes.*** Proposition 38 contains a section indicating that its provisions would prevail and the tax rate provisions of any other measure affecting sales or PIT rates—in this case Proposition 30—would not go into effect. Under this scenario, the spending reductions known as the "trigger cuts" would take effect as a result of Proposition 30's tax increases not going into effect.

Fiscal Effect

Additional State Revenues Through 2018–19. Over the five fiscal years in which both the sales tax and PIT increases would be in effect (2012–13 through 2016–17), the average annual state revenue gain resulting from this measure's tax increases is estimated at around $6 billion. Smaller revenue increases are likely in 2011–12, 2017–18, and 2018–19 due to the phasing in and phasing out of the higher tax rates.

Revenues Could Change Significantly From Year to Year. The revenues raised by this measure could be subject to multibillion-dollar swings—either above or below the revenues projected above. This is because the vast majority of the additional revenue from this measure would come from the PIT rate increases on upper-income taxpayers. Most income reported by upper-income taxpayers is related in some way to their investments and businesses, rather than wages and salaries. While wages and salaries for upper-income taxpayers fluctuate to some extent, their investment income may change significantly from one year to the next depending upon the performance of the stock market, housing prices, and the economy. For example, the current mental health tax on income over $1 million generated about $730 million in 2009–10 but raised more than twice that amount in previous years. Due to these swings in the income of these taxpayers and the uncertainty of their responses to the rate increases, the revenues raised by this measure are difficult to estimate.

STATE SPENDING

Background

State General Fund Supports Many Public Programs. Revenues deposited into the General Fund support a variety of programs—including public schools, public universities, health programs, social services, and prisons. School spending is the largest part of the state budget. Earlier propositions passed by state voters require the state to provide a minimum annual amount—commonly called the Proposition 98 minimum guarantee—for schools (kindergarten through high school) and community colleges (together referred to as K–14 education). The minimum guarantee is funded through a combination of state General Fund and local property tax revenues. In many years, the calculation of the minimum guarantee is highly sensitive to changes in state General Fund revenues. In years when General Fund revenues grow by a large amount, the guarantee is likely to increase by a large amount. A large share of the state and local funding that is allocated to schools and community colleges is "unrestricted," meaning that they may use the funds for any educational purpose.

Proposal

New Tax Revenues Available to Fund Schools and Help Balance the Budget. The revenue generated by the measure's temporary tax increases would be included in the calculations of the Proposition 98 minimum guarantee—raising the guarantee by billions of dollars each year. A portion of the new revenues therefore would be used to support higher school funding, with the remainder helping to balance the state budget. From an accounting perspective, the new revenues would be deposited into a newly created state account called the Education Protection Account (EPA). Of the funds in the account, 89 percent would be provided to schools and 11 percent to community colleges. Schools and community colleges could use these funds for any educational purpose. The funds would be distributed the same way as existing unrestricted per-student funding, except that no school district would receive less than $200 in EPA funds per student and no community college district would receive less than $100 in EPA funds per full-time student.

Fiscal Effect if Measure Is Approved

2012–13 Budget Plan Relies on Voter Approval of This Measure. The Legislature and the Governor adopted a budget plan in June to address a substantial projected budget deficit for the 2012–13 fiscal year as well as projected budget deficits in future years. The 2012–13 budget plan (1) assumes that voters approve this measure and (2) spends the resulting revenues on various state programs. A large share of the revenues generated by this measure is spent on schools and community colleges. This helps explain the large increase in funding for schools and community colleges in 2012–13—a $6.6 billion increase (14 percent) over 2011–12. Almost all of this increase is used to pay K–14 expenses from the previous year and reduce delays in some state K–14 payments. Given the large projected budget deficit, the budget plan also includes actions to constrain spending in some health and social services programs, decrease state employee compensation, use one-time funds, and borrow from other state accounts.

Effect on Budgets Through 2018–19. This measure's additional tax revenues would be available to help balance the state budget through 2018–19. The additional revenues from this measure provide several billion dollars annually through 2018–19 that would be available for a wide range of purposes—including funding existing state programs, ending K–14 education payment delays, and paying other state debts. Future actions of the Legislature and the Governor would determine the use of these funds. At the same time, due to swings in the income of upper-income taxpayers, potential state revenue fluctuations under this measure could complicate state budgeting in some years. After the proposed tax increases expire, the loss of the associated tax revenues could create additional budget pressure in subsequent years.

Figure 3

2012–13 Spending Reductions if Voters Reject Proposition 30

(In Millions)

Schools and community colleges	$5,354
University of California	250
California State University	250
Department of Developmental Services	50
City police department grants	20
CalFire	10
DWR flood control programs	7
Local water safety patrol grants	5
Department of Fish and Game	4
Department of Parks and Recreation	2
DOJ law enforcement programs	1
Total	**$5,951**

DWR = Department of Water Resources; DOJ = Department of Justice.

Fiscal Effect if Measure Is Rejected

Backup Budget Plan Reduces Spending if Voters Reject This Measure. If this measure fails, the state would not receive the additional revenues generated by the proposition's tax increases. In this situation, the 2012–13 budget plan requires that its spending be reduced by $6 billion. These trigger cuts, as currently scheduled in state law, are shown in Figure 3. Almost all the reductions are to education programs—$5.4 billion to K–14 education and $500 million to public universities. Of the K–14 reductions, roughly $3 billion is a cut in unrestricted funding. Schools and community colleges could respond to this cut in various ways, including drawing down reserves, shortening the instructional year for schools, and reducing enrollment for community colleges. The remaining $2.4 billion reduction would increase the amount of late payments to schools and community colleges back to the 2011–12 level. This could affect the cash needs of schools and community colleges late in the fiscal year, potentially resulting in greater short-term borrowing.

Effect on Budgets Through 2018–19. If this measure is rejected by voters, state revenues would be billions of dollars lower each year through 2018–19 than if the measure were approved. Future actions of the Legislature and the Governor would determine how to balance the state budget at this lower level of revenues. Future state budgets could be balanced through cuts to schools or other programs, new revenues, and one-time actions.

For text of Proposition 30, see page 80.

LOCAL GOVERNMENT PROGRAMS

Background

In 2011, the state transferred the responsibility for administering and funding several programs to local governments (primarily counties). The transferred program responsibilities include incarcerating certain adult offenders, supervising parolees, and providing substance abuse treatment services. To pay for these new obligations, the Legislature passed a law transferring about $6 billion of state tax revenues to local governments annually. Most of these funds come from a shift of a portion of the sales tax from the state to local governments.

Proposal

This measure places into the Constitution certain provisions related to the 2011 transfer of state program responsibilities.

Guarantees Ongoing Revenues to Local Governments. This measure requires the state to continue providing the tax revenues redirected in 2011 (or equivalent funds) to local governments to pay for the transferred program responsibilities. The measure also permanently excludes the sales tax revenues redirected to local governments from the calculation of the minimum funding guarantee for schools and community colleges.

Restricts State Authority to Expand Program Requirements. Local governments would not be required to implement any future state laws that increase local costs to administer the program responsibilities transferred in 2011, unless the state provided additional money to pay for the increased costs.

Requires State to Share Some Unanticipated Program Costs. The measure requires the state to pay part of any new local costs that result from certain court actions and changes in federal statutes or regulations related to the transferred program responsibilities.

Eliminates Potential Mandate Funding Liability. Under the Constitution, the state must reimburse local governments when it imposes new responsibilities or "mandates" upon them. Under current law, the state could be required to provide local governments with additional funding (mandate reimbursements) to pay for some of the transferred program responsibilities. This measure specifies that the state would not be required to provide such mandate reimbursements.

Ends State Reimbursement of Open Meeting Act Costs. The Ralph M. Brown Act requires that all meetings of local legislative bodies be open and public. In the past, the state has reimbursed local governments for costs resulting from certain provisions of the Brown Act (such as the requirement to prepare and post agendas for public meetings). This measure specifies that the state would not be responsible for paying local agencies for the costs of following the open meeting procedures in the Brown Act.

Fiscal Effects

State Government. State costs could be higher for the transferred programs than they otherwise would have been because this measure (1) guarantees that the state will continue providing funds to local governments to pay for them, (2) requires the state to share part of the costs associated with future federal law changes and court cases, and (3) authorizes local governments to refuse to implement new state laws and regulations that increase their costs unless the state provides additional funds. These potential costs would be offset in part by the measure's provisions eliminating any potential state mandate liability from the 2011 program transfer and Brown Act procedures. The net fiscal effect of these provisions is not possible to determine and would depend on future actions by elected officials and the courts.

Local Government. The factors discussed above would have the opposite fiscal effect on local governments. That is, local government revenues could be higher than they otherwise would have been because the state would be required to (1) continue providing funds to local governments to pay for the program responsibilities transferred in 2011 and (2) pay all or part of the costs associated with future federal and state law changes and court cases. These increased local revenues would be offset in part by the measure's provisions eliminating local government authority to receive mandate reimbursements for the 2011 program shift and Brown Act procedures. The net fiscal effect of these provisions is not possible to determine and would depend on future actions by elected officials and the courts.

SUMMARY

If voters approve this measure, the state sales tax rate would increase for four years and PIT rates would increase for seven years, generating an estimated $6 billion annually in additional state revenues, on average, between 2012–13 and 2016–17. (Smaller revenue increases are likely for the 2011–12, 2017–18, and 2018–19 fiscal years.) These revenues would be used to help fund the state's 2012–13 budget plan and would be available to help balance the budget over the next seven years. The measure also would guarantee that local governments continue to annually receive the share of state tax revenues transferred in 2011 to pay for the shift of some state program responsibilities to local governments.

If voters reject this measure, state sales tax and PIT rates would not increase. Because funds from these tax increases would not be available to help fund the state's 2012–13 budget plan, state spending in 2012–13 would be reduced by about $6 billion, with almost all the reductions related to education. In future years, state revenues would be billions of dollars lower than if the measure were approved.

For text of Proposition 30, see page 80.

PROPOSITION 38 TAX TO FUND EDUCATION AND EARLY CHILDHOOD PROGRAMS. INITIATIVE STATUTE.

OFFICIAL TITLE AND SUMMARY PREPARED BY THE ATTORNEY GENERAL

TAX TO FUND EDUCATION AND EARLY CHILDHOOD PROGRAMS. INITIATIVE STATUTE.

- Increases personal income tax rates on annual earnings over $7,316 using sliding scale from .4% for lowest individual earners to 2.2% for individuals earning over $2.5 million, for twelve years.
- During first four years, allocates 60% of revenues to K–12 schools, 30% to repaying state debt, and 10% to early childhood programs. Thereafter, allocates 85% of revenues to K–12 schools, 15% to early childhood programs.
- Provides K–12 funds on school-specific, per-pupil basis, subject to local control, audits, and public input.
- Prohibits state from directing new funds.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Increase in state personal income tax revenues from 2013 through 2024. The increase would be roughly $10 billion in 2013–14, tending to increase over time. The 2012–13 increase would be about half this amount.
- In each of the initial years, about $6 billion would be used for schools, $1 billion for child care and preschool, and $3 billion for state savings on debt payments. The 2013–14 amounts likely would be higher due to the additional distribution of funds raised in 2012–13.
- From 2017–18 through 2024–25, the shares spent on schools, child care, and preschool would be higher and the share spent on debt payments lower.

ANALYSIS BY THE LEGISLATIVE ANALYST

OVERVIEW

This measure raises personal income taxes on most California taxpayers from 2013 through 2024. The revenues raised by this tax increase would be spent on public schools, child care and preschool programs, and state debt payments. Each of the measure's key provisions is discussed in more detail below.

STATE TAXES AND REVENUES

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Background

Personal Income Tax (PIT). The PIT is a tax on wage, business, investment, and other income of individuals and families. State PIT rates range from 1 percent to 9.3 percent on the portions of a taxpayer's income in each of several income brackets. (These are referred to as marginal tax rates.) Higher marginal tax rates are charged as income increases. The tax revenue generated from this tax—totaling $49.4 billion for the 2010–11 fiscal year—is deposited into the state's General Fund. In addition, an extra 1 percent tax applies to annual income over $1 million (with the associated revenue dedicated to mental health services).

Proposal

Increases PIT Rates. This measure increases state PIT rates on all but the lowest income bracket, effective over the 12-year period from 2013 through 2024. As shown in Figure 1, the additional marginal tax rates would increase with each higher tax bracket. For example, for joint filers, an additional 0.7 percent marginal tax rate would be imposed on income between $34,692 and $54,754, increasing the total rate to 4.7 percent. Similarly, an additional 1.1 percent marginal tax rate would be imposed on income between $54,754 and $76,008, increasing the total rate to 7.1 percent. 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.) The additional 1 percent rate for mental

Figure 1

Current and Proposed Personal Income Tax Rates Under Proposition 38

Single Filer's Taxable Income[a]	Joint Filers' Taxable Income[a]	Head-of-Household Filer's Taxable Income[a]	Current Marginal Tax Rate[b]	Proposed Additional Marginal Tax Rate[b]
$0–$7,316	$0–$14,632	$0–$14,642	1.0%	—
7,316–17,346	14,632–34,692	14,642–34,692	2.0	0.4%
17,346–27,377	34,692–54,754	34,692–44,721	4.0	0.7
27,377–38,004	54,754–76,008	44,721–55,348	6.0	1.1
38,004–48,029	76,008–96,058	55,348–65,376	8.0	1.4
48,029–100,000	96,058–200,000	65,376–136,118	9.3	1.6
100,000–250,000	200,000–500,000	136,118–340,294	9.3	1.8
250,000–500,000	500,000–1,000,000	340,294–680,589	9.3	1.9
500,000–1,000,000	1,000,000–2,000,000	680,589–1,361,178	9.3	2.0
1,000,000–2,500,000	2,000,000–5,000,000	1,361,178–3,402,944	9.3	2.1
Over 2,500,000	Over 5,000,000	Over 3,402,944	9.3	2.2

[a] Income brackets shown were in effect for 2011 and will be adjusted for inflation in future years. Single filers also include married individuals and registered domestic partners (RDPs) who file taxes separately. Joint filers include married and RDP couples who file jointly, as well as qualified widows or widowers with a dependent child.

[b] Marginal tax rates apply to taxable income in each tax bracket listed. For example, a single tax filer with taxable income of $15,000 could have had a 2011 tax liability under current tax rates of $227: the sum of $73 (which equals 1 percent of the filer's first $7,316 of income) and $154 (2 percent of the filer's income over $7,316). This tax liability would be reduced—and potentially eliminated—by personal, dependent, senior, and other tax credits, among other factors. The proposed additional tax rates would take effect beginning in 2013 and end in 2024. Current tax rates listed exclude the mental health tax rate of 1 percent for taxable income in excess of $1 million.

health services would still apply to income in excess of $1 million. This measure's rate changes, therefore, would increase these taxpayers' marginal PIT rates from 10.3 percent to as much as 12.5 percent. Proposition 30 on this ballot also would increase PIT rates. The nearby box describes what would happen if both measures are approved.

Provides Funds for Public Schools, Early Care and Education (ECE), and Debt Service. The revenues raised by the measure would be deposited into a newly created California Education Trust Fund (CETF). These funds would be dedicated exclusively to three purposes. As shown in Figure 2, in 2013–14 and 2014–15, the measure allocates 60

Figure 2

Allocation of Revenues Raised by Proposition 38

	2013–14 and 2014–15	2015–16 and 2016–17	2017–18 Through 2023–24
Schools	60%	60%	85%
Early Care and Education (ECE)	10	10	15
State debt payments	30	30[a]	—[a]
Totals	**100%**	**100%**	**100%**
Growth limit on allocations to schools and ECE programs[a]	No	Yes	Yes

[a] Reflects minimum share dedicated to state debt payments. Revenues beyond growth limit also would be used to make debt payments.

For text of Proposition 38, see page 113.

percent of CETF funds to schools, 10 percent of funds to ECE programs, and 30 percent of funds to make state debt payments. In 2015–16 and 2016–17, the same general allocations are authorized but a somewhat higher share could be used for state debt payments. This is because beginning in 2015–16, the measure: (1) limits the growth in total allocations to schools and ECE programs based on the average growth in California per capita personal income over the previous five years and (2) dedicates the funds collected above the growth rate to state debt payments. From 2017–18 through 2023–24, up to 85 percent of CETF funds would go to schools and up to 15 percent would go to ECE programs, with revenues in excess of the growth rate continuing to be used for state debt payments.

What Happens if Voters Approve Both Proposition 30 and Proposition 38?

State Constitution Specifies What Happens if Two Measures Conflict. If provisions of two measures approved on the same statewide ballot conflict, the Constitution specifies that the provisions of the measure receiving more "yes" votes prevail. Proposition 30 and Proposition 38 on this statewide ballot both increase personal income tax (PIT) rates and, as such, could be viewed as conflicting.

Measures State That Only One Set of Tax Increases Goes Into Effect. Proposition 30 and Proposition 38 both contain sections intended to clarify which provisions are to become effective if both measures pass:

- ***If Proposition 30 Receives More Yes Votes.*** Proposition 30 contains a section indicating that its provisions would prevail in their entirety, and none of the provisions of any other measure increasing PIT rates—in this case Proposition 38—would go into effect.
- ***If Proposition 38 Receives More Yes Votes.*** Proposition 38 contains a section indicating that its provisions would prevail and the tax rate provisions of any other measure affecting sales or PIT rates—in this case Proposition 30—would not go into effect. Under this scenario, the spending reductions known as the "trigger cuts" would take effect as a result of Proposition 30's tax increases not going into effect. (See the analysis of Proposition 30 for more information on the trigger cuts.)

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Cannot Be Amended by the Legislature. If adopted by voters, this measure could be amended only by a future ballot measure. The Legislature would be prohibited from making any modifications to the measure without voter approval.

Fiscal Effect

Around $10 Billion of Additional Annual State Revenues. In the initial years—beginning in 2013–14—the annual amount of additional state revenues raised would be around $10 billion. (In 2012–13, the measure would result in additional state revenues of about half this amount.) The total revenues generated would tend to grow over time. Revenues generated in any particular year, however, could be much higher or lower than the prior year. This is mainly because the measure increases tax rates more for upper-income taxpayers. The income of these individuals tends to swing more significantly because it is affected to a much greater extent by changes in the stock market, housing prices, and other investments. Due to the swings in the income of these taxpayers and the uncertainty of their responses to the rate increases, the revenues raised by this measure are difficult to estimate.

SCHOOLS

Background

Most Public School Funding Tied to State Funding Formula. California provides educational services to about 6 million public school students. These students are served through more than 1,000 local educational agencies—primarily school districts. Most school funding is provided through the state's school funding formula—commonly called the Proposition 98 minimum guarantee. (Community college funding also applies toward meeting the minimum guarantee.) The minimum guarantee is funded through a combination of state General Fund and local property tax revenues. In 2010–11, schools received $43 billion from the school funding formula.

Most School Spending Decisions Are Made by Local Governing Boards. Roughly 70 percent of state-related school funding can be used for any educational purpose. In most cases, the school district governing board decides how the funds should be spent. The governing board typically will determine the specific activities for which the funds will be used, as well as how the funds will be distributed among the district's school sites. The remaining 30 percent of funds must be used for specified purposes, such as serving school meals or transporting students to and from school. School districts typically have little flexibility in how to use these restricted funds.

Proposal

Under this measure, schools will receive roughly 60 percent of the revenues raised by the PIT rate increases through 2016–17 and roughly 85 percent annually thereafter. These CETF funds would be in addition to Proposition 98 General Fund support for schools. The funds support three grant programs. The measure also creates spending restrictions and reporting requirements related to these funds. These major provisions are discussed in more detail below.

Distributes School Funds Through Three Grant Programs. Proposition 38 requires that CETF school funds be allocated as follows:

- ***Educational Program Grants (70 Percent of Funds).*** The largest share of funds—70 percent of all CETF school funding—would be distributed based on the number of students at each school. The specific per-student grant, however, would depend on the grade of each student, with schools receiving more funds for students in higher grades. Educational program 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 (18 Percent of Funds).*** The measure requires that 18 percent of CETF school funds be allocated at one 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. As with the educational program grants, low-income student grants could be spent on a broad range of educational activities.
- ***Training, Technology, and Teaching Materials Grants (12 Percent of Funds).*** The remaining 12 percent of funds would be allocated at one statewide rate based on the number of students at each school. The funds could be used only for training school staff and purchasing up-to-date technology and teaching materials.

Requires Funds Be Spent at Corresponding School Sites. Funds received by school districts from this measure must be spent at the specific school whose students generated the funds. In the case of low-income student grants, for example, if 100 percent of low-income students in a school district were located in one particular school, all low-income grant funds would need to be spent at that specific school. As with most other school funding, however, the local governing board would determine how CETF funds are spent at each school site. To ensure that Proposition 38 funds would result in a net increase in funding for all schools, the measure also would require school districts to make reasonable efforts to avoid reducing per-student funding from non-CETF sources at each school site below 2012–13 levels. If a school district reduces the per-student funding for any school site below the 2012–13 level, it must explain the reasons for the reduction in a public meeting held at or near the school.

Requires School Districts to Seek Public Input Prior to Making Spending Decisions. Proposition 38 also requires school district governing boards at an open public hearing to seek input from students, parents, teachers, administrators, and other school staff on how to spend CETF school funds. When the governing board decides how to spend the funds, it must explain—publicly and online—how CETF school expenditures will improve educational outcomes and how those improved outcomes will be measured.

Creates Budget Reporting Requirements for Each School. The measure also includes several reporting requirements for school districts. Most notably, beginning in 2012–13, the measure requires all school districts to create and publish an online budget for each of their schools. The budget must

For text of Proposition 38, see page 113.

show funding and expenditures at each school from all funding sources, broken down by various spending categories. The state Superintendent of Public Instruction must provide a uniform format for budgets to be reported and must make all school budgets available to the public, including data from previous years. In addition, school districts must provide a report on how CETF funds were spent at each of their schools within 60 days after the close of the school year.

Other Allowances and Prohibitions. The measure allows up to 1 percent of a school district's allocation to be spent on budgeting, reporting, and audit requirements. The measure prohibits CETF school funds from being used to provide salary or benefit increases unless the increases are provided to other like employees that are funded with non-CETF dollars. The measure also has a provision that prohibits CETF school monies from being used to replace state, local, or federal funding provided as of November 1, 2012.

Fiscal Effect

Provides Additional Funding for Schools. In the initial years, schools would receive roughly $6 billion annually, or $1,000 per student, from the measure. Of that amount, $4.2 billion would be provided for education program grants, $1.1 billion for low-income student grants, and $700 million for training, technology, and teaching materials grants. (The 2013–14 amounts would be higher because the funds raised in 2012–13 also would be available for distribution.) The amounts available in future years would tend to grow over time. Beginning in 2017–18, the amount spent on schools would increase further as the amount required to be used for state debt payments decreases significantly.

EARLY CARE AND EDUCATION

Background

ECE Programs Serve Children Ages Five and Younger. Prior to attending kindergarten—which usually starts at age five—most California children attend some type of ECE program. Families participate in these programs for a variety of reasons, including supervision of children while parents are working and development of a child's social and cognitive skills. Programs serving children ages birth to three typically are referred to as infant and toddler care. Programs serving three- to five-year-old children often are referred to as preschool and typically have an explicit focus on helping prepare children for kindergarten. Whereas all programs must meet basic health and safety standards to be licensed by the state, the specific characteristics of programs—including staff qualifications, adult-to-child ratios, curriculum, family fees, and cost of care—vary.

Some Children Are Eligible for Subsidized ECE Services. While many families pay to participate in ECE programs, public funds also subsidize services for some children. These subsidies generally are reserved for families that are low income, participate in welfare-to-work programs or other work or training activities, and/or have children with special needs. Generally, eligibility for ECE subsidies is limited to families that earn 70 percent or less than the state median income level (for example, currently the limit is $3,518 per month for a family of three). The state pays a set per-child rate to providers for subsidized ECE "slots." The payment rate varies by region of the state and care setting. It typically is about $1,000 per month for full-time infant/toddler care and $700 per month for full-time preschool.

Current Funding Levels Do Not Subsidize ECE Programs for All Eligible Children. In 2010–11, state and federal funds provided roughly $2.6 billion to offer a variety of child care and preschool programs for approximately 500,000, or about 15 percent, of California children ages five and younger. Roughly half of all California children, however, meet income eligibility criteria for subsidized programs. Because state and federal ECE funding is not sufficient to provide subsidized services for all eligible children, waiting lists are common in most counties.

Proposal

As noted earlier, ECE programs will receive roughly 10 percent of the revenues raised by the PIT rate increases through 2016–17 and roughly 15 percent annually thereafter. The measure provides specific allocations of these funds, as summarized in Figure 3. As shown in the top part of the figure, up to 23 percent of the funds raised for ECE programs would be dedicated to restoring recent state budget reductions to child care slots and provider payment rates as well as implementing certain statewide activities designed to support the state's ECE system. The remaining ECE funds, shown in the bottom part of the figure, would expand child care and preschool programs to serve more children from low-income families and increase payment rates for certain ECE providers. The measure also prohibits the state from reducing existing support for ECE programs. Specifically, the state would be required to spend the same proportion of state General Fund revenues for ECE programs in future years as it is spending in 2012–13 (roughly 1 percent). As described in more detail below, the measure includes extensive provisions relating to: (1) a rating system

Figure 3

Proposition 38's Early Care and Education (ECE) Provisions

Purpose/Description	Percent of ECE Funding[a]
"Restoration and System Improvement"	
Program Restorations—Partially restores state budget reductions made to existing subsidized ECE programs since 2008–09. Restorations would include serving more children, increasing how much a family can earn and still be eligible for benefits, and increasing state per-child payment rates.	19.4%
Rating System—Establishes system to assess and publicly rate ECE programs based on how they contribute to children's social/emotional development and academic preparation.	2.6
ECE Database—Establishes statewide database to collect and maintain information about children who attend state-funded ECE programs. Would include details about a child's ECE program as well as his/her performance on a kindergarten readiness assessment. Would be linked to state's K–12 database.	0.6
Licensing Inspections—Increases how frequently ECE programs receive health and safety inspections from the state licensing agency.	0.3
Subtotal	(23.0%)
"Strengthen and Expand ECE Programs"	
Services for Children Ages Three to Five—Expands subsidized preschool to more children from low-income families, prioritizing services in low-income neighborhoods.	51.6%
Services for Children Ages Birth to Three—Establishes new California Early Head Start program to provide child care and family support for young children from low-income families.	16.6
Provider Payment Rates—Provides supplemental per-child payments to state-subsidized ECE programs that receive higher scores on new rating scale, with most funding targeted for preschool programs. Also increases the existing per-child payment rate for all licensed state-subsidized ECE programs serving children ages birth to 18 months.	8.9
Subtotal	(77.0%[b])
Total	**100.0%**

[a] Because the amount dedicated to restoration and system improvement is capped at $355 million, a slightly lower share of funding would go toward these activities and a slightly higher share toward strengthening and expanding ECE programs when the measure's debt service payments cease in 2017–18.

[b] Not more than 3 percent of these funds can be used for state-level administrative costs. Not more than 15 percent of funding allocated to ECE providers can be used for facility costs.

For text of Proposition 38, see page 113.

for evaluating ECE programs, (2) preschool, and (3) infant and toddler care.

Establishes Statewide Rating System to Assess the Quality of Individual ECE Programs. The measure requires the state to implement an "Early Learning Quality Rating and Improvement System" (QRIS) to assess the effectiveness of individual ECE programs. Building on initial work the state already has undertaken, the state would have until January 2014 to develop a scale to evaluate how well programs contribute to children's social and emotional development and academic preparation. All ECE programs could choose to be rated on this scale, and ratings would be available to the public. The state also would develop a training program to help providers improve their services and increase their ratings. Additionally, Proposition 38 would provide supplemental payments—on top of existing per-child subsidy rates—to child care and preschool programs that achieve higher scores on the QRIS scale.

Provides Preschool to More Children From Low-Income Families. Proposition 38 expands the number of slots available in state-subsidized preschool programs located in neighborhoods with high concentrations of low-income families. Funding to offer these new slots would only be available to preschool providers with higher quality ratings. Funding would be allocated to providers based on the estimated number of eligible children living in the targeted neighborhoods who do not currently attend preschool. (At least 65 percent of these new slots must be in programs that offer full-day, full-year services.) Program participation would be limited to children meeting existing family income eligibility criteria or living in the targeted neighborhoods regardless of family income, with highest priority given to certain at-risk children (including those in foster care).

Establishes New Program for Infants and Toddlers From Low-Income Families. Proposition 38 establishes the California Early Head Start (EHS) program, modeled after the federal program of the same name. Up to 65 percent of funding for this program would offer both child care and family support services to low-income families with children ages birth to three. (At least 75 percent of these new slots must be for full-day, full-year care.) At least 35 percent of EHS funding would provide support services for families and caregivers not participating in the child care component of the program. In both cases, family support services could include home visits from program staff, assessments of child development, family literacy programs, and parent and caregiver training.

Fiscal Effect

Provides Additional Funding to Support and Expand ECE Programs. In the initial years, roughly $1 billion annually from the measure would be used for the state's ECE system. (The 2013–14 amount would be higher because the funds raised in 2012–13 also would be available for distribution.) The majority of funding would be dedicated to expanding child care and preschool—serving roughly an additional 10,000 infants/toddlers and 90,000 preschoolers in the initial years of implementation. The amount available in future years would tend to grow over time. Beginning in 2017–18, the amount spent on ECE programs would increase further as the amount required to be used for state debt payments decreases significantly.

STATE DEBT PAYMENTS

Background

General Obligation Bond Debt Payments. Bond financing is a type of long-term borrowing that the state uses to raise money, primarily for long-lived infrastructure (including school and university buildings, highways, streets and roads, land and wildlife conservation, and water-related facilities). The state obtains this money by selling bonds to investors. In exchange, the state promises to repay this money, with interest, according to a specified schedule. The majority of the state's bonds are general obligation bonds, which must be approved by the voters and are guaranteed by the state's general taxing power. General obligation bonds are typically paid off with annual debt-service payments from the General Fund. In 2010–11, the state made $4.7 billion in general obligation bond debt-service payments. Of that amount, $3.2 billion was to pay for debt service on school and university facilities.

Proposal

At Least 30 Percent of Revenues for Debt-Service Relief Through 2016–17. Until the end of 2016–17, at least 30 percent of Proposition 38 revenues would be used by the state to pay debt-service costs. The measure requires that these funds first be used to pay education debt-service costs (pre-kindergarten through university school facilities). If, however, funds remain after paying annual education debt-service costs, the funds can be used to pay other state general obligation bond debt-service costs.

Limits Growth of School and ECE Allocations Beginning 2015–16, Uses Excess Funds for Debt-Service Payments. Beginning in 2015–16, total CETF allocations to schools and ECE programs could not increase at a rate greater than the average growth in California per capita personal income over the previous five years. The CETF monies collected in excess of this growth rate also would be used for state debt payments. (The measure provides an exception for 2017–18, given the changes in the revenue allocations.)

Fiscal Effect

General Fund Savings of Roughly $3 Billion Annually Through 2016–17. Until the end of 2016–17, at least 30 percent of the revenue raised by the measure—roughly $3 billion annually—would be used to pay general obligation debt-service costs and provide state General Fund savings. This would free up General Fund revenues for other public programs and make it easier to balance the budget in these years.

Potential Additional General Fund Savings Beginning in 2015–16. The measure's growth limit provisions also would provide General Fund savings in certain years. The amount of any savings would vary from year to year depending on the growth of PIT revenue and per capita personal income but could be several hundred million dollars annually.

For text of Proposition 38, see page 113.