

---

## SENATE COMMITTEE ON EDUCATION

Senator Benjamin Allen, Chair  
2017 - 2018 Regular

---

**Bill No:** SCA 23 **Hearing Date:** August 7, 2018  
**Author:** De León  
**Version:** May 31, 2018  
**Urgency:** **Fiscal:** Yes  
**Consultant:** Ian Johnson

**Subject:** Education finance: minimum funding requirement: inclusion of taxpayer contributions.

**NOTE:** This measure has been referred to the Committees on Education and Elections. A "do pass" motion should include referral to the Committee on Elections.

### SUMMARY

This measure proposes to amend Section 8 of Article XVI of the State Constitution to specify that the Proposition 98 guarantee—the minimum amount of funding for school districts and community colleges each year—shall be based on state General Fund revenues combined with the proceeds of the Baseline Schools and Colleges Subaccount.

### BACKGROUND

Proposition 98 was passed by the voters in 1988 and added two formulas (Test 1 and Test 2) to the State Constitution, requiring the state to spend a minimum amount of funding on school districts and community colleges every fiscal year. Proposition 111 was passed two years later and added a third formula (Test 3), allowing the state to provide a lower level of funding when state revenue growth is relatively weak. Proposition 111 also created “maintenance factor”, requiring the state to accelerate school funding in strong revenue years to compensate for the lower funding provided when Test 3 applies.

Test 1 links education funding to a specified percentage of General Fund revenues. In Test 1 years, school and community college districts receive local property tax revenue on top of whatever state General Fund they receive. Tests 2 and 3 are based on prior year education funding, adjusted for student enrollment, inflation, or the change in state General Fund revenue. In Test 2 and 3 years, the state’s General Fund obligation to education is the minimum guarantee less local property tax revenues.

### ANALYSIS

This measure proposes to amend Section 8 of Article XVI of the State Constitution to specify that the Proposition 98 guarantee shall be based on state General Fund revenues combined with the proceeds of the Baseline Schools and Colleges Subaccount.

### STAFF COMMENTS

- 1) ***Need for the bill.*** According to the author, “On December 20, 2017, President Trump signed into law a sweeping tax proposal that will add at least \$1 trillion to the federal deficit. Specifically, the new law caps the state and local tax deduction at \$10,000, a move that will increase taxes nationally by \$36 billion in 2018 and \$90 billion by the year 2024.

In California, it is estimated that roughly three million taxpayers will continue to itemize under the new federal law. The average California taxpayer claimed \$18,438 in state and local tax deductions in 2015.

Under this new law, an estimated three million California taxpayers will lose out on thousands of dollars of valuable deductions each year on their federal taxes. This SCA would pair with the tax credit created in SB 227, and would ensure that the funding formulas of Proposition 98 are protected.”

- 2) ***Federal tax changes.*** On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act of 2017 (the "Act"), which dramatically restructured the federal tax system for both individuals and businesses. For individuals, the Act adjusts tax rates, increases the standard deduction, and eliminates personal exemptions. The Act also imposes a new \$10,000 cap on the deductibility of state and local tax (SALT) payments. Critics of this provision note that it will negatively impact millions of California households currently claiming more than \$10,000 in SALT deductions on their federal tax returns. The Act's \$10,000 cap on SALT deductions raises the after-tax price of state- and local government-provided public goods and services for millions of Californians. This, in turn, could make it more difficult for state and local governments to raise future revenues. At the same time, the nearly \$1.5 trillion projected increase in the federal deficit caused by the Act will likely lead to reductions in federal funding for education and healthcare, along with other spending priorities. With the federal government poised to disinvest from the public sector, states such as California will be tasked with making up the difference at the very moment the new federal Act undermines state fiscal capacity.
- 3) ***Companion legislation would create a new tax credit.*** This constitutional amendment is a companion measure to SB 227 (De León), which would establish the Local Schools and Colleges Voluntary Contributions Fund Tax Credit program. SB 227 would only become operative if this measure is approved as part of the November 2018 election. Under SB 227, the state would allow a tax credit for taxable years beginning January 1, 2018 until January 1, 2023. The state and local mechanisms required to implement this measure and SB 227 are complex and would profoundly change how public education is currently funded. Given that no one knows how many individuals would contribute to the newly created fund, it is difficult to assess the impact of this measure and SB 227 with any meaningful precision. This SCA would ensure, however, that Proposition 98 funding would be protected.
- 4) ***This measure prevents the Proposition 98 minimum guarantee from dropping as a result of the tax credit.*** As mentioned above, the constitution establishes three tests for determining the minimum funding level for education. The calculation required by all three tests is based on General Fund revenues.

Because the tax credit program proposed by SB 227 would reduce proceeds of taxes to the General Fund, the minimum Proposition 98 guarantee would also be reduced. However, this measure prevents such a drop to Proposition 98 by specifying that all three tests shall be based on General Fund revenues combined with the proceeds of the Baseline Schools and Colleges Subaccount.

- 5) **Technical amendment.** While this measure changes the minimum Proposition 98 guarantee calculation to include the Baseline Schools and Colleges Subaccount, it does not include the new subaccount in the calculation of maintenance factor. Further, additional technical amendments are needed to adjust for the calculation of year-over-year growth in General Fund revenues in the first year of implementation. If it is the desire of the Committee to pass this measure, **staff recommends** including the Baseline Schools and Colleges Subaccount in the maintenance factor calculation and adjusting for the new subaccount in the calculation of General Fund growth in the first year.
- 6) **Related Legislation.** SB 227 (De León) would establish the Local Schools and Colleges Voluntary Contributions Fund Tax Credit program. The bill is pending in the Assembly Appropriations Committee.

#### **SUPPORT**

None received

#### **OPPOSITION**

California Teachers Association

-- END --