



Date: August 21, 2012
To: Interested Parties
From: Scott Lay, President and CEO
Re: Propositions 30 and 38

As our colleges reconvene for another year of providing our citizens the skills and knowledge necessary for a strong California, our office is receiving a lot of questions about the impact of Proposition 30 and Proposition 38 on community colleges. There remains a great deal of confusion and the campaign season will likely only heighten it.

The League has taken a support position on Prop. 30 and is neutral on Prop. 38.

As with all state ballot measures, both measures require a simple majority (50% + 1 vote) for voter approval. However, under the California Constitution and language in the measures, only the one with the greatest number of votes will take effect, even if both receive a majority.

In this analysis, I use revenue estimates of the Legislative Analyst’s Office available at:
http://www.lao.ca.gov/handouts/state_admin/2012/Prop_30_31_38_39_Aug_8_12.pdf

Proposition 30: Temporary Taxes to Fund Education. Guaranteed Local Public Safety Funding. Initiative Constitutional Amendment.

Sponsor: Governor Jerry Brown

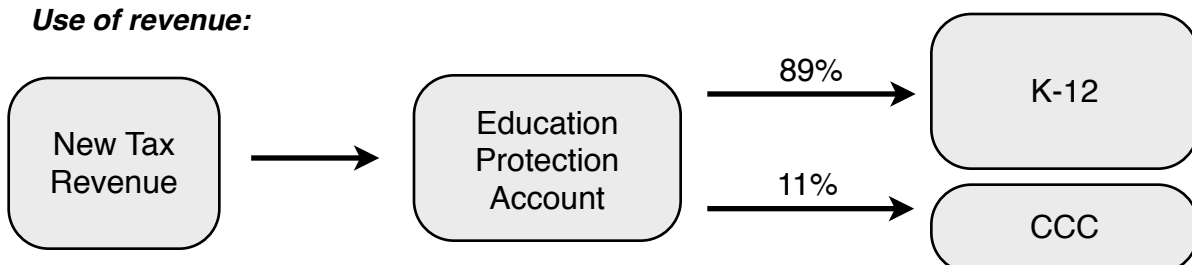
Tax provision(s):

- Raises the state’s sales tax by 0.25% (one-quarter cent) from January 1, 2013-December 31, 2016.
- Raises marginal personal income tax rates on filers making over \$250,000 (joint filers earning \$500,000) in a progressive manner by 1% to 3% for tax years 2012 through 2018.

Revenue estimate (in millions):

- 2011-12: \$2,816
- 2012-13: \$4,872
- 2013-14: \$5,671
- 2014-15: \$6,098
- 2015-16: \$6,402
- 2016-17: \$5,977
- 2017-18: \$5,434
- 2018-19: \$2,216

Use of revenue:



Effect on Proposition 98:

All of the money generated by Proposition 30's temporary tax increase would count toward the Proposition 98 guarantee. This has two effects:

- the new tax revenue increases the existing Prop. 98 funding guarantee for schools and community colleges over the duration of the taxes; and
- the revenue distributed through the Education Protection Account is attributable to the state's required funding to Prop. 98, "freeing up" state general funds for other state programs and debt retirement.

In 2012-13, of the \$4.8 billion in new tax revenue, Proposition 30 increases the Proposition 98 K-14 funding guarantee by approximately \$2.8 billion.

The "Triggers"

The budget adopted by the Legislature provides that, if Proposition 30 fails, both the new funding provided by the measure and an additional amount ("the trigger") will be cut from both K-12 and community colleges for a total of \$5.4 billion. This deeper cut is made possible by shifting \$2.6 billion in general obligation bond payments into the calculation for the existing Prop. 98 funding guarantee, which has the effect underfunding the guarantee without a suspension that requires a two-thirds vote.

For more information on the measure's impact on community colleges, see the side-by-side chart at the end of this memo.

Proposition 38: Tax to Fund Education and Early Childhood Programs. Initiative Statute.

Sponsor: Molly Munger

Tax provision(s):

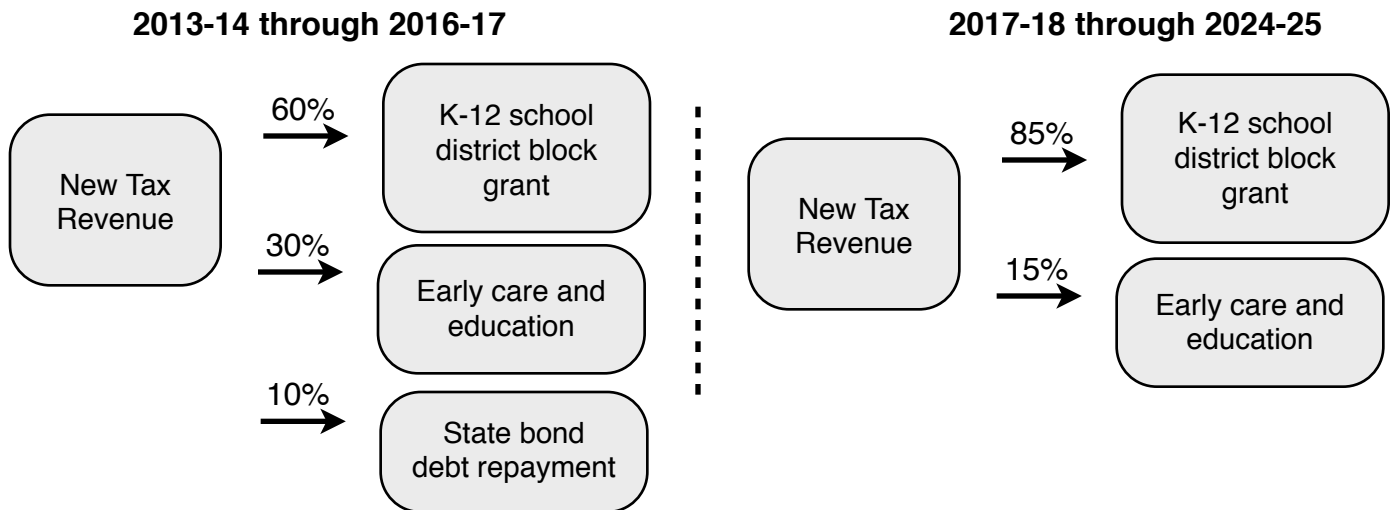
- Increases marginal personal income tax rates on filers making over \$7,316 (\$14,642 for joint filers) in a progressive manner by 0.4% - 2.2% for tax years 2013 through 2024.

Revenue estimate (in millions):

- 2012-13: \$5,596
- 2013-14: \$9,903
- 2014-15: \$10,663
- 2015-16: \$11,256
- 2016-17: \$11,817
- 2017-18: \$12,414
- 2018-19 through 2024-25: increasing amounts, depending on economic factors

As noted by the Legislative Analyst's Office, the projections on Proposition 38 are likely to be more variable than those under Proposition 30 because personal income tax is subject to greater fluctuations due to swings in the income of upper-income taxpayers.

Use of revenue:



Effect on Proposition 98:

Proposition 38's new revenues would not count toward the Proposition 98 guarantee. This has two effects:

- the new tax revenue does not affect the Proposition 98 guarantee, meaning that the funding is “on top of” the existing guarantee for the programs that receive money through Proposition 38; and
- the state may not “count” the revenue that K-12 districts receive through Proposition 38 toward the Proposition 98 minimum funding guarantee; consequently, community colleges will not be able to receive our usual 11% share because the Prop. 38 K-12 funds are technically not Proposition 98 funds.

Under Proposition 38, unless the Legislature votes to suspend Proposition 98, the state will need to seek significant additional budget cuts or tax revenues to close the state's structural budget shortfall. While Proposition 38 would provide \$3 billion in state budgetary relief from 2013-14 through 2016-17, the state's structural shortfall is likely twice that during the next five fiscal years, depending on the state's economy and revenue growth.

Direct Funding Impact on Community Colleges of Proposition 30 and Proposition 38

	With No Ballot Measure	Proposition 30	Proposition 38
2012-13	-\$338.6 million (base)*	\$209.9 million (base)	-\$338.6 million (base)***
2013-14 and beyond	likely at least -\$338.6 million**	at least \$209.9 million (base)	likely at least -\$338.6 million

* In addition to the \$338.6 million base reduction, \$209.9 million in new funds provided in the 2012-13 budget would be eliminated for a total “trigger cut” of \$548.5 million.

** Because the base budget would be reduced by the trigger cuts in 2012-13, the 2013-14 future budgets would be built on this lower amount (and a corresponding lower Prop. 98 guarantee).

*** Although Proposition 38 has no direct impact on community colleges, if it passes with more votes than Proposition 30, then the trigger cuts for community colleges (and K-12, UC and CSU) take effect pursuant to the 2012-13 budget act.

District-specific information on the impact of the ballot measures passing is available at:

www.ccleague.org/budget

For questions, contact Scott Lay (scottlay@ccleague.org) or Theresa Tena (ttena@ccleague.org) at (916) 444-8641.