

Board of Trustees Agenda Item

Board Meeting Date: 9/10/12

Title of Item: Impact of Propositions 30 and 38 on Foothill-De Anza Community College District

Background and Analysis:

Trustees will engage in a discussion of Proposition 30: Temporary Taxes to Fund Education. Guaranteed Local Public Safety Finding and Proposition 38: Tax to Fund Education and Early Childhood Programs and their effects on Foothill-De Anza.

Recommendation: Information only

Submitted by: Linda Thor, x6104

Additional contact names:

Is backup provided? Yes



Date: August 27, 2012 (version 3.0)
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):

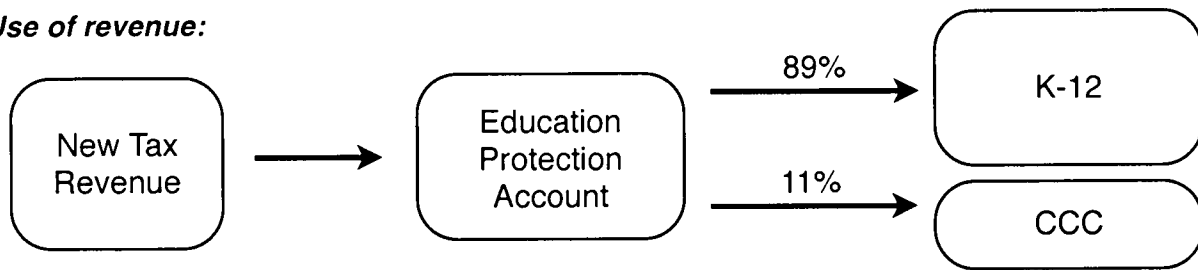
- Raises the state's sales tax by 0.25% (one-quarter cent) from January 1, 2013-December 31, 2016.
- Raises marginal personal income tax rates on filers making over \$250,000 (joint filers earning \$500,000) in a progressive manner by 1% to 3% for tax years 2012 through 2018.

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

The revenue projections from the increase in marginal rates of personal income could deviate significantly due to underlying economic factors and particularly the earnings of high-income individuals.

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, the budget provides \$2.9 billion in additional Proposition 98 funding as a result of the revenue raised by Proposition 30.

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 of 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):

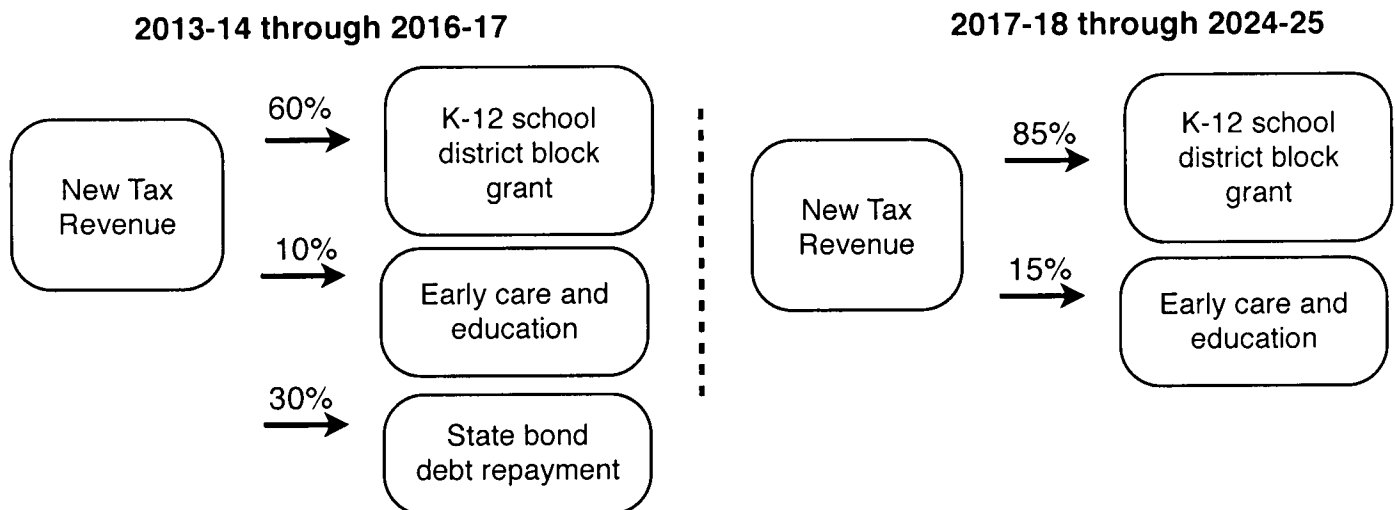
- Increases marginal personal income tax rates on filers making over \$7,316 (\$14,642 for joint filers) in a progressive manner by 0.4% - 2.2% for tax years 2013 through 2024.

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 with Proposition 30, the revenue projections from the increase in marginal rates of personal income could deviate significantly due to underlying economic factors and particularly the earnings of high-income individuals.

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.

Proposition 38 would provide \$3 billion in state budgetary relief from 2013-14 through 2016-17 by funding state general obligation bond payments otherwise payable by the general fund. However, unless the Legislature votes to suspend Proposition 98, the state will likely need to seek additional budget cuts or tax revenues to close the state's structural budget shortfall. While the size of the out-year budget deficits are in dispute and are highly variable based on the state's economic recovery, they likely would exceed the \$3 billion provided by Proposition 38 in each of the operative years of the debt payment backfill.

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 Proposition 98 guarantee for 2012-13 would be reduced by the trigger cuts, the 2013-14 future community college budgets would be built on this lower amount unless the Legislature over-appropriates Proposition 98 or provides a significantly larger share of the K-14 guarantee to community colleges.

*** 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.

Statewide

Budget Simulation: Foothill-DeAnza CCD

printable version

2012-13 Budget With and Without Proposition 30

The reduction simulations assume a dollar reduction in each of credit, noncredit and CDCP FTES in a proportional manner across the district's offerings. Because noncredit and CDCP are funded at a lower rate, the percentage of FTES reduced is greater. Similar to 2011-12, each district would likely be able to decide the exact blend of its reductions. The base FTES assumptions are assuming proportional reductions of the 2011-12 workload reduction, as identified in the Chancellor's Office Budget Workshop information. All non-excess local property tax districts are included, as the 2011-12 small district exemption was a one-time policy decision.

2012-13 Base revenue (before reductions)	\$139,059,205
Number and percent credit FTES	29,124 (99.27%)
Number and percent noncredit FTES	203 (0.69%)
Number and percent CDCP FTES	12 (0.04%)

Quick Comparison **

	Scenario A: Adopted Budget with Passage of Prop. 30	Scenario B: Adopted Budget, with Failure of Prop. 30
Net Apportionment Change:	\$0	\$-9,431,052
Workload reduction percent:	0%	-7.3%
o TOTAL FTES Reduced	0	-2,135.53

** Passage of Prop. 38 would result in the same trigger cut for Foothill-De Anza as in Scenario B above, a loss of \$9,432,052.

Scenario B Details

Reduced credit FTES	-2,118.99
Reduced noncredit FTES	-15.36
Reduced noncredit CDCP FTES	-1.18