

Prop O: South Bay Union School District Proposed Parcel Tax Measure Brief Summary

SDCTA **OPPOSES** Proposition O, the South Bay Union School District's proposed four-year parcel tax. While the District has demonstrated some fiscal prudence over the years, this tax increase would not comprehensively address the District's structural deficit. Coupled with a declining enrollment and tax base, this proposal is inadequate. The District needs to look at containing cost increases, revising its structure and consolidating with another school district to ensure its long-term viability.

- South Bay Union School District is proposing a 4-year parcel tax that would begin collection in fiscal year 2012 (July 1, 2011).
- The District anticipates generating \$1.7 million each fiscal year by establishing a rate of \$96 per parcel and special rates for multi-family residential. Multi-family residential containing anywhere from 2 to 4 units will be considered as two parcels (which means they would pay $\$96 \times 2 = \192). Multi-family residential that contains 5 or more units will be considered as five parcels (which means they would pay $\$96 \times 5 = \480).
- The funds from this parcel tax would go toward five purposes: preservation of core academic programs; minimization of class size increases and layoffs; teacher professional development; protection of arts and music instruction, course offerings and electives; and mitigation of budget cuts.
- There is no provision to prevent supplanting money (such as a maintenance of efforts clause) that is currently being spent in these categories with the parcel tax revenues. It is important to note that while an oversight committee would be established, its role would be to review parcel tax revenue—not money currently being spent to achieve the aforementioned categorical purposes.
- Parcel taxes are required by state law to be uniform and not based upon the value of the property (typically referred to as ad valorem taxes). Parcel taxes are considered a special tax and must receive a 2/3 vote of the people. Unlike bonds, parcel tax revenue can be spent on teacher salaries.
- SDCTA found through our review that of the 20+ school districts that placed parcel tax measures on the ballot in 2010, South Bay Union's proposal contains components that are infrequently used if not unique to the District, such as:
 - Not using an inflationary adjustment component
 - Levying a varying rate on multifamily residential rather than a per parcel charge
- SDCTA found that while many districts are reducing their reserve levels, South Bay Union contributed an additional 2% even in its worst revenue years—FY 2010 and FY 2011. This exceeds the minimum level required.
- The District recently passed Proposition X, a \$59.4 million school bond, which established a \$30/\$100,000 of assessed value rate on homes in the District.
- Since FY 2002, the District has seen dwindling enrollment, which it attributes to the cost of housing.

Prop O: South Bay Union School District Proposed Parcel Tax

July 2010

Board Recommendation:

OPPOSE

Rationale:

SDCTA opposes Proposition O, the South Bay Union School District’s proposed four-year parcel tax. While the District has demonstrated some fiscal prudence over the years, this tax increase would not comprehensively address the District’s structural deficit. Coupled with a declining enrollment and tax base, this proposal is inadequate. The District needs to look at containing cost increases, revising its structure and consolidating with another school district to ensure its long-term viability.

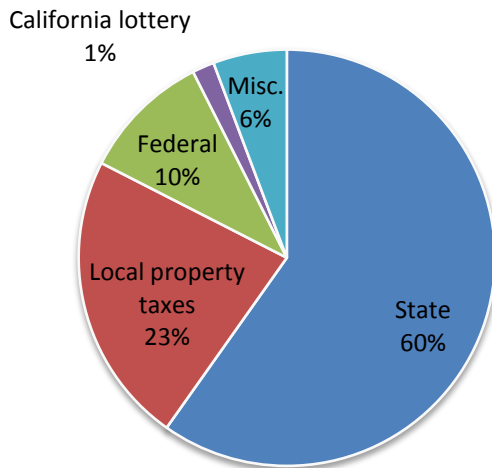
Background:

Local Revenues & Proposition 98

Most school funding (approximately 60% in 2009) comes from the State of California through Proposition 98 (see the next section for more information) and through local property taxes (23% in 2009). The remaining 17% is comprised from federal funding, the California lottery, and other miscellaneous revenue such as school district parcel taxes. See Chart 1.¹

Approximately 2/3 of a school’s funding is considered general purpose funding, while approximately 1/3 is categorical funding.

**Chart 1:
California 2008/2009 Sources of Education Funding**



Proposition 13 & Proposition 218

Two measures impacted the ability for local governments and special districts to raise local revenue: Proposition 13 (“The People’s Initiative to Limit Property Taxation”) in 1978 and Proposition 218 (“The Right to Vote on Taxes Act”) in 1996.

Proposition 13 limits the amount of property taxes that can be collected by the state and local governments. Under Prop 13, the amount of property taxes that can be collected is limited to one (1) percent of the property’s full cash value at first

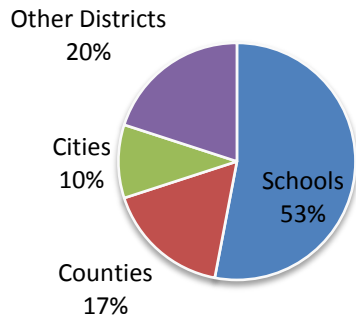
assessment. According to the allocation formulas established through Assembly Bill 8 (AB 8) in 1979, the State distributes the property tax revenue raised in each county to local governments within that county. According to the most recent Board of Equalization Annual Report, this amounted to 53% for schools; 17% to counties; 10% to cities; and 20% to other districts.² See Chart 2.³

¹ Source: EdSource. “The Basics of California’s School Finance System.” Available from www.edsource.org.

² California Board of Equalization. “2007/2008 Annual Report.” Available from <http://www.boe.ca.gov/annual/pdf/2008/3-property08.pdf>. Accessed on June 8, 2010.

³ Source: Ibid.

**Chart 2:
California 2007/2008 Local Government Property Tax
Allocation**



Furthermore, Prop 13 restricts the growth of the assessed value of property that is subject to taxation. Under Prop 13, the assessed value of a property subject to taxation can increase annually by no more than the rate of inflation or two percent (whichever is less). Once a property is sold and transfers ownership, the property is reassessed at the fair market value at the time of the sale.⁴

Proposition 13 allowed for local governments to impose special taxes with a two-thirds vote of the people. Proposition 218 sought to limit the growing occurrence

of general purposes taxes, property-related fees and assessments not controlled through Proposition 13. In order to raise a new tax, assessment or property-related fee, local governments must comply with the requirements of Prop 218. Namely, local governments may only use assessments and property-related fees to fund projects and services that directly benefit that property. See Table 1 below.

TABLE 1 Restrictions on the use of Taxes, Assessments and Fees	
Taxes	
-	New general taxes cannot be imposed or increased without majority approval
-	New special taxes cannot be imposed or increased without two-thirds approval
Assessments	
-	Cannot be used to finance projects and services that do not provide a special benefit to a specific property
Fees (property-related)	
-	Cannot be imposed to pay for general governmental services
-	Cannot be levied for a service not used by or immediately available to the specific property owner
-	Cannot be used to finance programs that are not property-related

General Obligation Bonds & Parcel Taxes

The most common way for schools to enhance or increase their revenue is through general obligation bonds. General obligation bonds add to the ad valorem tax rate established through Prop 13. Through Proposition 39, school bonds need a 55% voting threshold to pass. However, certain restrictions apply, especially in regard to what can be financed with these monies; see SDCTA analysis on Proposition 39. As a general rule, Prop 39 funds must be used for construction, reconstruction, rehabilitation or replacement of school facilities—and not for administrator and teacher salaries.

From 2001 to March 2010, throughout the state there were 414 Prop 39 school bonds. Of these bonds, 82% passed.⁵

Another less frequently used method of revenue generation for school districts is parcel taxes. Parcel taxes, by law, are considered a “special tax” requiring two-thirds voter approval. From 2001 to March 2010, there were 147 school parcel tax measures throughout the state; of these, 61% (90) had passed.⁶ Parcel taxes do not limit how generated revenue must be spent.

⁴ See SDCTA analysis on Proposition 13 for more information.

⁵ CaliforniaCityFinance.com. “An overview of local revenue measures in California since 2001.” Available from californiacityfinance.com. Accessed on June 7, 2010.

⁶ Ibid.

Parcel taxes can take two common forms: a flat dollar amount per parcel of land or a flat rate (cents) per square foot of property. These taxes can also have an inflationary component within them to ensure they continue to bring in roughly the same amount each year. The tax must be uniform—meaning that it must be applied to all taxpayers equally.⁷ Lastly, “the tax rate cannot be expressed in terms of the value of the property” (an ad valorem tax), e.g. rates per assessed valuation.⁸

State Funding – Proposition 98

Proposition 98 (Prop 98) in 1988, the “School Funding for Instructional Improvement and Accountability Initiative”, established a minimum level of funding for public schools and community colleges (K-14). Funding is provided mainly through local property taxes and the State’s General Fund. This funding level changes each year with the economy and changes in school attendance.

South Bay Union School District

The South Bay Union School District (District) serves approximately 8,000 students in Imperial Beach, San Ysidro, and South San Diego with 12 elementary schools and one pre-school. There are no charter schools within the District.⁹

South Bay Union School District passed¹⁰ Proposition X, a \$59.4 million Prop 39 bond, in 2008. The measure established a \$30/\$100,000 of assessed valuation. **SDCTA supported Prop X.**

Proposal

On June 24, 2010, the Board of Trustees of the South Bay Union School District voted to place a parcel tax measure on the November 2010 ballot.

The parcel tax would sunset after four (4) years unless voters approve an extension of the measure. **If approved by voters, the parcel tax levy would commence in FY 2012 (July 1, 2011 – June 30, 2012).**

The ballot question will appear as follows:

To maintain and improve academic programs including math, science, music, arts, reading and writing; retain highly qualified teachers; provide clean and safe schools; and minimize future class-size increases; shall South Bay Union School District raise \$1.7 million per year for four years through a parcel tax at a rate described in the voter pamphlet, provided there is independent citizens’ oversight and all funds are spent on neighborhood schools and cannot be taken by the State and used elsewhere?

All proceeds of the tax would be allocated into a separate fund. Funds generated from this tax would be used for the following purposes:

- “Preserve excellence in core academic programs such as reading, writing, science and math;
- Minimize class size increases in all grades and layoffs for dozens highly qualified of teachers and school employees;
- Continue teacher professional development by providing training programs and activities that support high quality teaching;
- Help protect arts and music instruction, course offerings and electives that provide a well-rounded education, challenge students, allow students to be highly competitive for high school and provide instructional support for those struggling with the basics;
- Reduce the impact of deep budget cuts by providing a stable local funding source that cannot be taken away by the State or other school districts; and
- Protect the taxpayers’ investment in education and ensure District accountability by providing for oversight and independent financial audits of revenues and expenditures.”

⁷ Orrick. “School Finance Bulletin: California School District Parcel Taxes.” April 2004.

⁸ Ibid. California Revenue & Taxation Code (D1 P0.5 C5.5, section 93, subsection a).

⁹ Ed Data. South Bay Union Elementary School District Profile. Available from <http://www.ed-data.k12.ca.us/Navigation/fsTwoPanel.asp?bottom=%2Fprofile.asp%3Flevel%3D06%26reportNumber%3D16>. Accessed on July 19, 2010. Statistics from 2009-2010.

¹⁰ Voters approved Prop X 76.44% to 23.56%.

The District anticipates generating \$1.7 million each fiscal year by establishing a rate of \$96 per parcel and special rates for multi-family residential. Multi-family residential containing anywhere from 2 to 4 units will be considered as two parcels (which means they would pay $\$96 \times 2 = \192). Multi-family residential that contains 5 or more units will be considered as five parcels (which means they would pay $\$96 \times 5 = \480).

The District will also have an annual written report that outlines the amount of funds collected, how they were spent, and the status of projects, programs, or purposes to be funded from the proceeds of the tax. The District will also establish an independent community oversight committee.

The County of San Diego Tax Collector is to collect the parcel taxes at the same time as other ad valorem property taxes in the region. Failure to pay this parcel tax would result in the same penalties as failure to pay other ad valorem property taxes.

Analysis

- Although allocations of funding are restricted through the five categories noted above, there is no provision in the measure that existing expenditures being spent for those purposes will continue. Thus these funds could supplant funds already being used to achieve the same purpose. While an oversight committee would be established with approval of this measure, the committee's role would be to oversee uses of parcel tax revenue and not money currently being used to achieve categorical purposes.
- The ballot question does not clearly lay out how much each parcel type will be paying for this tax. Instead, it just refers to the amount the District anticipates raising and notes that specific rates are seen in the voter pamphlet.
- As parcel taxes by law are not able to be levied on the value of property (ad valorem) and must be uniform, this form of taxation is regressive in nature.
- This measure does not contain a component for annual inflation adjustments.
- In FY 2009, the District's California School Employees' Association (CSEA) received a 1.17% increase in salaries. Automatic step increases are awarded to CSEA members. In FY 2009, the District's Southwest Teachers' Association (SWTA) received a 1% increase in salaries. Automatic step increases are granted for SWTA.
- In FY 2010, the District did not award salary increases for any labor group. In FY 2011, the District implemented furlough days equivalent to a 3.75% reduction in salary.¹¹ During this time, step and column increases were continued.
- Since FY 2002, the District has seen dwindling enrollment, which it attributes to the cost of housing.¹²
- The California Department of Education requires that the District set aside an amount equivalent to 3% of its General Fund operating expenditures for economic uncertainties. In the late 1990s and early 2000s, the District exceeded 3% of its General Fund reserve account for economic uncertainties; however, this amount became a static 3% in the same year the District began facing significant downturns—FY 2004. In FY 2010 and proposed for FY 2011, the District has increased this reserve account by an additional 2%, amounting to a 5% General Fund reserve account for economic uncertainties.
- The largest source of revenue for the District is state funds. In FY 2009, state sources accounted for nearly 60% of total revenue for the District—across all funds. This portion is significantly lower than in 1999, when state sources accounted for nearly 70% of total revenue.
- The District's enrollment has declined rapidly over the years. From 2005 – 2010, enrollment declined 12.72%.¹³ During this same time period, the District has seen a 17.92% decline in certificated full time equivalent (FTE) employees and a 12.83% decline in classified FTE employees.¹⁴
- SDCTA reviewed all school district parcel tax measures within the State of California that were up for election in 2010 (as of June). For comparison, we found that typically school districts did not assess a different per unit rate for multi-family residences but most instead assessed the rate on a per parcel basis (versus per unit). See Table 3.

¹¹ SDCTA interview with District, 7-21-2010.

¹² FY 2009 Financial Statement, page 9.

¹³ From 2000 – 2010, the District has seen a 21.58% drop in enrollment.

¹⁴ District provided information, 7-26-2010.

Table 3: Review of Parcel Tax Measures in the State of California in 2010

Status	School District	County	Measure	Election	Rate for Residential	Rate for Multi-family	Rate for Commercial	Sunset
Pending	South Bay Union	San Diego		2010	\$96/parcel	\$192 (2-4 units) - \$480 (5+ units)	\$96/parcel	4 years
Pending	San Diego Unified	San Diego		2010	\$98/parcel	\$60/unit	\$450/parcel	5 years
Pending	Alameda Unified	Alameda	E	2010	\$659/parcel	5 or more units, \$13/square foot	\$.13/square foot	8 years
Passed	Acalanes Union	Contra Costa	A	2010	\$112/parcel	\$112/parcel	\$112/parcel	5 years
Failed	Cutler-Orosi Unified	Fresno and Tulare	P	2010	\$97/parcel	\$97/parcel	\$97/parcel	none
Failed	Los Angeles Unified	Los Angeles	E	2010	\$100/parcel	\$100/parcel	\$100/parcel	4 years
Failed	Pasadena Unified	Los Angeles	CC	2010	\$120/parcel	\$120/parcel	\$120/parcel	5 years
Failed	Santa Monica-Malibu	Los Angeles	A	2010	\$198/parcel	\$198/parcel	\$198/parcel	5 years
Failed	Buena Park Schools	Orange	B	2010	\$0.0375 per square foot	\$0.0375 per square foot	\$0.0375 per square foot	4 years
Passed	San Francisco Unified School District	San Francisco	A	2010	\$32.20/parcel	\$16.10/unit	\$32.20/parcel	20 years
Passed	Burlingame	San Mateo	B	2010	\$180/parcel	\$180/parcel	\$180/parcel	10 years
Passed	Cabrillo Unified	San Mateo	E	2010	\$150/parcel	\$150/parcel	\$150/parcel	5 years
Passed	Menlo Park	San Mateo	C	2010	\$178/parcel	\$178/parcel	\$178/parcel	7 years
Passed	Portola Valley	San Mateo	D	2010	\$168/parcel	\$168/parcel	\$168/parcel	4 years
Passed	San Mateo-Foster City	San Mateo	A	2010	\$180.85/parcel	\$180.85/parcel	\$180.85/parcel	7 years
Passed	Alum Rock Elementary	Santa Clara	I	2010	\$48/parcel	\$48/parcel	\$48/parcel	5 years
Passed	Fremont Union	Santa Clara	B	2010	\$98/parcel	\$98/parcel	\$98/parcel	6 years
Passed	Lakeside Joint	Santa Clara/Santa Cruz	C	2010	\$311/parcel	\$311/parcel	\$311/parcel	7 years
Failed	Loma Prieta Elementary	Santa Clara/Santa Cruz	G	2010	\$95/parcel	\$95/parcel	\$95/parcel	4 years
Passed	Milpitas Unified	Santa Clara	B	2010	\$84/parcel	\$84/parcel	\$84/parcel	5 years
Passed	Mount Pleasant Elementary	Santa Clara	H	2010	\$95/parcel	\$95/parcel	\$95/parcel	5 years
Passed	Palo Alto Unified	Santa Clara	A	2010	\$589/parcel	\$589/parcel	\$589/parcel	6 years
Passed	Union Elementary	Santa Clara	H	2010	\$96/parcel	\$96/parcel	\$96/parcel	6 years