

Why PAUSD Must Use a Parcel Tax to Raise Money

Parcel taxes are the only authorized method available to school districts to raise additional public funds for operating expenses.

History: Proposition 13 and Restrictions on Local Revenue for Education

Prior to Proposition 13, voters set their property taxes at the level they deemed necessary to pay for essential community services such as schools. Property taxes could be increased by a simple majority vote. The base property tax was based on a home's actual market value, so as a property's value increased, so did tax revenues.

In 1973, school funding changed dramatically as a result of the Serrano-Priest litigation, which restricted revenue growth for higher-wealth school districts like Palo Alto Unified. Then, in 1978, Proposition 13 brought about even more severe restrictions on school funding:

- Taxes on property were limited to 1 percent of a property's assessed value, and
- A property's assessed value was subject to a 2 percent annual growth ceiling. No longer would tax revenues increase in step with increases in a property's market value. Reassessment to coincide with market value was permitted only when a property changed ownership.

Proposition 13 acknowledged that this new model might not yield sufficient funds for essential services, and permitted special taxes for schools ("special districts") beyond the constitutional limit, but only if both of the following requirements were met:

- 1) a community agreed to the special tax by a two-thirds or greater vote; and
- 2) the tax was a fixed amount per parcel of property (as opposed to being based on a property's value).

The impact of Proposition 13 on school districts was enormous. School property tax revenue growth became limited because assessed values began to fall, on average, further and further below actual market values. Furthermore, the limitations imposed by Prop. 13 made it much more difficult for school districts to obtain new revenue to keep up with rising costs or expand educational programs.

Proposition 13 dramatically limited local revenue growth for education and, 27 years later, leaves many school districts with severe budget difficulties. During this time, California schools have fallen to near the bottom of national rankings in many vital categories.

Parcel Tax: The Only Local Option to Raise Funds for School Operations

In order to become law, a parcel tax intended to raise funds for schools:

1. Requires a two-thirds or greater vote¹
2. Cannot be ad valorem (i.e., cannot be based on a property's value)²

¹ California Government Code Sections 50079 and 50077 and California Constitution Article XIII(A) Section 4.

3. Must be submitted to a vote of all registered voters who live in the applicable school district, regardless of whether they own property in that district.³

The first school parcel tax was proffered by the Tulare City Elementary School District in 1983. Since then, approximately 340 school parcel tax measures have been submitted to voters in California.

Just this past November, 15 Bay Area school districts placed parcel tax measures on the ballot. Eleven of them passed with the two-thirds majorities needed. PAUSD's proposed parcel tax (Measure I), failed, having received a "yes" vote from slightly over 66% of voters, just below the 66.7% figure required for passage.

Palo Alto Unified's current five-year parcel tax, approved in 2001 by 75 percent of voters, provides \$5.5 million annually to our schools, but it expires next year. Measure A would replace and augment those funds.

All communities adjacent to PAUSD have parcel taxes supporting their schools; each of the following school districts has a parcel tax:

- Los Altos Elementary School District
- Menlo Park Elementary School District
- Portola Valley Elementary School District
- Mountain View-Whisman Elementary School District
- Ravenswood City School District

The parcel taxes of these school districts support only nine grades (K-8), unlike PAUSD's parcel tax, which supports all 13 grades (K-12). Those elementary school district communities may be asked to add even more to their tax burden should their high schools seek a parcel tax to support their increased costs too; typically, it costs significantly more to educate high school students than children in grades K-8.

Menlo Park school district's parcel tax has an annual inflation adjustment and no expiration date. PAUSD has not sought a parcel tax that includes those elements

Other Bay Area communities whose schools and test scores are similar to the PAUSD currently have parcel taxes in place at levels comparable to that being requested of PAUSD voters.

Concerns About a Parcel Tax

Proposition 13 prohibits parcel taxes from being based on a property's value or on an individual's income, raising concerns about regressiveness. For example, under Proposition 13, properties of equal market value pay very different taxes; a long-time homeowner whose dwelling has a market value in excess of \$1 million may pay less than one-tenth the property taxes of a new homeowner who purchased a home (and thus established its market value) last year at that price.

² California Constitution Section XIII(A) Section 1(a) and California Government Code Section 50079(b).

³ California Government Code Sections 50079(a) and 50077(a).

State law does not permit parcel taxes to be waived or reduced based on property owners' income or financial resources, but it does permit school districts to provide an optional parcel tax exemption for senior citizens (age 65 or older).⁴ The PAUSD Board of Education included this optional exemption in Measure A.

Some residents have expressed concern about the fairness of allowing non-homeowners to vote on a tax they will not need to pay. This situation is no different than nearly every other public election in the United States that allows residents to cast votes without regard to land ownership. This concern comes up most often in the case of renters. Realistically, however:

1. Landlords frequently fold their increased costs (including taxes) into the rent they charge; and
2. California law, not the PAUSD, defines who the voter base will be for special taxes and has deemed that group to include all registered voters in a school district regardless of whether they own property.⁵

Conversely, cities have the right to run elections affecting certain city services (such as sewers) that restrict voting to property owners in the district and prohibit renters from voting. These are called "Proposition 218" elections and are not available to school districts.⁶

Some who own property inside school district boundaries but live outside our community have expressed a desire to vote on this measure because it directly affects their property. Again, the School Board is limited by law on how to structure this election and may permit only registered voters who reside in the school district to vote.⁷

Summary

Proposition 13 and various court decisions have dramatically limited the ability of communities to raise local funds for schools. In our school district, organizations such as the PTAs seek voluntary donations from parents, but these private donations do not come close to making up PAUSD's current budget shortfall. Under California law, the parcel tax is the only method permitted for school districts to raise additional public funds for operating expenses. While recognizing the inherent limitations of a parcel tax, the Palo Alto Unified School District turns to it as the only means available to raise the funds necessary to sustain quality schools in this community.

⁴ California Government Code Section 50079(b). This senior exemption has been in practice for over 25 years without a successful legal challenge and is an integral part of most school parcel tax measures throughout the state.

⁵ See footnote 3.

⁶ California Constitution Articles XIID Sections 4(d) and (g).

⁷ See footnote 3.