REPORT TO COUNCIL
City of Sacramento

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STAFF REPORT
May 23, 2006

Honorable Mayor and
Members of the City Council

Subject: City Position on Proposition 82

Location/Council District: Citywide

Recommendation:

This report recommends that the Mayor/Council take a position of NEUTRAL on Proposition 82 Public Preschool Education scheduled for the state June ballot.

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Presenters: Patti Bisharat, Government Affairs

Department: City Manager's Office

Division: Government Affairs

Organization No: 0310

Summary:

There are two propositions on the June 2006 ballot. On April 4, the Mayor and City Council took a position of support for Proposition 81 and directed staff to report back on Proposition 82 along with representatives from SETA and the First 5 Commission.

Committee/Commission Action:

On March 21, 2006, staff presented a report to the Law and Legislation Committee on the June 2006 ballot propositions. The Committee decided to forward Proposition 82 to the full Council with no recommendation.

Background Information:

Proposition 82 establishes a right to free voluntary preschool education for all four-year olds in the State of California. The program would be three hours a day for 180 days a year. The proposition would create new standards for curriculum and teacher qualifications. The program would be funded by a 1.7 percent tax on individual income over $400,000 and couples' income over $800,000. It would also provide funding to support facilities to house the program and would provide grants to students, colleges, and universities to support training for teachers and aides.

Proponents argue that the measure would help narrow the achievement gap between rich and poor. Opponents counter that the measure is ballot-box budgeting that will hamstring future legislatures and create a subsidy for well-off Californians who currently pay for preschool.

While the intent of Proposition 82 is not inconsistent with the Mayor and City Council's policies and support of universal pre-school, the proposition itself has serious flaws. Some sources claim that those populations most needing pre-school support will not be the beneficiary of the proposition should it pass. Specific program requirements under the proposition may have detrimental impacts on existing programs, childcare centers and care givers. Several Council members have expressed concern with Proposition 82. However, rather than a position of "oppose", which may be perceived as City opposition to affordable daycare and pre-school generally, staff is recommending a position of "neutral" on Proposition 82.

Representatives from SETA and First 5 Commission will attend the Council meeting to answer questions on potential impacts of Proposition 82.

Financial Considerations:

Passage of Proposition 82 would not have direct financial impacts to the City.

Environmental Considerations:

None.

Policy Considerations:

The recommended positions are consistent with the Council principles related to promoting livability in the City of Sacramento.

Emerging Small Business Development (ESBD):

Not applicable.

Approved by: Patti Bisharat
Patti Bisharat
Director of Governmental Affairs

APPROVED:

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Proposition 82

Public Preschool Education. Tax Increase on Incomes Over $400,000 for Individuals; $800,000 for Couples. Initiative Constitutional Amendment and Statute.

OVERVIEW OF THE MEASURE

This proposition changes the California Constitution and state law to create and support a new, publicly funded, preschool program for children to attend in the year prior to kindergarten. Figure 1 shows the main provisions of this proposition, which are discussed in more detail below.

Figure 1
Proposition 82: Main Provisions

✓ **Creation of New Preschool Program**
- Establishes the right for all children to receive one year of voluntary state-funded preschool beginning in 2010.
- Offers the program for at least three hours a day for 180 days a year.
- Creates new standards for curriculum and teacher qualifications.

✓ **New Tax on High-Income Earners**
- Imposes an additional tax on high-income earners in the state.
- Uses these tax revenues solely for the new preschool program.

✓ **Funding for New Preschool Program**
- Increases significantly the per-child funding rate for most preschool children.
- Provides additional funding to support facilities to house the new program.
- Provides grants to students and to colleges and universities to support training for teachers and aides.

BACKGROUND

Prior to starting kindergarten, most children in California attend some form of preschool or child care program. There is wide variety in the types of programs offered.

Typically, a program where children are cared for in groups is referred to as *center-based care*, also known as a child or day care center, preschool, or nursery school. Survey data suggest that 62 percent of the state's 4-year olds attend some kind of center-based program prior to attending kindergarten. Participation rates, however, vary widely by family income level. For example, about 80 percent of 4-year olds in high-income families (earning over $75,000 a year) attend center-based programs, while the comparable figure for low-income families (less than $18,000 a year) is 49 percent. Children not in center-based care are tended by parents or relatives, or served by other arrangements (including babysitters, nannies, and family child care providers).

All center-based programs must meet minimum health and safety requirements in order to be licensed by the state. Of the children in center-based care, about one-half are served by state and federal programs. These programs primarily serve children who come from low-income families. The three largest programs are:

- ***State Preschool.*** This program provides services for 3 hours a day, 175 days a year. It focuses on helping children with both academic and developmental skills. The state spends about $210 million annually for 4-year olds in the program.
- ***State General Child Care.*** This program, which typically runs 220 days a year, is similar to preschool in the morning, with adult-supervised enrichment programs in the afternoon. The state spends about $150 million annually for 4-year olds in this program.

- *Federal Head Start.* This provides both an education program and family support services—including health, nutrition, and social services. The federal government spends about $500 million annually for California 4-year olds in this program.

A variety of providers—both not-for-profit and for-profit—serve the other half of California 4-year olds attending center-based programs. Families typically pay for these services. Even though most center-based programs are licensed by the state, programs can vary considerably with regard to focus, structure, participation cost, and teachers' educational backgrounds.

PROPOSAL

Proposition 82 creates a new state program which significantly expands access to publicly funded preschool.

Who Does the Program Cover?

The new program provides 4-year olds access to one year of free preschool. The proposition guarantees this service for all children born on or after June 6, 2006 (that is, 4-year olds starting preschool in 2010). Participation in the new preschool program would be voluntary. It would also be free of charge. (The proposition provides an exception in the case of a "funding emergency," when the Legislature could, with a two-thirds vote and approval of the Governor, pass a one-year requirement that parents pay a fee to help cover the costs of the program. Even in this case, no child could be denied access based on an inability to pay.)

What Are the Key Components of the Program?

The preschool program would consist of the following major components:

- *Curriculum Standards.* The state would determine new standards for what would be taught in the new preschool program. These standards would be based on (1) what the state determines is age and developmentally appropriate and (2) the academic content that is taught in kindergarten through grade 3 classrooms.

- *Staffing Ratios.* The new program requires that for every 20 children, there must be at least one credentialed teacher and one instructional aide. By comparison, state preschool programs must have ratios of no more than 24 children taught by one teacher and two adults. Other licensed preschool programs must have ratios of at least 1 teacher to 12 children, or 1 teacher and 1 aide to 15 children.

- *Access.* The proposition requires that: (1) preschools be located near students' homes, (2) parents be permitted to choose among programs, and (3) children with special needs (including those requiring special education services and non-English speakers) have access to the program.

- *Operational Hours.* The new state preschool program must operate at least 3 hours a day, 180 days a year. This is similar to what most preschool programs currently offer, although only the state and federal programs have specific legal requirements.

How Would Teachers Be Affected?

Teachers working in a preschool funded by this measure would have to (1) meet certain qualification requirements and (2) be compensated at specified levels.

Teacher Qualification Requirements. The proposition significantly increases educational requirements for preschool teachers. It requires that by July 2014, all teachers in the new state preschool program must have a four-year college degree. (Researchers estimate that around 30 percent of preschool teachers in California currently have a college degree.) By July 2016, teachers would also need to hold a new early learning teaching credential. This would likely require an additional year of education beyond a college degree. (Elementary school teachers could teach in the new preschool program if they receive their elementary teaching credentials prior to 2010 and take roughly one year of college classes in early childhood education.)

Currently, there is no minimum educational requirement for instructional aides working in preschool programs. Proposition 82 requires that preschool aides in the new state program complete 48 units of college, including 24 units studying early childhood education.

Figure 2 summarizes these new requirements and compares them against current licensed preschool programs.

Figure 2
Preschool Teachers/Aides Educational Requirements

Current	Proposition 82
Teachers—State Preschools: • 40 units (about 1¼ years of college[a]) • 24 units in ECE[b] **Teachers—Licensed Preschools[c]:** • 12 units in ECE (about ½ year of college[a])	**Teachers:** • College degree • ECE credential • These requirements would typically require five years of college
Aides: • None	**Aides:** • 48 units (about 1½ years of college[a]) • 24 units of ECE (less than 1 year of college[a])

a Assumes units are semester based
b Early childhood education
c Preschools that have been licensed by the state as having met minimum health and safety requirements These include many private preschools

Teacher Compensation Requirements. The measure introduces compensation requirements for preschool teachers and aides. Currently, local programs have full discretion to decide what level of salary and benefits to provide to their preschool employees. Researchers estimate that preschool teachers earn an average annual salary of around $27,000.

The proposition requires that, once they have a college degree and early learning teaching credential, full-time preschool teachers be compensated "similarly" to teachers in the kindergarten through grade 12 (K-12) public school system in their local county. (The proposition defines "full-time" as teaching two three-hour sessions per day.)

Currently, the statewide average annual teacher salary for public K-12 unified school districts is around $60,000. Together with health benefits and state and district contributions for retirement, K-12 teachers' average annual compensation package is currently around $76,000. Like teachers, aides in the new preschool program would also have to be compensated similarly to aides in the K-12 system.

In addition, the proposition extends the collective bargaining rights currently offered to public school teachers to all employees working for providers of the new preschool program, including those who work for private preschool providers.

Who Would Administer the Program?

County Offices of Education (COEs) would have primary responsibility for implementing the program at the local level. They must develop detailed plans describing how the county will meet the program's requirements. The COEs could choose to begin offering services to children in 2007, starting with those living near low-performing elementary schools, or they could wait and offer services to all interested students beginning in fall 2010.

The COEs would select public and/or private preschool programs to serve as providers of the new program. Providers would have to meet all the requirements described above in order to receive funding. Existing State Preschool, State General Child Care, and Head Start programs would be given priority in receiving this new funding. Similar to K-12 public schools, preschool providers would have to be

nondiscriminatory and without religious affiliation in order to be eligible to participate in the new public system.

The state Superintendent of Public Instruction (SPI) would have primary responsibility for overseeing the new preschool program. The SPI would allocate funding for the new preschool program to COEs based on a uniform, statewide per-student rate. For the first ten years of the program, funds would be distributed across counties based on the number of 4-year olds living in each county. Thereafter, funds would be distributed based on the number of students each county serves.

How Would the New Preschool Program Be Funded?

The proposition establishes a new personal income tax (PIT) rate on high-income earners to support the new preschool program. The measure would impose an additional 1.7 percent tax rate on taxable incomes over:

- Individuals—$400,000.
- Heads-of-household—$544,457.
- Married couples—$800,000.

This would increase the top "marginal" tax rate (that is, the rate applied to the last dollar of income) from 9.3 percent to 11 percent. (See nearby box for an example of how the new rate would affect taxpayers.) Combined, these high-income earners currently represent less than 1 percent (or about 100,000) of total personal income taxpayers in the

state. These taxpayers pay about one-third of the $45 billion in annual PIT revenues. The higher tax rate would take effect on January 1, 2007.

An Example of the Impact of the New Tax Rate

A single person with a taxable income of $700,000 a year currently would pay 2005 California personal income taxes of about $63,000. Most of the income would currently be taxed at the state's top marginal rate of 9.3 percent. Under Proposition 82, this same single person would pay 9.3 percent on most of the income up to $400,000, but would then pay 11 percent on the income between $400,000 and $700,000. This would result in a total tax payment under the measure of $68,100—an increase of $5,100.

Proposition 63, passed by voters in 2004, imposes an additional 1 percent tax rate on incomes above $1 million to support mental health services. (This tax currently raises around $700 million a year for these services.) Taxpayers with incomes above $1 million would continue to pay this added rate under Proposition 82. Thus, Proposition 82's additional 1.7 percent rate would increase these taxpayers' total marginal PIT rate from 10.3 percent to 12 percent. Based on current information, this would be the highest state PIT rate in the country.

How Would the Funds Be Used?

Revenues generated from the new tax described above would be deposited directly in a special state preschool fund. The revenues could only be used to support the new preschool program and not for any other purpose or program.

There are four primary ways in which these funds would be spent: (1) funding the day-to-day operations of preschools, (2) establishing facilities to house the program, (3) training teachers and aides, and (4) developing a reserve fund to help guarantee future program stability.

Program Operations. The majority of the revenues generated for the preschool program would be used to provide salaries and benefits for teachers, aides, and directors; purchase supplies and materials; administer, evaluate, and oversee the program; and support other operational and maintenance needs. (The proposition limits state and local program administration costs to no more than 6 percent of total annual program expenditures.)

Facilities and Teacher Training. Beyond these ongoing operational expenditures, Proposition 82 also allocates certain funds for start-up costs. Specifically, it allows a total of up to $2.7 billion of the tax revenues generated for the preschool program to be used primarily over the first ten years of the program to fund the following activities:

- *Up to $2 Billion for Facilities to House Preschool Programs.* These funds may be used to support construction, lease, purchase, or renovation of

facilities. Based on facility needs plans submitted by each COE, the Superintendent would determine the timing and distribution of this funding.

- *Up to $700 Million to Help Prepare Preschool Teachers and Aides to Meet New Qualification Requirements.* Up to $200 million may be used for financial aid (scholarships or forgivable loans) to support full- or part-time students seeking to attain the college education required of teachers and aides in the new preschool program. Up to $500 million may be provided to the state's public colleges and universities to develop and offer coursework in early childhood education, including a new preschool teacher credentialing program.

Reserve. In addition, Proposition 82 establishes an operating reserve for the preschool program. Over the course of the first ten years after passage of the proposition, a portion of the revenues generated by the new tax must be set aside in this reserve account. After ten years, the account must contain enough funds to operate the new preschool program for one year. The program could access the reserve in any year that the statewide per-student preschool program funding level would decline without it.

Implementation Dates. As described above, the measure has various starting dates and timeframes specified for various activities. Figure 3 summarizes these implementation dates.

Figure 3
Timeline for Implementation of Proposition 82

Finance	
2007	New tax on high-income earners begins to generate revenue for new preschool program (roughly $2 billion annually).
2007-17	Funding provided for facilities to house preschool program (up to $2 billion in total over life of program).
2016	State operating reserve must contain enough funds to operate the program for one year.
Program Requirements	
2007-10	Counties can choose to offer preschool services to 4-year olds, prioritizing children who live near low-performing elementary schools.
2010	All 4-year olds in the state must have equal access to free, voluntary preschool services.
Teacher Training	
2007-17	Grants provided to public universities and colleges to train teachers and aides (up to $500 million).
2007-17	Grants provided to individuals taking college courses required for teachers and aides (up to $200 million).
2014	Teachers must have a college degree. Aides must have a year and a half of college, and have taken several early childhood education courses.
2016	Teachers must hold an early learning teaching credential or the equivalent.

FISCAL EFFECT

Proposition 82 would have significant impacts on both state revenues and spending.

State Revenues

As noted above, the higher PIT rate created by the proposition would take effect January 1, 2007. We estimate that this rate would raise roughly $500 million in 2006-07 (a partial fiscal year effect). Revenues would increase to a full-year amount of about

$2.1 billion in 2007-08, and then grow to around $2.6 billion by 2010-11, when the program would be open to all 4-year olds in the state.

Potential Taxpayer Responses. Exactly how taxpayers would respond to the higher marginal tax rate created by Proposition 82 is difficult to estimate. The above revenue estimates, however, incorporate certain actions taxpayers would likely take. For example, the estimates assume that some high-income taxpayers will take actions—such as changing the way that some business-related income is claimed—to minimize the net impact of the PIT rate increase. By reducing the overall income claimed by these high-income earners, these actions would also result in some annual revenue reductions to the state General Fund (around $100 million) and the mental health program created by Proposition 63 (in the tens of millions of dollars).

The above estimates do *not*, however, take into account more extreme taxpayer responses—such as high-income earners leaving the state or not moving here—as a result of the higher rates. To the extent this occurred, revenues for the new preschool program, the state General Fund, and the Proposition 63 mental health program could be reduced more significantly.

Impact on Preschool Program Spending

As noted above, all the revenues raised by the higher tax rate would be available solely for the new preschool program. The following amounts would be set aside during the first ten years of the program:

- Up to $2.7 billion for facilities, teacher training, and financial aid.

- A reserve containing enough funds in 2017 to run the program for one year.

The remaining funds would be available for the day-to-day operation of preschools.

Measure Would Provide Around $6,000 Per Student. We estimate that there would be about $2 billion a year to run the preschool program in 2010-11, the first year all 4-year olds are guaranteed access to a preschool program. The level of funding available for each preschool student would depend primarily upon the number of children who decide to participate in the program. Based on information from other states that offer public preschool for all 4-year olds, our best estimate is that—over time—roughly 70 percent of 4-year olds would participate in the new preschool program. (See nearby box for more information on possible participation in the program.) At this rate, we estimate that in 2010-11, the proposition would provide around $6,000 per student in the new preschool program. (By comparison, we estimate that California's per-student funding rate for its existing state preschool would be approximately $4,000 in 2010-11.) The overall amount of revenue would not change regardless of the number of children who enroll, so per-student funding levels would increase if fewer children chose to participate and decrease if more children enrolled in the program.

Participation Rates Will Likely Increase

Reports from other states that have implemented voluntary public preschool for all 4-year olds suggest that as many as 70 percent of California's 4-year olds may opt to participate in the new state program over the long run. In addition, some families will opt to keep their children in private preschools. This could be around 10 percent of all 4-year olds. Combining both private and public preschool expected participation rates, the percent of 4-year olds attending center-based preschool may increase to as high as 80 percent statewide. This compares to the current center-based enrollment estimate of 62 percent.

Existing Programs Could Augment the Per-Pupil Funding Rate Statewide ($750 to $2,000 Per Pupil). The new preschool program may also be able to take advantage of resources provided to existing state and federal programs that serve 4-year olds. Depending upon future legislative decisions, the rate at which these programs maintain existing services, and how the costs of special education students are addressed, these programs could contribute additional support to the new preschool program in the range of $750 to $2,000 per student. Adding these funds to the funding provided by Proposition 82, there would be between $6,750 and $8,000 per pupil for preschool operations in 2010-11.

Comparisons With Other States. Figure 4 shows a comparison of how other states funded public preschool programs in 2004. Currently, California's per-pupil funding for its state preschool program is in the same spending range as about one-half of the other states in the country. Proposition 82's funding level would mean a significant increase in the amount of state resources provided for each preschool child. This level of support would make California's one of the highest funded state preschool programs in the country.

Figure 4
State Preschool Spending Per Enrolled Child

$6,000 or more	$4,000-$5,999	$2,000-$3,999			Less than $2,000	No Program
Minnesota	Connecticut	Alabama	Illinois	*Oklahoma*[a]	Kansas	Alaska
New Jersey	Delaware	Arizona	Iowa	Texas	Maine	Idaho
Oregon	Massachusetts	Arkansas	Kentucky	Virginia	Maryland	Indiana
	North Carolina	**California**	Louisiana	Washington	Nebraska	Mississippi
	Ohio	Colorado	Michigan	West Virginia	New Mexico	Montana
	Tennessee	*Florida*[a]	Missouri	Wisconsin	South Carolina	New Hampshire
		Georgia[a]	Nevada		Vermont	North Dakota
		Hawaii	New York			Rhode Island
						South Dakota
						Utah
						Wyoming

Source: National Institute for Early Education Research, 2004
[a] Florida, Georgia, and Oklahoma offer free public preschool to all 4-year olds. Florida's program and funding began in 2005.

Other Potential Spending Impacts

Proposition 82 could have a number of other potential fiscal effects. For instance:

- *Preschool Program Could Affect Districts' Special Education Costs.* State and federal law requires school districts to serve the educational needs of 4-year

olds with special needs. It is likely that with greater numbers of children participating in structured preschool programs, greater numbers of 4-year olds will be identified as requiring special education services. If this takes place, school districts would incur increased costs. The new preschool program could cover some of these district costs. Furthermore, some research, based on small pilots of preschool programs, suggests that greater participation in preschool may result in the long run in a reduction in (1) the number of children using K-12 special education services and (2) the number of years some children receive special education services. This would reduce school districts' K-12 special education costs.

- ***Potential State and Local Savings.*** Some research based on pilots of preschool programs suggests that greater participation in preschool may result in such outcomes as: a reduction in the number of children retained in a grade, a reduction in the number of child abuse or neglect reports, and a reduction in the number of juvenile court filings. The degree to which these effects would occur as a result of a statewide preschool program and the amount of related state and local savings are unknown.