

Dear Governor-Elect,

On behalf of the undersigned coalition of education stakeholders, thank you for your ongoing commitment and service to the people of California. As you prepare to take on the position of Governor, we respectfully urge you and the State Legislature to consider supporting options to raise state revenue that will support a more just and balanced tax system and improve the ability of school districts and state and local governments to provide critical services to constituents.

Our education system stands at an inflection point. Despite improvements in the State of California's education funding over the past decade, school districts throughout the state are experiencing severe ongoing fiscal pressures. Rising costs for special education, transportation, employee benefits and retirement, health care, insurance, and other operational costs continue to outpace the funding schools receive to address students' needs. And despite increased funding for education, recent actions by state lawmakers have resulted in the withholding of \$3.9 billion in Proposition 98 funding in the 2026-27 fiscal year with a convoluted repayment formula written in statute that could result in years of delayed funding for schools who need these dollars to fund services for students and staff.

These issues are exacerbated by the state tax system's reliance on volatile stock market performance, which contributes to uncertain state funding and stymies school districts' ability to engage in long-term fiscal planning.

In recent years, school districts across California have been forced to make difficult reductions in student supports and staff to remain fiscally solvent. This instability and potential reduction in school services comes at a time when the communities we serve are already struggling with the rising cost of living and the social safety net cuts instituted by H.R.1.

The impact of these conditions is real. According to the Annie E. Casey Foundation's 2026 KIDS COUNT Data Book, California ranks 33rd in the nation in the well-being of its children and 34th in education.

We understand the State of California has experienced its own budget constraints. However, given California's role as the fourth-largest economy in the world and the home to some of the nation's most wealthy individuals and most profitable corporations, we believe it is appropriate for the next Governor and its legislative partners to look closely at opportunities for growing state revenues. We believe this can be achieved first and foremost by evaluating the fairness and effectiveness of the State's current tax system and addressing fiscal policies that give preferential treatment to wealthy individuals and corporations at the expense of public services.

Under Proposition 98, approximately 40 percent of every dollar in state tax revenue is dedicated to public education for students in Kindergarten through community college. Policies that expand state tax revenues will directly increase the support available to schools. Below are examples of revenue solutions you may wish to explore, many of which have received analysis from the Legislative Analyst's Office, the California Budget and Policy Center, and the Policy Analysis for California Education through its 2026 Getting Down to Facts III studies. This list is not intended to be an exhaustive list, but rather several key examples that warrant further exploration and analysis to determine the appropriate path for enactment.

### ***Improving Tax Expenditure Accountability***

According to an analysis by the California Budget and Policy Center, California spends six times more on corporate tax breaks than tax credits for low-income families. We encourage thoughtful, periodic review of tax expenditures, including business tax credits, to assess whether they are achieving their objectives and serving as the best use of the State's limited resources. The recent enactment of Senate Bill 1349 (Gonzalez), which directs the Legislative Analyst's Office to evaluate the costs and benefits of existing major state tax expenditures, was a positive step in this direction; however, further work is needed to ensure California's tax expenditures are effective and aligned with public benefit rather than corporate interests.

### ***Closing Corporate Tax Loopholes***

We support closing corporate tax loopholes that divert resources away from California's public schools and allow highly profitable companies to avoid paying their fair share. One such example is the "Water's Edge" election, which allows multinational corporations with significant offshore profits to avoid state taxes by shifting profits to foreign jurisdictions with low tax rates; Assembly Bill 1790 (Connolly) was introduced in the 2025-26 legislative session to address this issue but did not ultimately move forward.

### ***Establishing a Graduated Corporate Tax Rate***

California's corporate tax lacks graduated tax rates even though a small share of highly profitable corporations account for a majority of profits. Over a dozen other states have addressed similar inequities by establishing graduated corporate tax rates that increase at specific income levels.

### ***Modernizing the Property Tax System***

Commercial properties in California are currently taxed based on their purchase price rather than market value. Reassessing high-value commercial and industrial properties to market value would provide schools and local governments with a more stable and equitable source of funding while incentivizing the development of more housing on vacant or underutilized commercial real estate. This effort is not intended to impact the property taxes for residential properties or homes.

### ***Updating Taxation for the 21<sup>st</sup> Century***

As California's economy has grown increasingly digital and service-based, the State's sales and use tax and fees have remained largely based on tangible goods. A digital excise tax, such as a levy on corporations' use of personal data for profit, could bring taxation more in line with California's modern economic landscape. States such as Maryland and Washington have explored efforts in these areas in recent years that may provide valuable insights into how such policies can be implemented in California.

Public investment in education has proven economic and societal benefits, including improved employment rates, economic growth, socioeconomic mobility, and reduced crime rates. This impact is magnified in California, where the role of schools has increasingly evolved into more than just purely academic institutions. In addition to traditional academics, arts, and athletics, schools are often the only places that our children receive mental and physical health services, consistent and nutritious meals, and other critical resources.

We believe these tax policies have the potential to promote more sustainable and equitable school funding, improve student outcomes, and strengthen California's investment in its future workforce and the next generation of contributing members of society. We respectfully encourage you to work with state lawmakers and other stakeholders to assess these and other state revenue solutions that are deemed appropriate to provide adequate, sustainable funding to support the needs of students and families.

We also urge you to commit to fully funding Proposition 98 every year, starting by repaying the \$3.9 billion withholding that is owed in the 2026–27 budget. These Proposition 98 withholdings are not consistent with the clear standards laid out in the Constitution and are counter to the will of the voters. Furthermore, predictable, sufficient, and timely funding is vital for schools to sustain and expand student support and services, hire and retain staff, and meet our long-term obligations to serve students. The State’s budget should not be balanced on the backs of students, teachers, and other school personnel.

Thank you for your consideration of this important issue. We look forward to working with you to advance a California in which everyone has the opportunity to succeed and thrive.

Sincerely,

Los Angeles Unified School District

[Other Public Education Revenue Task Force members]