



**DATE:** May 2026

**TO:** Interested Parties

**FROM:** Brad Williams, Senior Partner  
Capitol Matrix Consulting

**RE:** Proposition 98 Funding: Historical Diversions and the Projected  
Impact of the Proposed Wealth Tax

## **Introduction**

Numerous initiatives and legislative measures over the past several decades have circumvented Proposition 98 (Prop 98) through creation of special fund taxes, which are excluded from the Prop 98 minimum guarantee calculations. The most recent example is the wealth tax on the November 2026 ballot, which would divert multiple billions of dollars from K-14 schools.

In light of these developments, Protect California Schools has commissioned Capitol Matrix Consulting (CMC) to estimate: (1) the amount of historical revenue diversions from K-14 education; (2) the additional revenue diversion that would result from voter-approval of the wealth tax on the November 2026 ballot; and (3) the ongoing revenue loss to K-14 education due to out-migration of ultra-high net worth individuals in response to the wealth tax.

(CMC is a Sacramento-based economic and fiscal consulting firm specializing in state and local government finance, taxation, and economic policy. Its principals are the former Director of Finance under Governor Schwarzenegger, and the former chief economist for the Legislative Analyst's Office.)

CMC's key findings are summarized below:

## **Historical Funding Diversions from K-14 Schools**

Between 1988 and 2024, California voters and the Legislature approved 11 special fund taxes that bypass the General Fund and are therefore excluded from the Prop 98 calculation. CMC estimates that these excluded taxes will generate approximately \$30.1

billion in revenues in 2026-27. Had those revenues instead been deposited in the General Fund and made subject to Prop 98, the K-14 minimum funding guarantee would be approximately **\$11.8 billion higher** in 2026-27 than is currently projected.

During the same period, California voters rejected nine ballot propositions that would have established an additional \$20.2 billion in special fund taxes outside Prop 98. Had those measures been approved and the proceeds been subject to Prop 98, the 2026-27 minimum guarantee would have been an additional **\$7.9 billion higher**. Combined, enacted and rejected special fund tax measures since 1988 represent \$50.2 billion in special fund revenues and as much as **\$19.6 billion** in foregone Prop 98 funding in 2026-27 alone.

**Table 1**  
**Historical Special Fund Tax Diversions from Prop 98: Impacts in 2026-27**  
**(\$ in Billions)**

Category	Special Fund Revenues	Foregone Prop 98 Guarantee
Voter-Approved Propositions	\$8.8	\$3.4
Legislative Measures	\$21.3	\$8.3
<b>Subtotal — Enacted Tax Increases</b>	<b>\$30.1</b>	<b>\$11.8</b>
Voter-Rejected Propositions	\$20.2	\$7.9
<b>Total — Enacted + Rejected</b>	<b>\$50.2</b>	<b>\$19.6</b>

### Size of Wealth Tax’s Diversion from K-14 Schools

The proposed wealth tax (WT) would impose a one-time five percent tax on the net worth of California billionaires as of January 1, 2026. The proceeds from this tax would not be subject to the Prop 98 minimum funding guarantee. Instead, they would be placed in a special fund exempt from Prop 98, with 90 percent allocated to health programs and only 10 percent allocated to education and food assistance combined. The measure grants complete discretion to the Legislature over whether to allocate the 10% to education, food assistance or both, **meaning there’s no guarantee schools will receive any funding under the measure.**

The proponents of the measure have asserted that the WT will raise \$100 billion. However, CMC estimates that actual proceeds will be approximately \$50 billion after accounting for billionaire out-migration and the fact that certain assets (such as real property) would not be subject to the proposed tax. This analysis is consistent with research conducted by Stanford University’s Hoover Institution<sup>1</sup> and the California Tax Foundation<sup>2</sup> showing the

<sup>1</sup> <https://www.hoover.org/research/net-present-value-billionaire-tax-act-assessment-fiscal-effects-californias-proposed>

<sup>2</sup> <https://caltax.org/news-release/wealth-tax-would-cost-state-more-than-3-5-billion-in-ongoing-annual-revenue-study-finds/>

measure would initially raise significantly less than proponents claim, in addition to triggering ongoing losses of revenue. Not counting litigation delays, the one-time tax will likely be collected over a 5-year period.

**Table 2** shows the size of the WT diversion by comparing the impact of the tax on school funding under two alternatives. Under the first alternative, WT proceeds are placed in a special fund exempt from Prop 98 (consistent with the WT initiative), and the revenues are allocated 90 percent to health programs, 5 percent to education, and 5 percent to food assistance. As a reminder, **schools are not guaranteed any funding under the measure.** This allocation scenario is for analytical purposes only.

Under this scenario, Prop 98 would receive a small boost in the first year from its 5 percent share of the wealth tax proceeds and from the liquidation of appreciated stocks needed to cover the wealth tax. However, education programs would lose revenues in every subsequent year, as their share of the WT is more than offset by their share of General Fund revenues losses arising from out-migration of high-wealth individuals (further discussed below) in response to the WT.

If instead the wealth tax revenues were placed in the General Fund and subject to Proposition 98, K-14 education programs would receive 39.2 percent of the annual wealth tax proceeds. While a portion of this gain would be offset by lower income taxes from outmigration, the net gain to schools would still be \$2-\$3 billion annually from 2026-27 through 2030-31. As shown in Table 2, the annual loss to schools would be between 3 and \$3.5 billion per year, for a total of \$16.7 billion over the five-year period.

**Table 2**  
**Annual Impacts of Wealth Tax Diversions on K-14 Schools**  
**2026-27 through 2030-31**  
**(\$ in Billions)**

<b>K-14 Funding Change and Amount Diverted</b>	<b>2026-27</b>	<b>2027-28</b>	<b>2028-29</b>	<b>2029-30</b>	<b>2030-31</b>	<b>Total</b>
<b>As Proposed*</b>	\$0.1	-\$0.8	-\$0.9	-\$1.1	-\$1.2	-\$3.9
<b>If Subject to Prop 98</b>	\$3.2	\$2.8	\$2.5	\$2.3	\$2.0	\$12.8
<b>Amount Diverted</b>	\$3.1	\$3.6	\$3.5	\$3.3	\$3.2	\$16.7

\*Assumes Prop 98 receives 5% of the total 10% allocated for food assistance and education. 2026-27 total includes one-time gain in personal income taxes due to liquidation of stocks to cover WT liabilities.

## Losses Would Be Ongoing

Beyond losing their share of new funding due to the diversion the WT from Prop 98, schools would face an ongoing loss in funding relative to current law. As noted above, the WT is resulting in the out-migration of ultra-wealthy Californians that are currently responsible for a disproportionate share of state personal income taxes. The revenue

losses, and corresponding reductions in Prop 98 funding will continue year-after-year, well after the temporary payments from the one-time WT have concluded.

These losses will be substantial. Recent data, summarized in a Hoover Institution analysis (Rauh & Jaros, March 2026), indicate that publicly announced moves of California billionaires to out-of-state destinations have already reduced the wealth tax base by roughly 30 percent – and these moves were made on the mere prospect of voter approval. CMC's projections of ongoing Prop 98 impacts assume behavioral responses ranging from 40 to 60 percent reductions in the wealth tax base, consistent with empirical research on European wealth taxes and with the Hoover analysis.

Under CMC's central case (a 50 percent behavioral response), annual personal income tax reductions would reach \$5 billion by 2032-33, translating into school funding reductions of \$2 billion during the year. Annual reductions will grow in line with the income tax base in subsequent years. In sum, K-14 schools would receive, at best, an extremely limited share of the temporary WT proceeds, but would bear their full share of all ongoing revenue losses flowing from the negative economic impacts of the WT measure.

**Table 3**  
**Net Impact of Wealth Tax on K-14 Revenues Relative to Current Law**  
**(Assumes K-14 Receives 5 Percent of Temporary Wealth Tax)**

Year/Impact	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33
Gain From WT	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.0	\$0.0
Ongoing PIT Loss*	-\$0.4	-\$1.3	-\$1.4	-\$1.5	-\$1.7	-\$1.8	-\$2.0
<b>Net</b>	<b>\$0.1</b>	<b>-\$0.8</b>	<b>-\$0.9</b>	<b>-\$1.1</b>	<b>-\$1.2</b>	<b>-\$1.8</b>	<b>-\$2.0</b>

\* 2026-27 total is the net of \$1.2 billion in losses due to out-migration, partly offset by a \$0.8 billion one-time gain from liquidation of stocks to cover WT liabilities.

**Extended economic losses would deepen school funding reductions.** Tables 2 and 3 above capture only the direct effect of billionaire out-migration on personal income tax revenues. They do not include the broader cascading economic impacts identified in CMC's separate analysis, *"The Broader Economic Impact of the Proposed California Wealth Tax"* (co-authored with Full Moon Strategies, April 2026). The main impact is the disruption of Silicon Valley's startup ecosystem as departing founders, investors, and mentors weaken the network effects that have produced some of the state's largest employers. Other impacts include reductions in California-based consumption and charitable giving by ultra-high-net-worth households and foundations, and migration of home offices and company headquarter operations out of state. Inclusion of these impacts would more than double the annual losses in K-14 school funding by 2046.

Taken together, the historical diversions, the near-term diversion of wealth tax proceeds, and the ongoing fiscal impacts of billionaire out-migration represent significant and compounding threats to the K-14 minimum funding guarantee.

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