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Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

INITIATIVE COORDINATOR
ATTORNEY GENERAL'S OFFICE

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative (A.G. File No. 21-0022) that would authorize a new tax on very high-income taxpayers and dedicate the revenues to the development of infectious disease testing technology for the purpose of detecting and preventing pandemics.

BACKGROUND

State and Local Governments Perform Public Health Activities. Public health includes a wide range of activities aimed at better understanding and improving population health. Such activities including tracking, preventing, and controlling infectious and chronic diseases; monitoring and reducing environmental health hazards; supporting research; preparing for emergencies; and maintaining public health laboratories. The California Department of Public Health (CDPH) works closely with the state's 61 local public health departments (58 county and three city departments) to promote public health across California. Prior to the coronavirus disease 2019 (COVID-19) pandemic, CDPH had a budget of around \$3 billion, about two-thirds of which was provided to local public health departments. (Both state and local public health departments have received significant one-time increases in funding for COVID-19 response.) Local public health departments also may receive funding from their local governments.

Public Health Departments Play a Significant Role in Infectious Disease Control and Pandemic Response. A key statutory responsibility of both CDPH and local public health departments is tracking and reporting infectious diseases. State and local public health departments have played leading roles in the state's response to the COVID-19 pandemic, which, to date, has resulted in over 4.6 million COVID-19 cases and caused more than 70,000 deaths in California. Their major roles include educating the public; issuing public health guidance and orders; testing for COVID-19; conducting case investigation and contact tracing; managing vaccine distribution; and tracking and reporting COVID-19 cases, vaccinations, and deaths.

Local Educational Agencies Provide K-12 Education. In California, public education for grades kindergarten through 12 is provided by local educational agencies. These agencies—

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which include school districts, county offices of education, and charter schools—currently enroll about 6 million students. The California Department of Education oversees and supports local educational agencies by collecting data, allocating funding, and providing technical assistance. The Superintendent of Public Instruction heads the department. Total state funding for K-12 education is around \$67 billion annually. In recent years, the state has spent about \$1.5 billion per year to support school facilities projects, primarily from voter-approved general obligation bonds paid for by the state General Fund. (Schools also receive significant amounts of local property tax revenue to support their operational and facility-related costs.)

Metagenomic Sequencing Is a Relatively New Technology for Detecting Pathogens.

Metagenomics sequencing is a technology that allows scientists and clinicians to detect which pathogens (such as bacteria and viruses) and other microorganisms are present in a sample of bodily fluid, water, or other medium. Unlike other pathogen and microorganism testing technologies, a scientist or clinician using metagenomic sequencing does not test for a *specific* pathogen or microorganism. Rather, the technology potentially allows for the identification of *any or all* of the pathogens or microorganisms in a sample. Because of this capability, metagenomic sequencing can be useful for identifying novel pathogens and novel variants of known pathogens. Metagenomic sequencing technology has been in use for more than a decade and currently is being used to help identify and understand the COVID-19 virus. Although in use today, costliness and certain existing technological limitations currently prevent metagenomic sequencing from being used more widely for infectious disease detection and other purposes (such as improving scientific understanding of the non-pathogenic microorganisms that live in various environments).

PROPOSAL

Authorizes a New Tax on Very High-Income Taxpayers and Dedicates Revenues to Pandemic Prevention. The measure would establish a 0.75 percent tax on individuals with incomes over \$5 million for the ten-year period of 2023 through 2032. The revenues generated by the tax would be deposited into new special funds and dedicated entirely to a newly established institute and two other allowable purposes, all related to pandemic detection, prevention, and mitigation. We describe these three purposes below.

Tax Revenues Go to Three Purposes Related to Infectious Disease Control and Pandemic Prevention. The measure would dedicate the revenues from the new tax in varying proportions to the following purposes:

- ***Metagenomic Sequencing Technology Development.*** The proposed measure would create a new state agency called the California Institute for Pandemic Prevention (Institute). Fifty percent of revenues would be dedicated to the Institute to fund metagenomic sequencing technology research and development. Areas of research funded by the Institute could include, for example, projects aimed at (1) automating and otherwise speeding up the metagenomic sequencing process; (2) creating new tools for analyzing metagenomic sequencing data; (3) encouraging the creation of new clinical, public health, and environmental and agricultural surveillance applications of metagenomic sequencing technology; and (4) standardizing and

integrating the information technology systems that house and transmit metagenomics data. Depending on the year, the measure allows the Institute to spend up to 8 percent or 10 percent of its revenues on administrative costs (including those related to grant-making and procuring and maintaining of Institute facilities).

- ***Pandemic Preparedness at State and Local Public Health Programs.*** Twenty-five percent of revenues would go to CDPH. CDPH would be required to distribute 70 percent of these funds to local public health departments to prepare for pandemic response and build local capacity to prevent disease and promote public health. CDPH would retain the remaining 30 percent of these funds for state-level disease prevention and control programs and to support the administrative costs of distributing the funding to local public health agencies.
- ***K-12 School Facility Improvements to Prevent and Limit Infectious Disease Spread.*** Twenty-five percent of revenues would go to the Superintendent of Public Instruction for allocation to local educational agencies. Local educational agencies would be required to use the funds to make improvements to school facilities to reduce infectious disease spread. For example, local educational agencies could use the funds to improve air ventilation and filtration systems or add antimicrobial surfaces.

Revenues Exempt From Constitutional Spending Limits. The State Constitution contains various rules affecting the state budget primarily, but also school district and local government budgets. For example, the Constitution contains a spending limit for the state, most types of local governments, and school districts. It also requires a minimum level of annual funding for K-12 education and the California Community Colleges. This measure amends the Constitution to exempt the measure's spending from the state, school district, and local government spending limits. Regarding K-12 education, the amount allocated for schools would supplement the minimum funding requirement.

FISCAL EFFECTS

New Tax Would Increase State Revenues by \$500 Million to \$1.5 Billion Annually for Ten Years. State revenues from the new tax likely would range from about \$500 million to \$1.5 billion annually. This range reflects the historical volatility in very high-income taxpayers' incomes due to changes in economic conditions and the performance of financial markets. A portion of the revenues dedicated to the Institute would be deposited into a reserve account to assist with potential revenue volatility.

New Revenues Entirely Dedicated to Increase Funding for Public Efforts Related to Infectious Disease Control and Pandemic Prevention. Figure 1 (on the next page) shows how the measure would allocate the tax revenues if the revenues average \$1 billion annually. With this assumption, the measure would allocate around \$5 billion to the Institute for metagenomic sequencing research and development over the full ten-year period in which the tax is in effect. A significant portion of this funding likely ultimately would go to other state and local government entities, such as to the University of California for research and to local public

health departments (beyond what they receive from CDPH) to improve infectious disease testing and reporting capacities. Over ten years, the measure also would allocate around \$2.5 billion each to (1) state and local public health programs and (2) K-12 school facility improvements.

Figure 1
How Estimated Revenues Would Be Allocated^a
(In Millions)

	Average Annual	Across Ten-Year Period
California Institute for Pandemic Prevention	\$500	\$5,000
State and local public health programs	250	2,500
K-12 school facility improvements	250	2,500
Totals	\$1,000	\$10,000

^a Estimates reflect allocations if revenues average \$1 billion annually.

Summary of Major Fiscal Effects

We estimate that this measure could have the following major fiscal effects on state and local governments:

- Increased state tax revenues that likely would range from around \$500 million to \$1.5 billion annually for the ten-year period the new tax would be in effect. Revenues entirely would support activities related to infectious disease control and pandemic prevention.

Sincerely,



for Gabriel Petek
Legislative Analyst



for Keely Martin Bosler
Director of Finance