

Proposition 98 Overview

LEGISLATIVE ANALYST'S OFFICE

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Proposition 98 at a Glance

Funding "Tests"

Proposition 98 mandates that a minimum amount of funding be guaranteed for K-14 school agencies equal to the greater of:

- A specified percent of the state's General Fund revenues (Test 1).
- The amount provided in the prior year, adjusted for growth in students and inflation (Tests 2 and 3).

Test 1—Percent of General Fund Revenues

Approximately 34.7 percent of General Fund plus local property taxes.

Requires that K-12 schools and the California Community Colleges (CCC) receive at least the same share of state General Fund tax revenues as in 1986-87. This percentage was originally calculated to be slightly greater than 40 percent. In recognition of shifts in property taxes to K-14 schools from cities, counties, and special districts, the current rate is approximately 34.7 percent.

Test 2—Adjustments Based on Statewide Income

Prior-year funding adjusted by growth in per capita personal income.

Requires that K-12 schools and CCC receive at least the same amount of combined state aid and local tax dollars as they received in the prior year, adjusted for statewide growth in average daily attendance and inflation (annual change in per capita personal income).

Test 3—Adjustment Based on Available Revenues

Prior-year funding adjusted by growth in per capita General Fund.

Same as Test 2 except the inflation factor is equal to the annual change in per capita state General Fund revenues plus 0.5 percent. Test 3 is used only when it calculates a guarantee amount less than the Test 2 amount.

Other Major Funding Provisions

Suspension

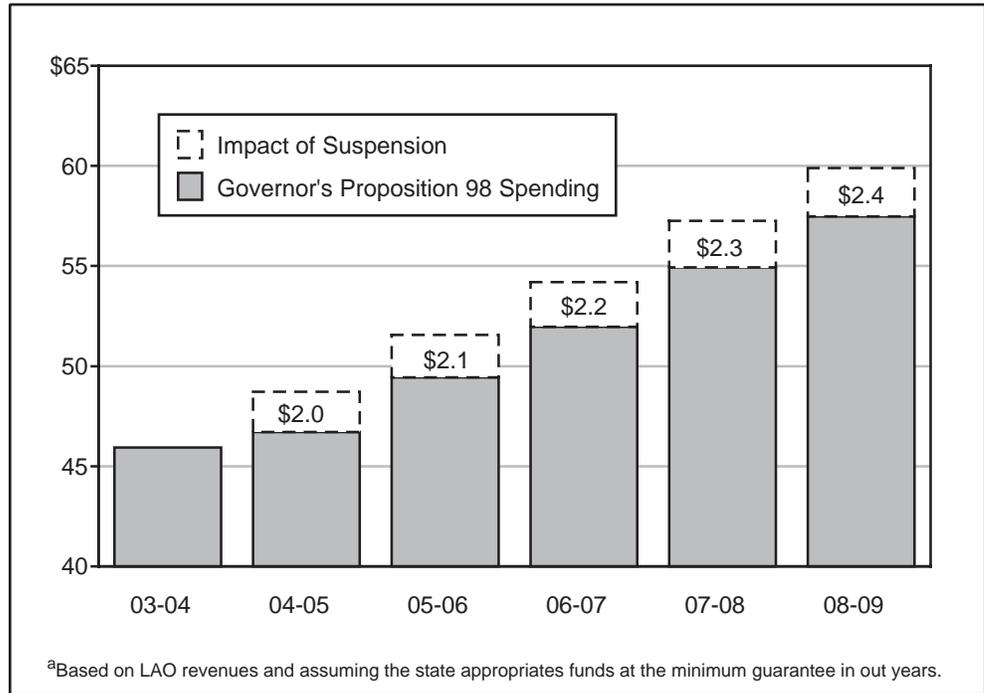
Through urgency legislation other than the budget bill, the Legislature may suspend the minimum guarantee, providing K-14 education any funding level consistent with Legislative priorities. The difference between the guaranteed amount and the level provided is added to the "maintenance factor," discussed below.

Restoration (Maintenance Factor)

Following a suspension or Test 3 year, the Legislature must increase funding over time until the base is fully restored. The overall dollar amount that needs to be restored is referred to as the maintenance factor. A portion of the maintenance factor is required to be restored in years the General Fund grows faster than personal income.



Impact of Governor’s Suspension Proposal On Future Proposition 98 Spending^a



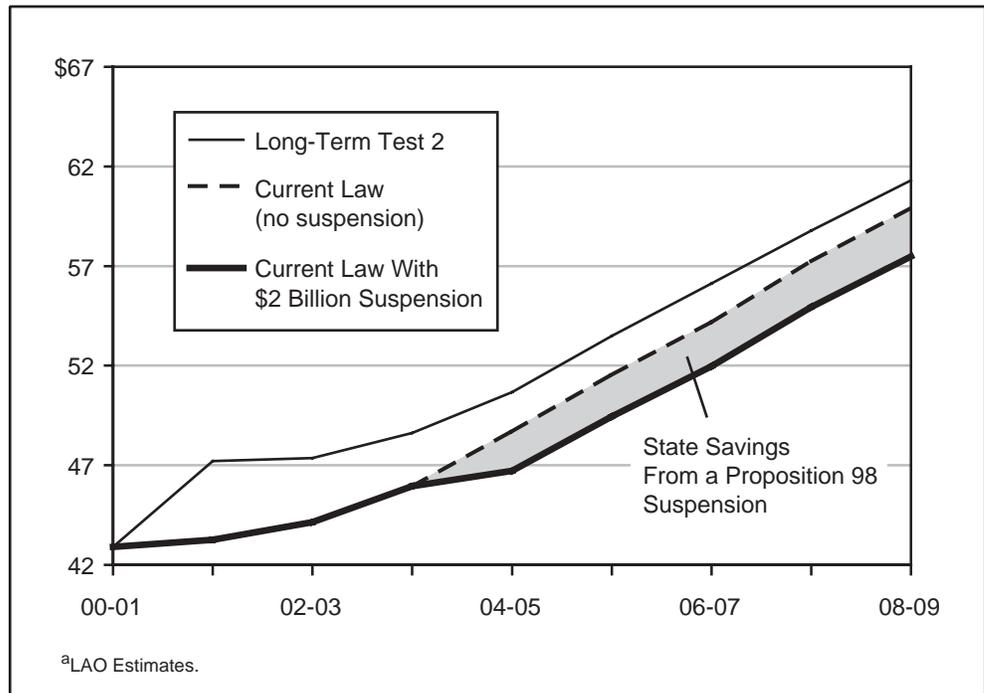
- The budget proposal suspends the Proposition 98 minimum guarantee by \$2 billion in 2004-05. It also spends below the minimum guarantee in 2002-03 and 2003-04 by a combined \$966 million, but does not suspend for these years, thereby creating a “settle-up” obligation.

- We recommend the Legislature (1) suspend the minimum guarantee for 2002-03 through 2004-05 and (2) balance funding for K-14 education with other General Fund priorities without regard to the exact suspension level proposed by the Governor.

- We recommend suspending because it would be difficult to reduce other General Fund programs an additional \$2 billion. Additional General Fund taxes would increase the minimum guarantee further requiring roughly all of a \$4 billion tax increase to go to Proposition 98 absent suspension.



Impact of Suspension on Proposition 98 Funding Over Time^a



- The difference between long-term Test 2 and current law funding level is the outstanding maintenance factor. Over time, the state must provide accelerated growth to restore the maintenance factor (bring current law funding level back to long-term Test 2 level).

- The state in effect must restore current maintenance factor first. The suspension would widen the gap (increase the maintenance factor from \$2 billion to \$4 billion). Since existing maintenance factor is not restored,

- The savings from the proposed suspension would continue until the entire maintenance factor was restored.



Update on the Education Credit Card

Year-End Balances (In Millions)

	2001-02	2002-03	2003-04	2004-05
One-Time Costs				
Revenue limit and categorical deferrals	\$931.3	\$2,158.1	\$1,096.6	\$1,071.3
Community college deferrals	115.6	—	200.0	200.0
Cumulative mandate deferrals	655.6	958.1	1,266.2	1,583.1
Ongoing Costs				
Revenue limit deficit factor	—	—	\$883.3	\$912.5
Totals	\$1,702.5	\$3,116.2	\$3,446.1	\$3,766.9

- We estimate that the state would end 2004-05 with a \$3.8 billion debt to K-14 education under the Governor's proposal.

- The outstanding balance increases by over \$300 million because the Governor defers the 2004-05 costs of state reimbursable mandates, and does not reduce other deferrals or deficit factors.

- We recommend paying down the credit card before providing funding for program expansions beyond growth and cost-of-living adjustments.



K-12 and CCC Spending Per Student Adjusted for Inter-Year Funding Deferrals

	Actual 2002-03	Revised 2003-04	Proposed 2004-05
K-12			
Budgeted Funding			
Dollar per average daily attendance (ADA)	\$6,588	\$6,943	\$6,945
Percent growth	—	5.4%	—
Programmatic Funding^a			
Dollar per ADA	\$6,796	\$6,766	\$6,941
Percent growth	—	-0.4%	2.6%
Community Colleges			
Budgeted Funding			
Dollar per full-time equivalent student (FTES)	\$4,376	\$4,188	\$4,428
Percent growth	—	-4.3%	5.7%
Programmatic Funding^{a, b}			
Dollar per FTES	\$4,271	\$4,370	\$4,428
Percent growth	—	2.3%	1.3%
^a To adjust for the deferrals, we count funds toward the fiscal year in which school districts programmatically commit the resources. The deferrals mean, however, that the districts technically do not receive the funds until the beginning of the next fiscal year.			
^b Community college funding includes Proposition 98 funds and fee revenues.			



Major K-12 Proposition 98 Changes

(Dollars in Millions)

2003-04 Budget Act	\$41,255
Additional K-12 apportionment deferred from 2002-03	261
Other changes	-8
Total	\$254
2003-04 Revised K-12 Spending	\$41,509
Increases	
Revenue Limits	
Cost-of-living adjustments (COLAs)	\$555
Growth	280
Unemployment insurance	136
Equalization	110
Increase Public Employees' Retirement System cost	106
Subtotal	(\$1,187)
Categorical Programs	
Growth	\$89
COLAs	185
Instructional materials	188
Deferred maintenance	173
Other increases	116
Total, Increases	\$1,938
Decreases	
Net reduction in funds needed to pay deferred costs	-\$1,036
Proposition 98 Reversion Account swap	-146
Special education federal fund offset	-74
Combined child care proposals	-69
Immediate Intervention/Underperforming Schools Program	-46
High priority grants	-28
Other decreases	-105
Total, Decreases	-\$1,505
2004-05 Proposed	\$41,942
Change, 2004-05 Proposed Over 2003-04 Revised	
Amount	\$433
Percent	1%