



The 2015-16 Budget:

Analysis of the Proposition 98 May Revision Budget Package

MAC TAYLOR • LEGISLATIVE ANALYST • MAY 18, 2015

Introduction

In this brief, we analyze the Governor's Proposition 98 May Revision budget package for schools and the California Community Colleges (CCC). In the first section, we focus on the overall Proposition 98 funding level under the May Revision and the reasons it is higher than the Governor's January budget. We then explain how our office's higher revenue estimates would affect available Proposition 98 funding and recommend how the Legislature might budget accordingly. In the next two sections, we describe and assess the Governor's major Proposition 98 May Revision proposals. The Appendix to the brief contains 16 figures that have detailed education budget data. Our February analysis contains additional information about Proposition 98 and calculations of the minimum guarantee.

Changes to Overall Proposition 98 Funding

May Revision Includes Significant Increase in School and Community College Funding. Figure 1 (see next page) shows the change in Proposition 98 funding from the Governor's January budget to the May Revision for 2013-14, 2014-15, and 2015-16. Across the three years, the May Revision includes \$6.1 billion in higher Proposition 98 funding. Of this amount, \$5.5 billion comes from the state General Fund and \$556 million comes from higher local property tax revenue. Of the additional funding, the administration designates \$5.4 billion (89.3 percent) for K-12 education, \$638 million

(10.5 percent) for community colleges, and \$14 million (0.2 percent) for preschool.

2015-16 Funding Level Under May Revision Significantly Higher Than Current-Year Funding Level. Under the May Revision, the 2015-16 Proposition 98 minimum guarantee is \$68.4 billion. This is \$7.6 billion (12.4 percent) higher than the *2014-15 Budget Act* level. It is \$2.1 billion (3.2 percent) higher than the revised 2014-15 funding level. As shown in Figure 2 (see page 3), K-12 Proposition 98 funding per pupil in 2015-16 under the May Revision is \$9,978—up \$657 (7 percent) from the pre-recession 2007-08 inflation-adjusted level. For CCC, Proposition 98

funding per full-time equivalent (FTE) student in 2015-16 is \$6,764—up \$724 (12 percent) from its pre-recession level.

Changes in Estimates of Minimum Guarantee Driven Primarily by Higher State Revenues.

Though all of the inputs to the Proposition 98 formulas have changed since May, the increase in state General Fund revenue explains the bulk of

the increase in the minimum guarantee in each of the three fiscal years. Of the increase in applicable state General Fund revenue, 83 percent goes to the Proposition 98 side of the state budget (with most of the remainder largely used for Proposition 2 reserve requirements and debt payments).

Estimates of K-12 student attendance—another of the key factors affecting the guarantee—are down

slightly from estimates in January. Given 2014-15 is a “Test 1” year, this decline does not change the guarantee in 2014-15 but does lower the guarantee in future years.

Spike Protection Operative for Second Time in Proposition 98 History.

Under the May Revision, the minimum guarantee grows 13 percent from 2013-14 to 2014-15—stronger growth than estimated in the Governor’s January budget. This is the second largest year-to-year increase in the minimum guarantee since the passage of Proposition 98 in 1988. This large increase triggers the spike protection provision of the State Constitution. This provision is intended to prevent the guarantee from growing too quickly when growth in state revenue is particularly strong. As a result of spike protection, \$424 million of

Figure 1
Changes in Proposition 98 Funding by Segment and Source
(In Millions)

	January	May	Change
2013-14 Minimum Guarantee	\$58,673	\$58,914	\$241
By Segment:			
Schools	\$51,675	\$51,898	\$223
Community colleges	6,413	6,431	18
Preschool	507	507	—
Other ^a	78	78	—
By Fund Source:			
General Fund	\$42,824	\$42,996	\$171
Local property taxes	15,849	15,918	70
2014-15 Minimum Guarantee	\$63,153	\$66,303	\$3,150
By Segment:			
Schools	\$55,506	\$58,321	\$2,814
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General Fund	\$47,019	\$49,416	\$2,397
Local property taxes	18,697	18,993	296

^a Includes funding for instructional services provided by the State Special Schools, Department of Corrections and Rehabilitation, and Department of Developmental Services.
Posted May 2015.

the increase in the guarantee in 2014-15 is removed from the calculation of the guarantee moving forward. The only other year spike protection has been operative was 2012-13, when a surge in revenue attributable to Proposition 30 and the economic recovery resulted in the guarantee increasing 23 percent over the prior year.

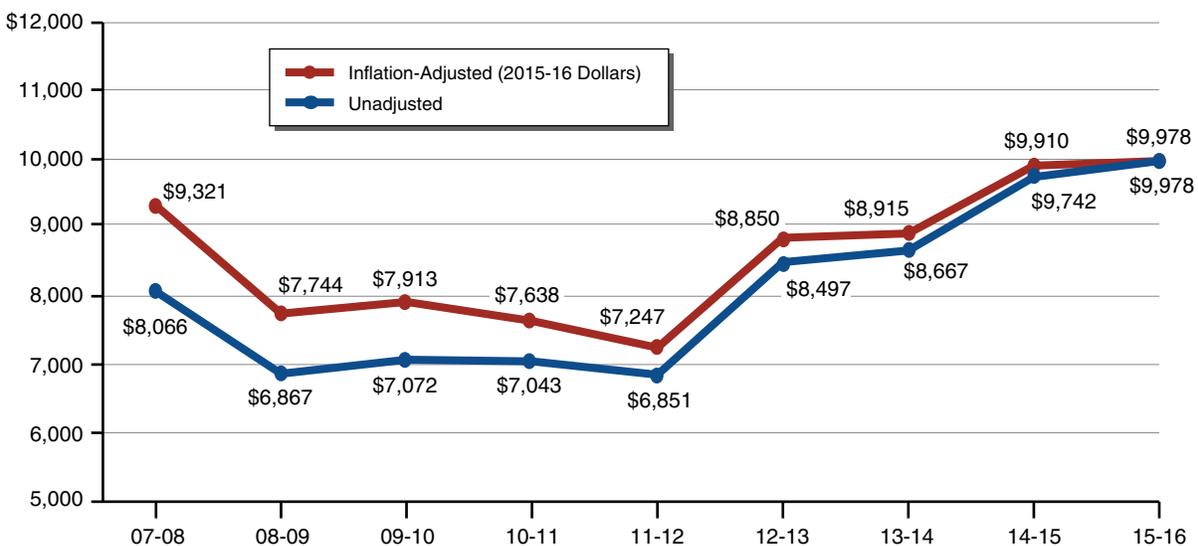
Considerable Maintenance Factor Paid.

The May Revision projects the state will make a \$5.4 billion maintenance factor payment in 2014-15, an increase of \$2.8 billion over the amount assumed in the *2014-15 Budget Act*. This maintenance factor payment is the largest ever made to date and eliminates most of the \$6.2 billion obligation the state carried at the beginning of 2014-15. The administration estimates that the state will make no maintenance factor payment in 2015-16 because General Fund revenue is expected to grow slightly more slowly than per capita personal income. (This comparison is the key driver of maintenance factor payments.) The administration projects that at the end of 2015-16

the state will have \$772 million in maintenance factor outstanding.

Small Changes in Estimates of Local Property Tax Revenue. The administration’s estimates of local property tax revenue counting toward Proposition 98 have increased slightly since January for each of the three fiscal years. Two factors explain the bulk of the revenue changes across the period. One factor is an anticipated decrease in “excess tax revenue.” Excess tax revenue is property tax revenue allocated to school and community college districts in excess of their LCFF and apportionment allotments, respectively. With LCFF and apportionment allotments increasing under the May Revision, somewhat more local property tax revenue is counting toward the Proposition 98 minimum guarantee and less is excess. The other significant factor over the period is related to some additional property tax revenue allocated for special education as a result of particularly strong growth in assessed property values in certain counties.

Figure 2
K-12 Proposition 98 Funding Per Pupil



Note: Excludes funding for state preschool programs, child care, and adult education.
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Effect of LAO's Revenue Estimates on Guarantee

Under LAO's General Fund Revenues, Minimum Guarantee Is \$723 Million Higher in 2015-16. We estimate the minimum guarantee in 2015-16 is \$69.1 billion, compared with the administration's estimate of \$68.4 billion. Our higher estimated guarantee is due almost entirely to our higher General Fund revenue estimates, which exceed the administration's estimates by \$3 billion. Under our higher estimates, the state would be required to pay off all remaining maintenance factor. This final payment, which we estimate at \$800 million, explains the bulk of the difference between the two estimates of the guarantee. (Differences in various other inputs, including K-12 attendance, prior-year revenue, and state population, account for the remaining offsetting difference between the two estimates.)

LAO's Local Property Tax Estimates Slightly Higher Across Three Years. Our estimates of local property tax revenues are a combined \$241 million higher than the administration's estimates across the three fiscal years. The year with the greatest difference is 2014-15 (\$204 million higher). Our slightly higher estimates are driven by higher projections of former redevelopment agency (RDA) property tax revenue distributed to school and community college districts. These higher RDA projections are partially offset by somewhat higher estimates of excess tax revenue and somewhat lower estimates of property tax shifts from other local governments to school and community college districts. In 2013-14 and 2015-16 (both Test 2 years under our forecast), the effect of our higher local property tax estimates is to reduce the Proposition 98 General Fund obligation. The effect in 2014-15 (a Test 1 year) is to increase total Proposition 98 spending. (The Appendix contains two figures comparing our local property tax estimates with the administration's estimates.)

Higher Out-Year Estimates of Guarantee Due Mainly to Higher 2015-16 Base. For 2016-17 and 2017-18, we estimate the minimum guarantee will be about \$500 million above the administration's estimates for each year. This difference primarily relates to our higher projection of the 2015-16 guarantee. As we project Test 3 to be operative in 2016-17 and 2017-18, the guarantee would build upon the prior-year funding level. Under our forecast, the increase in the 2015-16 guarantee has a near dollar-for-dollar effect on the funding level in the subsequent two years. This increase, however, is partially offset by our lower estimates of K-12 student attendance in 2016-17 and 2017-18. Whereas the administration projects student attendance will remain basically flat over the next few years, we estimate K-12 attendance will decline slightly over the two years.

General Fund Share Increases Less Due to Our Higher Local Revenue Estimates. Though our estimates of the minimum guarantee are higher than the administration's estimates, only a portion of this increase translates into additional General Fund spending. This is because our projections of local property tax revenue exceed the administration's projections by around \$300 million (or about 1.5 percent) in both 2016-17 and 2017-18. Similar to our current- and budget-year estimates, these increases largely are driven by higher projections of RDA property tax revenues shifted to school and community college districts. The higher property tax revenues mean that General Fund spending is only up about \$200 million in 2016-17 and 2017-18 relative to the administration's General Fund estimate.

Proposition 98 May Revision Plan Remains Somewhat Risky. The May Revision contains little cushion inside the Proposition 98 minimum guarantee in 2015-16 to insulate ongoing K-14 programs from volatile state revenues. Of the \$68.4 billion in proposed Proposition 98 spending

counting toward the 2015-16 guarantee, the Governor designates only \$600 million—less than 1 percent—for one-time purposes. Though our out-year forecast assumes somewhat steady growth moving forward, the state’s actual fiscal condition tends to be much more erratic. For example, the guarantee experienced a sudden decline of more than 12 percent in 2008-09 following six consecutive years of growth. In 2001-02, the guarantee dropped by more than 12 percent immediately after increasing by 12 percent the prior year.

Recommend Caution in Building Final Proposition 98 Package. If the Legislature were to build its 2015-16 budget based upon our higher revenues, we recommend it wait to provide the additional Proposition 98 funding until later in the fiscal year. By May 2016, the state will have much better data to assess 2015-16 revenues. If the higher revenues ultimately materialize, we recommend the Legislature designate the resulting higher Proposition 98 funding for one-time priorities, including completely eliminating the K-14 mandate backlog and addressing critical facility projects.

Major Spending Proposals

New Funding Split Among Ongoing and One-Time Purposes. Of the \$6.1 billion in new May Revision spending across the three-year period, the Governor designates slightly more than half for one-time purposes and slightly less than half for ongoing purposes. Below, we describe the Governor’s major Proposition 98 May Revision proposals in more detail.

Provides \$2.8 Billion One Time for Paying Down More of K-14 Education Mandates Backlog. Of this amount, \$2.5 billion is for the K-12 mandates backlog and \$275 million is for the CCC mandates backlog. These augmentations would bring total backlog funding up to \$4.3 billion—\$3.6 billion for the K-12 backlog and \$654 million

for the CCC backlog. Consistent with his January proposal, the Governor proposes to distribute the K-12 funds based on average daily attendance and the CCC funds based on FTE students. The Governor suggests that K-12 entities use the funds for professional development, support for beginning teachers, instructional materials, and technology. He encourages community colleges to use the payments to redesign curricula, launch new career technical education programs, and support other one-time costs.

Provides \$2.1 Billion Ongoing to Accelerate Implementation of Local Control Funding Formula (LCFF). The May Revision augmentation brings total new LCFF funding up to \$6.2 billion (on top of an existing base of \$46 billion). The administration estimates the \$6.2 billion will close 53 percent of the gap to the LCFF funding target. Unlike the last two years, the Governor’s May Revision proposes to appropriate this fixed percentage of gap closure rather than a specific dollar amount—meaning the exact cost of implementation might come in somewhat higher or lower than \$6.2 billion. (The state would make this budget adjustment automatically as LCFF inputs are updated.) At the May Revision 2015-16 level, the administration estimates the LCFF target would be 90 percent funded. The Governor’s May proposal reflects a 14 percent increase in LCFF funding from the 2014-15 Budget Act level.

Provides \$638 Million More for Community Colleges. Among the most notable of the new ongoing spending proposals is \$142 million for an unallocated apportionment increase (bringing the total unallocated increase up to \$267 million), \$75 million for hiring additional full-time faculty, and \$50 million for additional enrollment growth (raising funded growth to 3 percent). Among the most notable of the new one-time spending proposals (beyond paying down the CCC mandate backlog) is \$148 million for building maintenance

and instructional equipment and \$62 million for improving basic skills instruction.

Provides Additional \$150 Million for Career Technical Education (CTE) Grants for Secondary Schools. The May Revision augmentation brings total year-one funding up to \$400 million. The May Revision modifies proposed funding for years two and three of the program—providing \$300 million for year two and \$200 million for year three—instead of \$250 million each year. The May Revision maintains the dollar-for-dollar match requirement for year one but increases the match requirement in years two and three—requiring a local match of \$1.50 and \$2, respectively, per state grant dollar. Proposed trailer bill language prohibits grantees from using funds from the Career Pathways Trust as a match source and provides grant priority to applicants in rural areas and regions with high dropout rates.

Provides \$64 Million for Package of Special Education Proposals. The May Revision contains a package of seven special education proposals totaling \$64 million (\$60 million Proposition 98 and \$4 million federal funds). A figure in the Appendix (on page 17) provides a brief description of each proposal. All but one of the proposals is ongoing. (The one-time proposal is \$10 million for instructional improvement grants.) The package is a response to a recently released report by a state-level special education task force. The package aims to improve special education services primarily for young children (birth through age four).

Makes Various Changes to Adult Education Proposal. Though the May Revision provides no additional funding beyond the \$500 million proposed in January for adult education consortia, the administration proposes several significant changes to the program’s design. Among the more notable of the proposed changes are (1) replacing the local allocation boards with a governance structured locally determined by each consortium,

(2) requiring each consortium’s allocation plan to reflect all funding for adult and workforce education in the region, (3) requiring a plan for federal adult education funding to be distributed to consortia, (4) requiring alignment of consortia data with other adult and workforce education data, and (5) requiring consortia plans to show how they are internally coordinating their academic standards, student placement, data, and faculty qualification policies.

Assessment of Major Spending Proposals

Overall Approach Continues to Be Sound. We believe the Governor’s overall Proposition 98 spending package is sound. Particularly given the state’s relatively strong fiscal position, we believe the Governor’s emphasis on retiring a large share of the state’s remaining Proposition 98 wall of debt (by eliminating all remaining K-14 payment deferrals and paying down the K-14 mandates backlog) is prudent, as is the additional funding the Governor designates for community colleges’ maintenance backlog. Regarding new ongoing funds, accelerating implementation of LCFF is consistent with the priority both the Governor and the Legislature have placed on LCFF since its inception in June 2013.

Specific May Revision Proposals a Mixed Bag. Though we are not concerned with the Governor’s overall approach to building the Proposition 98 spending package, we do have several notable concerns with some of his specific proposals. Other proposals raise serious trade-offs for the Legislature to consider. In still other areas, the May Revision represents great strides forward, but more work remains to be done. We discuss these issues and make associated recommendations below.

Considerable “Leakage” in Governor’s Mandate Proposal. The Governor’s proposed distribution of mandates backlog funding is inefficient. We estimate a significant share of the

\$3.6 billion provided under the Governor's plan would go to districts in excess of their mandate claims, leaving a remaining K-12 backlog of about \$850 million. Much of the leakage stems from so much of the existing backlog being related to a single high school mandate (the science Graduation Requirement mandate). Particularly due to the size of this mandate, we estimate 91 percent of the existing K-12 backlog is for unified or high school districts. By comparison, we estimate the Governor's plan would distribute 79 percent of K-12 payments to unified and high school districts. This misalignment of existing claims and funding disbursements generates the high amount of leakage under the Governor's plan.

Recommend Different Mandate Backlog Allocation Method. While we believe the state's basic approach of spreading mandate funds among all districts is reasonable, particularly given serious longstanding concerns with the mandate reimbursement system, we believe a somewhat modified approach is warranted this year. The modified approach would seek to spread mandate funds among all districts while reducing the mandate backlog more than under the Governor's plan. Rather than distributing all K-12 funds based on K-12 attendance, we recommend allocating \$3.3 billion of mandate backlog funds to unified and high school districts. Under this approach, we estimate the state would have a remaining K-12 backlog of about \$450 million at the end of 2015-16.

Locking in LCFF Gap Closure Rather Than Dollar Amount Poses Some Additional State Budget Risk. Though we do not have a significant concern with the Governor's proposed change to implementing LCFF transition funding, it does raise a notable trade-off for the Legislature to consider. While appropriating a fixed gap closure percentage might somewhat reduce the uncertainty school districts have in estimating their LCFF funding, this approach increases

uncertainty in the state's budget, as the estimate of the cost of gap closure likely will be understated or overstated in any particular year. Were the state initially to under- or overestimate the cost of closing the specified gap, the cost of LCFF would come in different than expected. As a result, the state potentially would need to take subsequent action—either reducing or increasing spending in other Proposition 98 areas. Were the LCFF cost to increase and the state take no corrective action, its bottom line would worsen. Given this added element of risk, estimating the cost of any particular percentage of gap closure becomes more important. The administration still is working through some LCFF modeling issues (such as for estimating excess tax revenue and minimum state aid) that could affect the cost of closing the proposed 53 percent of gap.

Recommend Rejecting Even Larger Unallocated Increase to CCC Apportionments. Given the cost pressures facing the community colleges, the Legislature could approve the Governor's January proposal to provide \$125 million in general purpose funds on top of enrollment growth and a cost-of-living adjustment (COLA). We recommend rejecting, however, the May Revision proposal to provide an even larger unallocated increase. We recommend the Legislature redirect the additional \$142 million in May funding to further reduce community colleges' mandate or deferred maintenance backlogs. This alternative approach helps address existing one-time liabilities while providing a greater cushion for ongoing programs against a possible 2016-17 decline in the Proposition 98 guarantee.

Consider Trade-Offs for Full-Time Faculty Funding. The research on the benefits of hiring additional full-time faculty is mixed. On the one hand, colleges note several benefits of employing full-time faculty. These faculty are more likely

to provide leadership for program planning and curriculum development. Students also might have an easier time accessing full-time faculty outside of regular classroom hours. It is widely acknowledged, however, that part-time faculty can provide many benefits too. For example, they can bring unique and practical experience to the classroom. The use of part-time faculty also can allow colleges to respond quickly to changing student and labor-market demands. Notably, though some studies suggest that a higher proportion of full-time faculty is associated with greater student success, others find no association. Despite this mixed policy review, state law sets a target for full-time faculty to provide 75 percent of CCC instruction. The colleges already can use enrollment growth and other unrestricted funds to make progress toward this target. Providing earmarked funds would accelerate this progress.

Modify Certain Other Community College Proposals. We recommend the Legislature adopt a community college enrollment growth target of 2.7 percent (lower than the 3.0 percent growth in the May Revision but higher than the 2.0 percent growth in the January budget). Based on apportionment data, we think this level is sufficient to accommodate expected growth over the coming year and support all remaining unfunded enrollment. Regarding the Governor's main basic skills proposal, we recommend the Legislature scale back the initiative. Though we think the idea of improving basic skills is laudable, the community colleges already are implementing several large student success initiatives, including Student Success and Support Plans, Student Equity Plans, and Institutional Effectiveness Plans. Given these other efforts, we are concerned about implementing another broad-based student success initiative. If the Legislature wanted to spend more in the area of basic skills, we recommend a smaller pilot program. Finally, whereas the May Revision

funds a COLA for only four categorical programs, we recommend providing \$2.6 million to fund a COLA for all categorical programs affected by general cost increases.

Continue to Have Concerns About Creating New CTE Program for Secondary Schools. We believe the May Revision makes some improvements to the design of this proposed program. Most notably, it phases out the program in a graduated way—sending a clear signal that the program is intended to be only temporary as the state transitions to full LCFF funding rates. Nonetheless, we continue to believe that creating a new CTE program for secondary schools runs counter to the principles of LCFF. Given the higher funding rates for high schools under the LCFF as well as the added performance measures, expectations, and reporting, we still believe the system already contains strong incentives for districts to provide high-quality CTE programs and we continue to recommend rejecting the proposal.

Special Education Proposals Too Little, Too Late. While we commend the Governor for responding to some recommendations of the special education task force, we are concerned that several of his proposals represent too little funding to make a difference, contain too few details on how they would be implemented, and leave the Legislature too little time to develop a more concrete implementation plan. As such, we recommend the Legislature hold off on adopting two of his proposals (the one for infants and toddlers and the one for instructional improvement grants) until future years when additional details have been defined. Additionally, we recommend adopting an alternative approach we believe will achieve more widespread and systematic inclusion of students with disabilities in State Preschool programs. Specifically, we recommend the state phase in an expectation that State Preschool programs aim to have children with disabilities

comprise a certain range of their total enrollment—perhaps between 5 percent and 15 percent. This expectation would be roughly the same as an existing Head State requirement. To help facilitate this change, we also recommend the state increase the rate at which it reimburses preschool programs for serving children with disabilities.

Opportune Time to Fund Special Education Equalization. Though not included as a May Revision proposal, the special education task force raised serious concerns with disparities in per-pupil special education funding rates across the state. Rather than spreading dollars thinly across seven new initiatives, we believe the Legislature could use additional Proposition 98 funds more strategically by building upon historical efforts to equalize special education funding rates. These efforts would be a strong complement to the state’s LCFF efforts. Specifically, we recommend the Legislature provide \$150 million toward special education equalization. This would fund about half of the gap towards equalizing rates, similar to the LCFF gap closure proposed in the May Revision.

Big Improvements Made to Adult Education Proposal but A Few Remaining Areas of Concern. We believe many of the May Revision changes to the adult education proposal are significant improvements. The May Revision changes clarify governance structures, strengthen public accountability, better integrate all funding for adult and workforce education, and pave the way for more consistent regional policies moving forward. Despite these significant improvements, we have remaining concerns. Most notably, we are concerned about the May Revision change to lock in funding levels for individual providers (except under very narrow conditions). Such an approach would limit consortia’s ability to respond to changes in regional demand for workforce education. We continue to be concerned that the Legislature is not given advance notice of the

method the Community College Chancellor and Superintendent of Public Instruction will develop to distribute adult education funds. Additionally, we remain concerned about the absence of both consistent statewide policies for adult education and certain program information, including expected service levels and how the state will measure and monitor effectiveness.

Further Improvements Could Be Made to Adult Education Proposal. We recommend the Legislature reject the May Revision proposal to lock in funding levels for consortium members. We also recommend requiring the Chancellor and Superintendent to provide 30-day notice to the Legislature of the allocation method it develops before disbursing funds to consortia. Additionally, we recommend the Legislature revisit the issue of performance measures after receiving consortia’s initial performance reports, allowing the Legislature to build upon the best of reported local measures. Lastly, we recommend setting a deadline for adoption of consistent state adult education assessment, accountability (including the use of a common student identifier), and fee policies. Specifically, the Legislature could require the Chancellor and Superintendent, in collaboration with the California Workforce Investment Board, to develop consistent state policies and actionable implementation plans in these areas by July 1, 2016. Given these policies already were to have been developed by the administering state agencies, the Legislature could make continued funding of six adult education staffing positions—three each in the California Department of Education and Community College Chancellor’s Office—contingent on the agencies meeting the new deadline and submitting the required plans to the Legislature’s satisfaction.

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Tracking Changes in Estimates of Proposition 98 Minimum Guarantee

(Dollars in Millions)

	June 2014	January 2015	May 2015	Increase From January 2015	Increase From June 2014	
					Amount	Percent
2013-14	\$58,302	\$58,673	\$58,914	\$241	\$612	1.0%
2014-15	60,859	63,153	66,303	3,150	5,444	8.9
2015-16	—	65,716	68,409	2,693	7,550 ^a	12.4

^a Reflects increase from 2014-15 minimum guarantee.
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Changes in General Fund Tax Revenue and Proposition 98 General Fund

(Dollars in Millions)

	Governor's Budget	May Revision	Increase	
			Amount	Share to Proposition 98
2013-14				
General Fund tax revenue	\$100,771	\$101,476	\$705	
Proposition 98 General Fund	42,824	42,996	171	24%
2014-15				
General Fund tax revenue	\$108,558	\$112,068	\$3,510	
Proposition 98 General Fund	46,648	49,608	2,960	84%
2015-16				
General Fund tax revenue	\$114,138	\$116,619	\$2,482	
Proposition 98 General Fund	47,019	49,416	2,397	97%
Three-Year Combined Totals				
General Fund tax revenue	\$323,467	\$330,164	\$6,697	
Proposition 98 General Fund	136,492	142,020	5,528	83%

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By Segment and Source**

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^a Includes funding for instructional services provided by the State Special Schools, Department of Corrections and Rehabilitation, and Department of Developmental Services.
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2014-15 Proposition 98 Spending Changes^a

(In Millions)

	January	May	Difference
Technical Adjustments	\$279	\$455	\$176
K-12 Education			
Eliminate K-12 deferrals	\$897	\$897	—
Pay down mandate backlog	829	3,244	\$2,415
Fund career technical education (CTE) grants		150	150
Provide incentive grants to improve instruction		10	10
Fund partial QEIA program for districts with no concentration funding		5	5
Support for evaluation rubric workload ^b		—	—
Subtotals	(\$1,726)	(\$4,306)	(\$2,580)
California Community Colleges (CCC)			
Pay down mandate backlog	\$146	\$407	\$261
Eliminate CCC deferrals	94	94	—
Provide CCC CTE funding	48	48	—
Provide funding for basic skills initiatives		62	62
Fund physical plant and instructional equipment		48	48
Fund CCC Innovation Awards		23	23
Subtotals	(\$288)	(\$683)	(\$394)
Total 2014-15 Changes	\$2,294	\$5,444	\$3,150

^a All proposals shown, except for technical adjustments, reflect one-time spending.

^b Provides \$350,000 for State Board of Education.

QEIA = Quality Education Investment Act.

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2015-16 Proposition 98 Spending Changes

(In Millions)

	January	May	Difference
Technical Adjustments	-\$3,186	-\$6,232	-\$3,045
K-12 Education			
Fund LCFF increase for school districts	\$4,048	\$6,176	\$2,127
Fund career technical education grants (one time)	250	250	—
Fund Internet infrastructure grants (one time)	100	100	—
Provide COLA for select categorical programs ^a	71	46	-25
Increase funding for the Charter School Facility Grant Program	50	50	—
Increase services for infants and toddlers with disabilities		30	30
Provide preschool slots prioritizing children with disabilities		12	12
Increase part-day State Preschool rate by 1 percent		6	6
Expand special education alternative dispute resolution grants ^b		2	2
Provide funding for Tools of Tolerance training program		2	2
Other	2	2	—
Subtotals	(\$4,521)	(\$6,675)	(\$2,154)
California Community Colleges			
Fund adult education consortia	\$500	\$500	—
Pay down mandate backlog (one time)	125	125	—
Provide apportionment increase (above growth and COLA)	125	267	\$142
Fund enrollment growth ^c	107	157	50
Fund implementation of local student equity plans	100	115	15
Augment Student Success and Support Program	100	100	—
Provide COLA for apportionments ^a	92	61	-31
Fund certain CCC noncredit courses at credit rate	49	50	—
Fund new apprenticeships in high-demand occupations	15	15	—
Increase funding for established apprenticeships	14	14	—
Provide physical plant and instructional equipment funding (one time)		100	100
Increase funding for full-time faculty		75	75
Provide funds to restore enrollment earned back by districts		42	42
Fund CCC Innovation Awards (one time)		25	25
Fund dissemination of effective practices		12	12
Augment technical assistance for districts		3	3
Provide COLA for select categorical programs ^a		2	2
Subtotals	(\$1,228)	(\$1,663)	(\$435)
Total 2015-16 Changes	\$2,563	\$2,106	-\$456

^a Rate estimated at 1.58 percent in January, finalized at 1.02 percent in May.

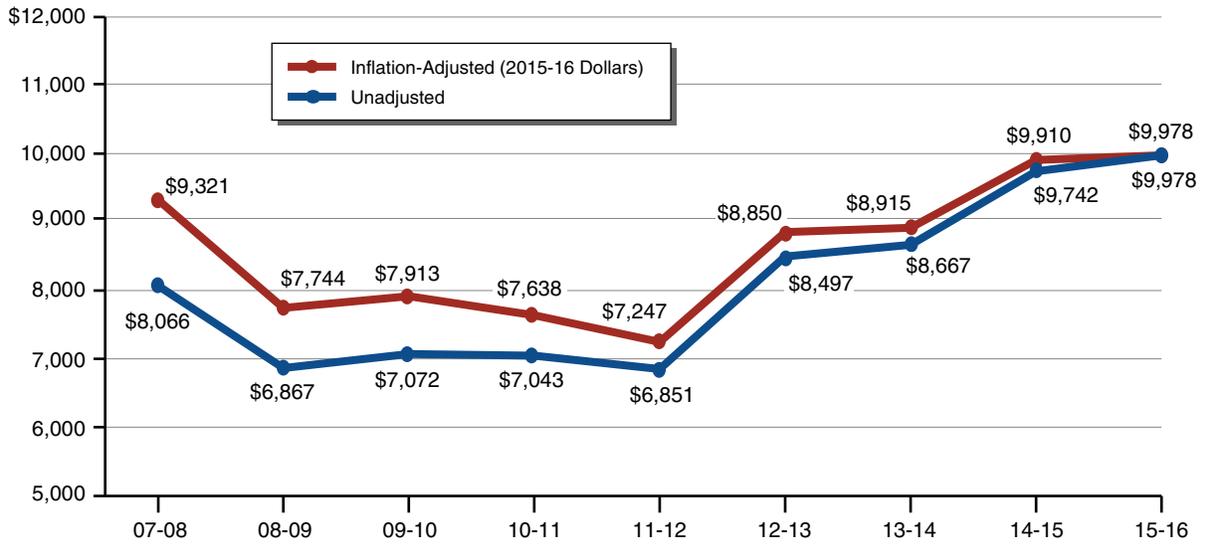
^b Provides backfill for redirection of federal funds.

^c Proposed 2 percent growth in January. Proposed 3 percent growth in May.

LCFF = Local Control Funding Formula and COLA = cost-of-living adjustment.

Posted May 2015.

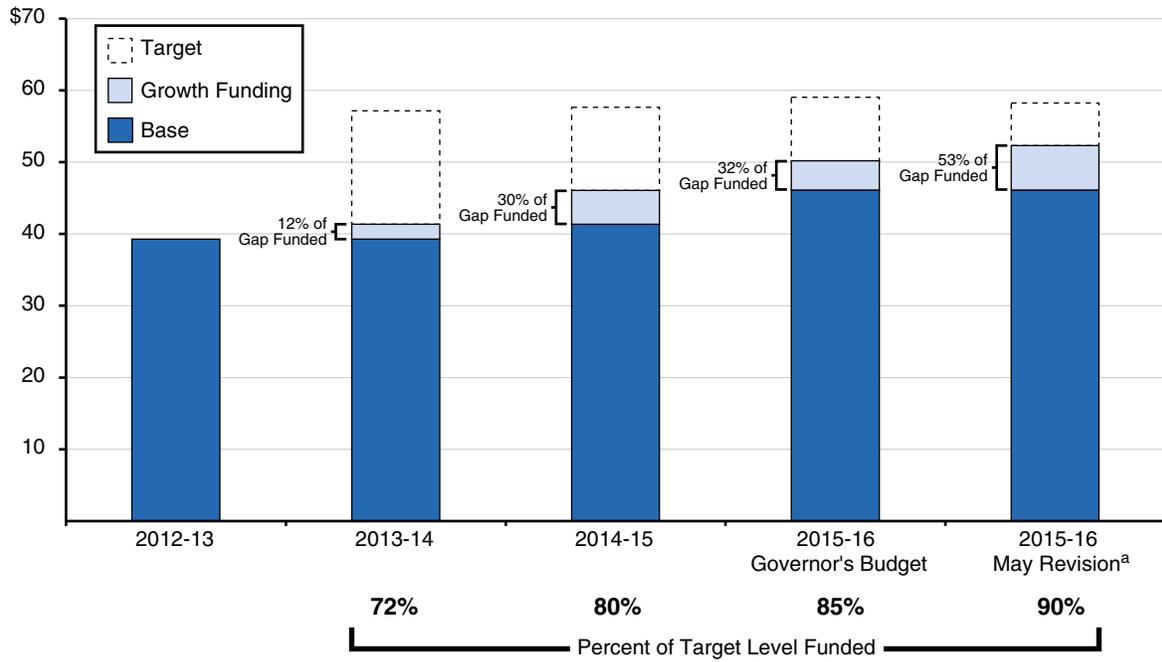
K-12 Proposition 98 Funding Per Pupil



Note: Excludes funding for state preschool programs, child care, and adult education.
 Posted May 2015.

Tracking Funding for Local Control Funding Formula

(In Billions)



^a Cost of target decreases slightly from Governor's Budget to May Revision due to a smaller cost-of-living adjustment (1.02 percent compared to earlier estimate of 1.58 percent).

Posted May 2015.

2015-16 BUDGET

May Revision Special Education Proposals

2015-16 (In Millions)

Proposal	Description	Amount
Proposition 98 Funds		
Infant and toddler services	Increases funding for districts to serve children with disabilities ages birth to three (brings total funding to \$119 million).	\$30.00
Preschool slots	Funds 2,500 additional part-day State Preschool slots, with priority given to students with disabilities.	12.10
Improve instructional practices	Provides funding for incentive grants and technical assistance to improve how districts provide instruction and manage student behaviors.	10.00 ^a
Preschool rate increase, training, and parent information	Specifies State Preschool contractors must provide staff training and parent education on how to identify and meet students' special needs, and increases part-day reimbursement rate by 1 percent to cover associated costs.	6.03
Fund swap	Redirects federal funds from local assistance to state-level activities, then backfills with Proposition 98 funds.	1.96
Subtotal, Proposition 98		(\$60.09)
Federal Funds^b		
Office of Administrative Hearings	Increases funding for state-level hearings regarding special education disputes (brings total funding to \$12.8 million).	\$1.89
Alternative dispute resolution	Increases funding for local grants to help districts and families resolve disputes without a trial (brings total funding to \$1.95 million).	1.65
State-level improvement activities	Funds the California Department of Education to contract with another entity to develop resources and provide technical assistance in implementing new federally required plan to improve services for students with disabilities.	0.50
Subtotal, Federal		(\$4.04)
Total		\$64.13

^a One-time allocation.

^b New state-level activities funded in part by an increase in the state's federal grant and in part by redirecting \$1.96 million from local assistance.
Posted May 2015.

2015-16 BUDGET

Community College Programs Funded by Proposition 98

(In Millions)

	2014-15			2015-16		
	January	May	Change	January	May	Change
Apportionments						
General Fund	\$3,270	\$3,270	—	\$3,287	\$3,430	\$143
Local property taxes	2,321	2,263	-\$58	2,628	2,613	-15
Subtotals	(\$5,591)	(\$5,533)	(\$-58)	(\$5,915)	(\$6,043)	(\$128)
Categorical Programs and Other Appropriations						
Adult Education Block Grant	—	—	—	\$500	\$500	—
Student Success and Support Program	\$199	\$199	—	299	299	—
Student equity plan implementation	70	70	—	170	185	\$15
Mandate backlog payment (one time)	196	457	\$261	125	125	—
Disabled Students Program	114	114	—	114	115	1
Physical plant and instructional support (one time)	148	196	48	—	100	100
Extended Opportunity Programs and Services	89	89	—	89	90	1
Financial aid administration	69	69	—	69	71	1
Lease revenue bond payments	65	65	—	56	56	—
Proposition 39 (grant and loan programs)	39	39	—	40	39	-1
CalWORKs student services	35	35	—	35	35	—
Mandate block grant ^a	32	32	—	33	32	-1
Apprenticeship (community colleges)	7	7	—	31	31	—
Innovation awards (one time)	—	23	23	—	25	25
Part-time faculty compensation	25	25	—	25	25	—
Economic and Workforce Development	73	73	—	23	23	—
Apprenticeship (school districts)	16	16	—	20	20	—
Student Success for Basic Skills Students	20	20	—	20	20	—
Telecommunications and technology services	22	22	—	22	20	-2
Nursing grants	13	13	—	13	13	—
Online/technology initiative	10	10	—	10	10	—
Institutional effectiveness initiative	3	3	—	3	18	15 ^b
Foster Parent Education Program	5	5	—	5	5	—
Fund for Student Success	4	4	—	4	4	—
Part-time faculty office hours	4	4	—	4	4	—
Campus child care support	3	3	—	3	3	—
Other ^c	3	3	—	3	3	—
Basic skills transformation grants (one time)	—	60	60	—	—	—
Career Tech Education Pathways Initiative (one time) ^d	48	48	—	—	—	—
Basic skills partnership pilot (one time)	—	2	2	—	—	—
Subtotals	(\$1,311)	(\$1,705)	(\$394)	(\$1,715)	(\$1,871)	(\$155)
Totals	\$6,902	\$7,238	\$336	\$7,630	\$7,914	\$283

^a Includes \$17,000 each year for mandate reimbursements.

^b May increase includes \$12 million to disseminate effective practices and \$3 million for technical assistance to districts.

^c Includes part-time faculty health insurance, Academic Senate, Equal Employment Opportunity, transfer education and articulation, and district financial crisis oversight.

^d 2014-15 amount is for 2015-16 program costs. State also provided \$48 million non-Proposition 98 General Fund in 2014-15 for expenditure in 2014-15.

Posted May 2015.

2015-16 BUDGET

Funding for Education Mandates Backlog			
<i>(In Millions)</i>			
	Governor's Budget	May Revision	Totals
K-12 Education			
2009-10	\$65	\$17	\$82
2013-14	221	98	319
2014-15	829	2,415	3,244
Subtotals	(\$1,115)	(\$2,530)	(\$3,645)
California Community Colleges			
2009-10	\$28	—	\$28
2013-14	80	14	94
2014-15	146	261	407
2015-16	125	—	125
Subtotals	(\$379)	(\$275)	(\$654)
Totals	\$1,494	\$2,805	\$4,299

Posted May 2015.

Comparison of Governor's and LAO's Mandates Backlog Allocations^a					
<i>(In Millions)</i>					
Type of District	Estimated Claims (End of 2014-15)	Governor's Plan		LAO Alternative^b	
		Estimated Backlog Payment	Estimated Remaining Backlog	Estimated Backlog Payment	Estimated Remaining Backlog
Unified	\$2,636	\$2,523	\$315	\$2,515	\$322
High School	830	339	518	768	124
Elementary	293	724	—	303	14
COE	56	54	2	53	3
Totals	\$3,814	\$3,639^c	\$835	\$3,639^c	\$462

^a For both the Governor's plan and the LAO alternative, we assume (1) the state prevails in litigation affecting the backlog total, (2) the backlog payments are allocated on a per-student basis, and (3) a portion of payments do not reduce the backlog because not all educational agencies receiving payments have unpaid mandate claims.

^b The LAO alternative allocates the \$3.6 billion based on our estimate of existing mandate claims by type of local educational agency. Because this allocation is better linked to existing claims, the backlog is reduced more than under the Governor's proposal.

^c Total estimated payments are slightly less than the amount in the Governor's proposal because certain types of educational agencies (such as state-authorized charter schools), which account for less than 1 percent of statewide enrollment, are excluded from the figure.
COE = county office of education.
Posted May 2015.

2015-16 BUDGET

Key Proposition 98 Information Underlying May Revision

(Dollars in Millions)

	2013-14	2014-15	2015-16	2016-17	2017-18
Minimum Guarantee					
General Fund	\$42,996	\$49,608	\$49,416	\$50,570	\$51,698
Local property tax	15,918	16,695	18,993	20,336	21,549
Total Guarantee	\$58,914	\$66,303	\$68,409	\$70,906	\$73,247
Inputs					
General Fund taxes ^a	\$101,476	\$112,068	\$116,619	\$121,956	\$125,837
K-12 average daily attendance	5,993,001	5,994,522	5,995,889	5,988,310	5,990,468
State civilian population	38,193,963	38,552,049	38,883,323	39,246,142	39,599,575
Growth Factors					
Per capita personal income	5.1%	-0.2%	3.8%	3.7%	4.6%
Per capita General Fund ^b	5.5	9.9	3.7	4.1	2.8
K-12 average daily attendance	0.5	—	—	-0.1	—
State civilian population	0.9	0.9	0.9	0.9	0.9
Assessed property values	4.7	6.2	5.5	5.3	5.6
K-14 cost-of-living adjustment	1.6	0.9	1.0	1.6	2.5
Outcomes					
Proposition 98 operative "test"	2	1	3	2	3
Spike protection effect	—	-\$424 ^c	—	—	—
Test 3 supplemental payment	—	—	\$99	—	\$355
Maintenance factor:					
Amount created/paid (+/-)	—	-5,402	—	—	915
Amount outstanding	\$6,157	743	772	\$800	1,752
PSSSA Deposit?	—	—	No	No	No
^a Reflects General Fund revenues that affect the calculation of the minimum guarantee. ^b Reflects per capita General Fund plus 0.5 percent (one of the Test 3 factors). ^c Due to a revenue spike in 2014-15, a portion of the increase in the 2014-15 minimum guarantee is backed out from the calculation of the minimum guarantee moving forward. PSSSA = Public School System Stabilization Account. Posted May 2015.					

2015-16 BUDGET

Key Proposition 98 Information Underlying LAO Forecast

(Dollars in Millions)

	2013-14	2014-15	2015-16	2016-17	2017-18
Minimum Guarantee					
General Fund	\$43,003	\$49,576	\$50,100	\$50,733	\$51,929
Local property tax	15,917	16,899	19,032	20,665	21,842
Total Guarantee	\$58,919	\$66,475	\$69,132	\$71,398	\$73,771
Inputs					
General Fund taxes ^a	\$101,602	\$112,109	\$119,655	\$123,907	\$127,989
K-12 average daily attendance	5,993,001	5,979,715	5,971,941	5,952,831	5,935,568
State civilian population	38,193,963	38,552,049	38,880,221	39,170,045	39,440,106
Growth Factors					
Per capita personal income	5.1%	-0.2%	3.8%	3.6%	4.9%
Per capita General Fund ^b	5.6	9.8	6.3	3.3	3.1
K-12 average daily attendance	0.5	-0.2	-0.1	-0.3	-0.3
State civilian population	0.9	0.9	0.9	0.8	0.7
Assessed property values	4.7	5.8	5.5	6.0	5.6
K-14 cost-of-living adjustment	1.6	0.9	1.0	2.1	2.4
Outcomes					
Proposition 98 operative "test"	2	1	2	3	3
Spike protection effect	—	-\$656 ^c	—	—	—
Test 3 supplemental payment	—	—	—	\$220	\$380
Maintenance factor:					
Amount created/paid (+/-)	-\$5	-5,353	-\$800	—	923
Amount outstanding	6,152	771	—	—	923
PSSSA Deposit?	—	—	No	No	No
^a Reflects General Fund revenues that affect the calculation of the minimum guarantee. ^b Reflects per capita General Fund plus 0.5 percent (one of the Test 3 factors). ^c Due to a revenue spike in 2014-15, a portion of the increase in the 2014-15 minimum guarantee is backed out from the calculation of the minimum guarantee moving forward. PSSSA = Public School System Stabilization Account. Posted May 2015.					

2015-16 BUDGET

Comparing Administration's and LAO's Estimates of the Minimum Guarantee

(In Millions)

	2013-14	2014-15	2015-16	2016-17	2017-18
May Revision					
General Fund	\$42,996	\$49,608	\$49,416	\$50,570	\$51,698
Local property tax revenue	15,918	16,695	18,993	20,336	21,549
Total Guarantee	\$58,914	\$66,303	\$68,409	\$70,906	\$73,247
LAO Forecast					
General Fund	\$43,003	\$49,576	\$50,100	\$50,733	\$51,929
Local property tax revenue	15,917	16,899	19,032	20,665	21,842
Total Guarantee	\$58,919	\$66,475	\$69,132	\$71,398	\$73,771
Change From May Revision to LAO Forecast					
General Fund	\$7	-\$32	\$684	\$162	\$231
Local property tax revenue	-2	204	40	329	293
Total Guarantee	\$5	\$172	\$723	\$492	\$524

Posted May 2015.

2015-16 BUDGET

Comparing Proposition 98 Property Tax Revenue Estimates

(In Millions)

Governor's Budget to May Revision

	2014-15			2015-16		
	Governor's Budget	May Revision	Difference	Governor's Budget	May Revision	Difference
Total local property tax revenue	\$16,505	\$16,695	\$190	\$18,697	\$18,993	\$296
Base property tax revenue	17,158	17,093	-66	18,078	18,041	-37
Ongoing RDA revenue shift	824	872	48	977	973	-4
ERAF	-678	-572	106	441	529	88
Sale of RDA assets	53	72	19	57	113	57
Excess tax revenue	-852	-770	82	-857	-663	194

May Revision to LAO May Outlook

	2014-15			2015-16		
	May Revision	LAO May	Difference	May Revision	LAO May	Difference
Total local property tax revenue	\$16,695	\$16,899	\$204	\$18,993	\$19,032	\$40
Base property tax revenue	17,093	17,063	-29	18,041	18,012	-29
Ongoing RDA revenue shift	872	1,066	194	973	1,187	214
ERAF	-572	-532	40	529	466	-63
Sale of RDA assets	72	72	—	113	107	-6
Excess tax revenue	-770	-771	-1	-663	-740	-77

RDA = redevelopment agency and ERAF = Educational Revenue Augmentation Fund.
Posted May 2015.

2015-16 BUDGET

Year-Over-Year Growth in Proposition 98 Property Tax Revenues

(Dollars in Millions)

	2014-15	2015-16	Change	Percent
May Revision				
Total Local Property Tax Revenue	\$16,695	\$18,993	\$2,298	13.8%
Base property tax revenue	17,093	18,041	948	5.5
Ongoing RDA revenue shift	872	973	101	11.6
ERAF	-572	529	1,101	192.5
Sale of RDA assets	72	113	41	56.9
Excess tax revenue	-770	-663	107	13.9

LAO May Outlook

Total Local Property Tax Revenue	\$16,899	\$19,032	\$2,133	12.6%
Base property tax revenue	17,063	18,012	949	5.6
Ongoing RDA revenue shift	1,066	1,187	121	11.3
ERAF	-532	466	998	187.6
Sale of RDA assets	72	107	35	48.6
Excess tax revenue	-771	-740	31	4.0

RDA = redevelopment agency and ERAF = Educational Revenue Augmentation Fund.
Posted May 2015.

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