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Overview of Proposition 98 Budget Proposals

LEGISLATIVE ANALYST'S OFFICE

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Senate Budget Subcommittee No. 1 on Education Finance
Hon. Anthony Portantino, Chair





Decreases in 2015-16 and 2016-17 Minimum Guarantees

(In Millions)

	2015-16			2016-17		
	June 2016 Estimate	January 2017 Estimate	Change	June 2016 Estimate	January 2017 Estimate	Change
Minimum Guarantee						
General Fund	\$49,722	\$48,989	-\$733	\$51,050	\$50,330	-\$720
Local property tax	19,328	19,681	353	20,824	21,038	215
Totals	\$69,050	\$68,671	-\$379	\$71,874	\$71,368	-\$506

- ☑ **2015-16 Minimum Guarantee Down \$379 Million**
- ☑ **2016-17 Minimum Guarantee Down \$506 Million**
- ☑ **Lower Minimum Guarantees Primarily Due to Lower State Revenue Estimates**
 - Growth in per capita General Fund revenue is a key factor in the Proposition 98 calculations.
 - Compared with June estimates, General Fund revenue is down \$3.1 billion across the two years.



Spending Changes in 2015-16 and 2016-17

- Governor Proposes to Lower Proposition 98 Spending to Match Revised Estimates of the Minimum Guarantees**
- Changes Accounting of Some One-time Spending**
 - Governor's budget identifies \$324 million in one-time payments that can be counted toward 2016-17 instead of 2015-16.
 - Reduces 2015-16 spending and increases 2016-17 spending.
- Defers LCFF Payment**
 - Delays \$859 million in school funding from June 2017 to July 2017.
 - Reduces 2016-17 spending and increases 2017-18 spending.
- Implications if State Does Not Adopt Governor's Proposals**
 - State would be providing more than the minimum guarantee.
 - Higher school funding level would carry forward into 2017-18 and future years.
 - Less funding would be available for non-Proposition 98 programs.



2017-18 Proposition 98 Minimum Guarantee

(Dollars in Millions)

	2015-16 Revised	2016-17 Revised	2017-18 Proposed	Change From 2016-17	
				Amount	Percent
Proposition 98 Funding	\$68,671	\$71,368	\$73,511	\$2,143	3.0%
By Segment:					
K-12 education	\$59,770	\$62,064	\$64,012	\$1,947	3.1%
California Community Colleges	7,933	8,246	8,424	179	2.2
Preschool	885	975	995	20	2.0
Other agencies	82	83	80	-3	-3.3
By Source:					
General Fund	\$48,989	\$50,330	\$51,351	\$1,021	2.0%
Local property tax	19,681	21,038	22,160	1,121	5.3

Minimum Guarantee Up \$2.1 Billion Over Revised 2016-17 Level

- Due primarily to modest growth in General Fund revenue.

Local Property Tax Revenue Increases \$1.1 Billion

- Due primarily to growth in assessed property values.
- Covers about half of the increase in the minimum guarantee.



Key Components of 2017-18 Proposition 98 Package

- Provides \$859 Million to Eliminate Prior-Year Payment Deferral**

- Provides \$744 Million for Implementation of Local Control Funding Formula (LCFF)**
 - Average district would receive a 1.5 percent funding increase.
 - LCFF would be 96 percent funded.

- Provides Two Main Augmentations for Community Colleges**
 - \$197 million (ongoing) for increases in apportionments. Consists of \$94 million for a 1.48 percent cost-of-living adjustment, \$79 million for a 1.34 percent enrollment increase, and an additional \$24 million unallocated increase.
 - \$150 million (one time) for colleges to develop guided pathways—comprehensive programs to improve student outcomes.



2017-18 Proposition 98 Spending Proposals

(In Millions)

K-12 Education	
Retire June-to-July LCFF deferral (one time)	\$859
Increase LCFF funding	744
Provide 1.48 percent COLA for select categorical programs	58
Add mandated reporter training to Mandates Block Grant	8
Make other adjustments	277
Subtotal	<u>(\$1,947)</u>
California Community Colleges	
Fund guided pathways initiative (one time)	\$150
Provide 1.48 percent COLA for apportionments	94
Fund 1.34 percent enrollment growth	79
Provide unallocated increase	24
Fund Innovation Awards (one time)	20
Augment Online Education Initiative	10
Develop integrated library system (one time)	6
Provide 1.48 percent COLA for select categorical programs	4
Make other adjustments	-209
Subtotal	<u>(\$179)</u>
Preschool	\$20
Other Agencies	<u>-\$3</u>
Total Changes	<u>\$2,143</u>

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



Other One-Time Proposition 98 Funding

- Governor Proposes to Make \$400 Million Settle-Up Payment**
 - State currently owes \$1 billion related to meeting the minimum guarantee in prior years (primarily 2009-10).
 - Similar to the past few years, the proposed settle-up payment would be counted as a Proposition 2 debt payment.

- Governor's Budget Also Identifies \$201 Million in Unspent Proposition 98 Funds From Prior Years**

- Governor Proposes to Use One-Time Funds for Several Activities**
 - Paying down the K-12 mandates backlog (\$287 million).
 - Funding the final year of the Career Technical Education Incentive Grant Program (\$200 million).
 - Covering some ongoing special education and technology costs (\$70 million).
 - Addressing deferred maintenance at community colleges (\$44 million).

- The 2015-16 Minimum Guarantee Is Unlikely to Change Much in the Coming Months**
- The Governor's Estimate of the 2016-17 Minimum Guarantee Is Reasonable Given State Revenue Collections to Date**
 - If revenue estimates change, the minimum guarantee would rise or fall about 50 cents for each dollar of higher or lower revenue.
- The 2017-18 Minimum Guarantee Is Likely to Be Higher by May**
 - The administration's estimate of state revenue in 2017-18 seems too low given its other economic assumptions.
 - A revenue increase of \$2 billion would increase the guarantee by about \$500 million.
 - A revenue increase of \$4 billion would increase the guarantee by about \$1.5 billion.
- Exhaust Other Options Before Deferring LCFF Payment**
 - State likely could identify some additional one-time savings in the coming months that would reduce the size of a deferral.
- Rely Upon a Mix of Ongoing and One-Time Spending**
 - Governor's proposed 2017-18 spending plan roughly balances new one-time and ongoing Proposition 98 spending.
 - Devoting some funding to one-time purposes allows the state to address future revenue declines more easily—making cuts to ongoing education programs less likely.