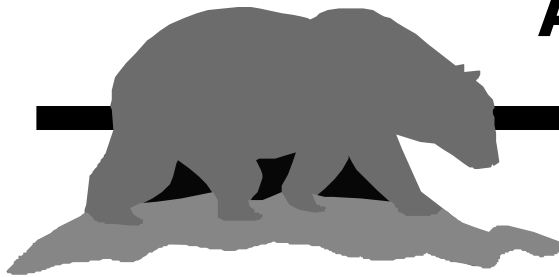


The Basics of Proposition 98

A Tutorial for State Policymakers



Legislative Analyst's Office



Overview of Presentation

- **Background and General Information**
- **Mechanics**
- **Budget Decisions and Proposition 98**

Why Should Policymakers Care About Understanding Proposition 98 Basics?

- **Largest area of state budget, key factor in budget decisions**
- **Major area of interest for California public**
- **Interacts with revenue proposals**
- **Frequently referenced topic in the Capitol**

Part 1—Background Questions

- **When?**
- **What?**
- **Why?**
- **Where?**
- **How Much?**

When Was Proposition 98 Enacted?

- **Voter-enacted amendment to the State Constitution in 1988.**
- **Amended by Proposition 111 in 1990.**

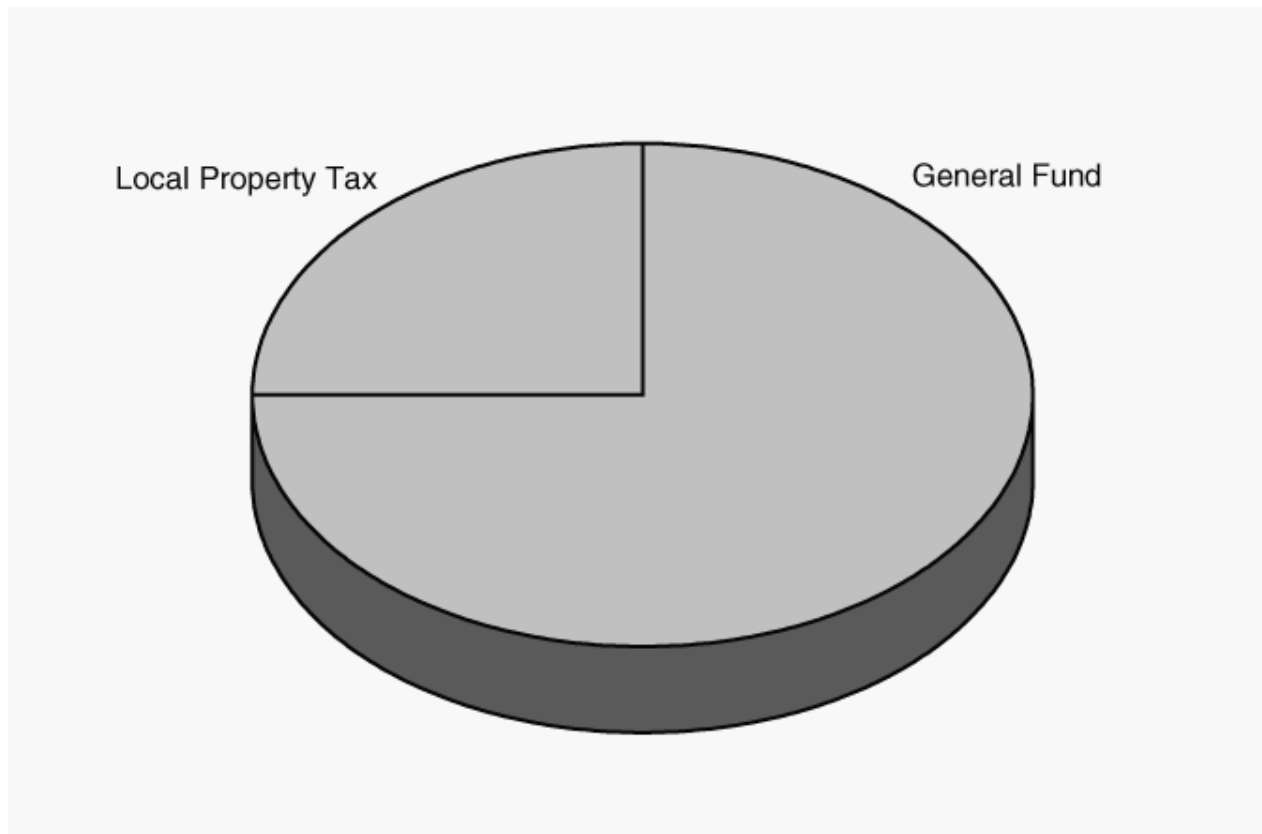
What is Proposition 98?

- **Set of formulas establishing a minimum annual funding level for K-12 schools and community colleges.**

Why Proposition 98?

- **Ensure that education funding:**
 - **Receives special status during annual budget decisions.**
 - **Receives minimum level of state funding each year.**
 - **Keeps pace with growth in the economy.**

What Sources Fund Proposition 98?

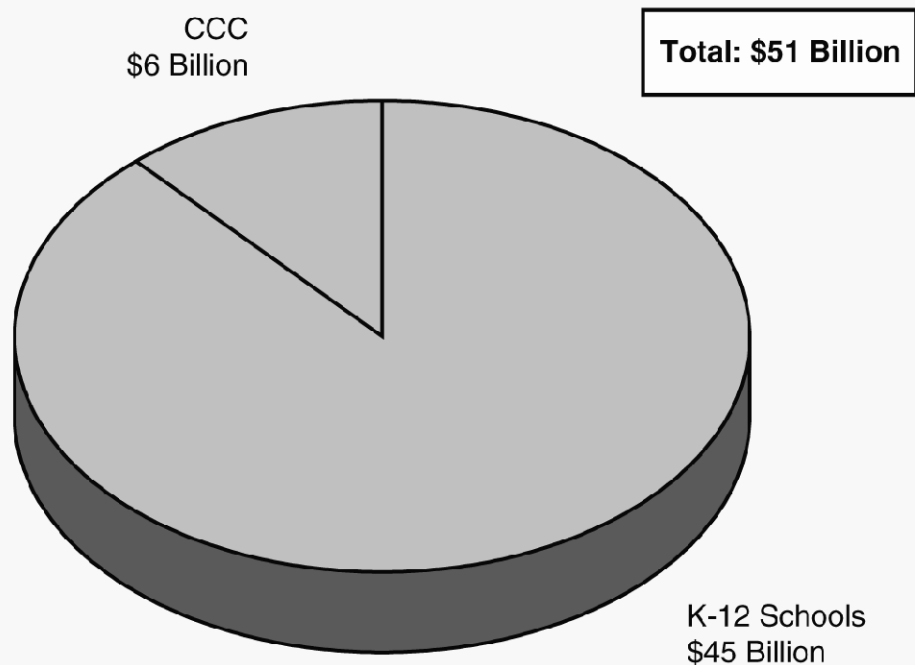


Where Do Proposition 98 Funds Go?

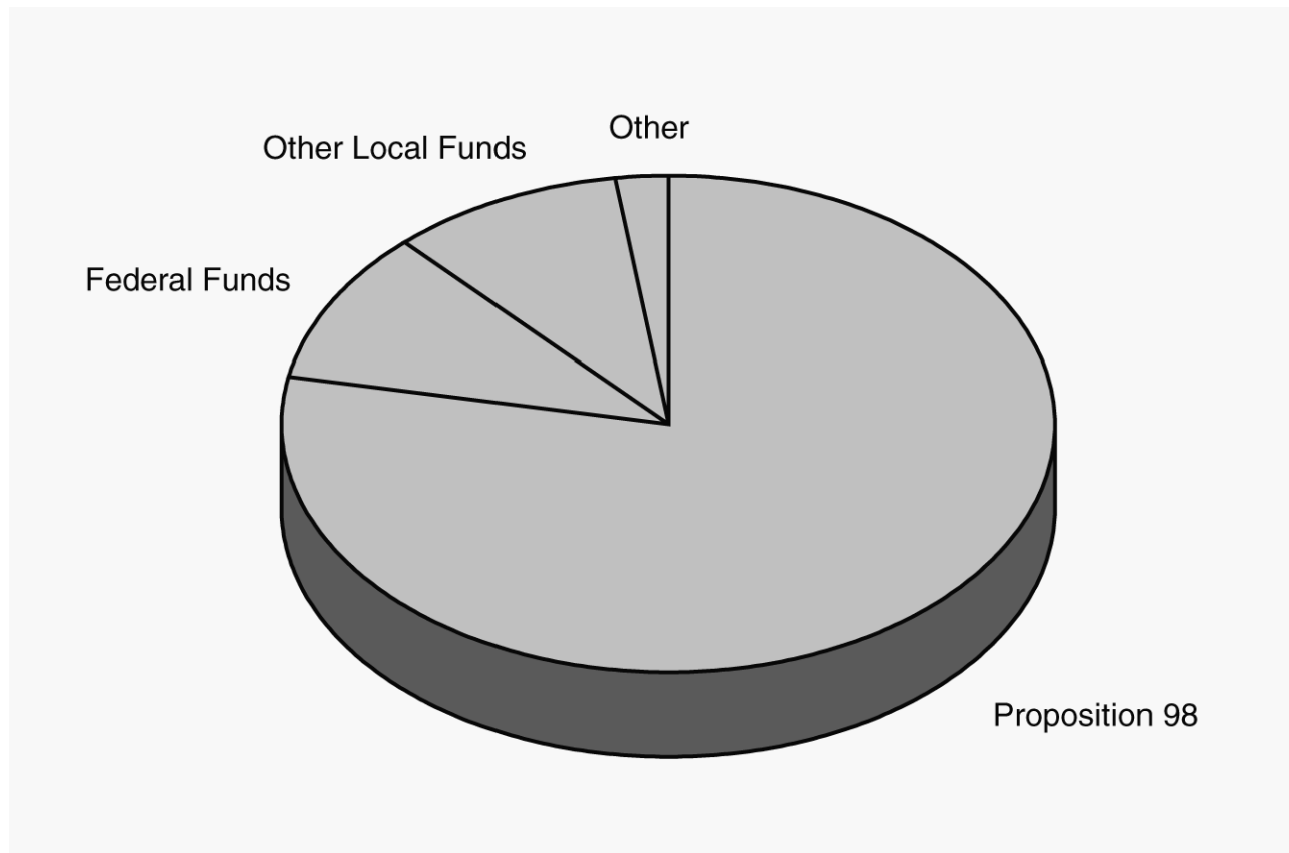
- K-12 schools
- California Community Colleges (CCC)
- “Other” educational agencies
- Some preschool and child care services
- Not UC or CSU

How Much Funding Does Proposition 98 Provide?

2008-09 Budget Act, as Amended by Chapter 12, Statutes of 2009 (SB4xxx, Ducheny)



Proposition 98 Is Primary Source Of Funding for K-14 Education



What Does Proposition 98 Fund?

- **Formula relates to how much funding, not specific uses for funding.**
- **Legislature determines how Proposition 98 funds are used each year.**
- **Provides both general and targeted support for K-12 and CCC programs.**
- **In most years, funds growth and cost-of-living adjustments.**

Part II— Proposition 98 Mechanics

- **Basic Overview of the Formulas**
- **Terminology**

Minimum Guarantee

- **Proposition 98 funding requirement calculated each year.**

Minimum Guarantee

- **Calculation done using one of three formulas.**

Tests

Proposition 98 Formulas

The state must provide the greater of:

- A specified share of General Fund spending.
 - Roughly 40 percent of General Fund.

Test 1

OR

- A funding level based on growth in California's economy.
 - Measured by per capita personal income.

Test 2



Proposition 98 Formulas—The Relief Valve

- **If General Fund is growing more slowly than economy, state has a “relief valve.”**
 - **Adjusts funding by growth in per capita General Fund revenues instead.**

Test 3

- **Cannot provide less than Test 1 requirement.**
- **Historically, Test 2 has been more common than Test 3.**

Proposition 98 Formulas Apply Automatically

- **Which formula applies depends on how K-12 enrollment, the economy, local property taxes and General Fund revenues grow from year to year.**
 - **Not a legislative decision.**
 - **Can change over course of fiscal year.**
- **Legislature can override formulas and provide any level of funding for K-14 education.**
 - **Providing less known as:**
Suspension

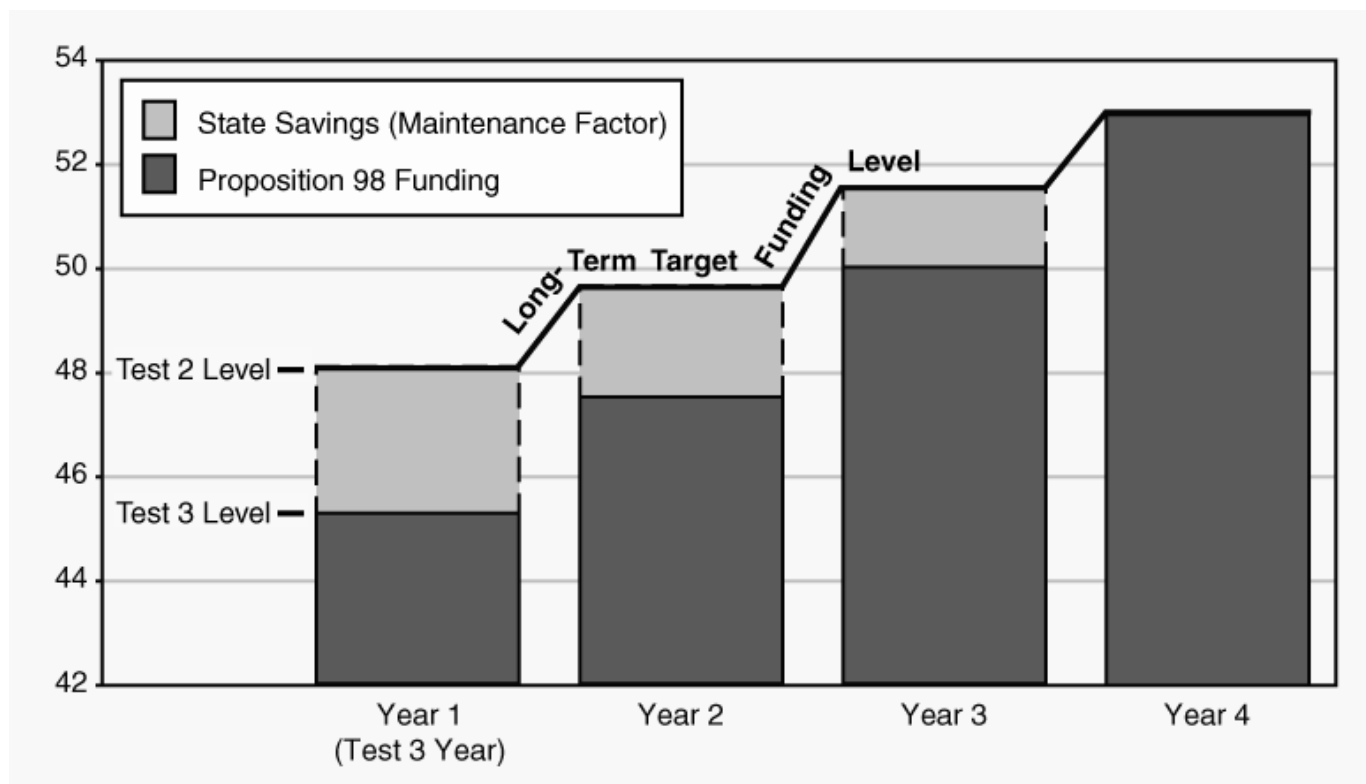
Catching Up to Long-Term Funding Target

- When K-14 funding is determined by the Test 3 formula, state creates long-term funding target.

Maintenance Factor

- In future years, state “catches-up” to target level through faster annual growth in funding.
- Similar process when Legislature suspends Proposition 98 requirement.

Catching Up to Long-Term Target



Results of Formulas Not Always Intuitive

- **Formulas look at year-to-year change in revenues, not state's overall fiscal condition.**
- **Can result in funding requirements that may not track with state's level of available resources.**

Part III—Major Proposition 98- Related Budget Decisions

- **Whether to fund at the minimum guarantee or another level**
- **Whether to make downward adjustments to current-year spending**
- **Whether to make revenue changes**
- **How to spend Proposition 98 funds**

Proposition 98 Requirement Often is Moving Target

- **Budget Act Proposition 98 appropriation based on revenue forecast for coming year.**
- **As actual revenues come in higher or lower, Proposition 98 requirement can go up or down.**

Reconciling Proposition 98 Spending For Updated Revenues

- If higher revenues lead to higher Proposition 98 requirement, state must “settle up” and provide additional funding.
- If lower revenues lead to lower Proposition 98 requirement, state faces a choice of whether to reduce funding.

(1) Legislature Can Override Proposition 98 Requirement

- **Legislature can always choose to provide more or less than minimum guarantee.**
 - **Overappropriation can have out-year effects.**
 - **Suspension takes a two-thirds vote.**

(2) If Revenues Drop, Legislature Can:

- **Reduce funding to newly lowered minimum requirement.**
 - **Mid-year cuts can be difficult for schools.**
- **Leave funding at Budget Act level.**
 - **Can make Proposition 98 funding requirement higher in subsequent years.**

(3) Tax Revenue Changes Affect Proposition 98 Requirement

- **Changing tax policy can increase or decrease General Fund revenues and, correspondingly, the Proposition 98 requirement.**
- **Exact interaction depends on several factors.**
 - **General guideline in recent years: about half of each dollar increase or decrease affects guarantee.**

(4) Legislature Chooses How to Spend Funds

- **Legislature decides how to allocate Proposition 98 funds.**
- **Split between K-12 and community colleges.**
 - **Usually about 89 percent K-12, 11 percent CCC.**
- **Always some one-time funds available.**

Congratulations!

- **Want to know more?**
 - **www.lao.ca.gov**
 - **LAO Education Staff: (916) 445-4656**

