December 10, 1999

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Diane Calkins
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative cited as the "Reinvesting in California Schools Act" (File No. SA 1999 RF 0056).

BACKGROUND

Under the provisions commonly known as Proposition 98, the State Constitution requires appropriation of a minimum annual amount for public K-12 schools and community colleges (K-14 education) from the General Fund and local property tax revenues. Generally, this annual amount is based on the prior-year appropriations adjusted for (1) growth in the number of students attending public schools and (2) growth in either California per-capita income or per-capita General Fund revenue. The K-12 Proposition 98 funding—totaling $33.6 billion in 1999-00—comprises approximately 80 percent of funding to school districts with the remainder consisting of other state, local, and federal funds. State support for the California Community Colleges (CCC) includes almost $4 billion annually under Proposition 98, comprising almost 75 percent of the segment's funding. The remainder of CCC funding comes from other state and local sources, federal funds, and student fee revenues.

The state supports the University of California (UC) and the California State University (CSU) through annual General Fund appropriations totaling $2.7 billion and $2.3 billion, respectively, in 1999-00. These systems also receive funding from student fees, federal, and other state sources.

PROPOSAL

This measure amends, and adds to, the State Constitution to:

- Establish new funding guarantees for California education spending.
- Require the Legislature to impose additional taxes in order to provide funds to school districts and institutions of higher education for purposes of the measure.

New Funding Guarantees

This measure establishes a new funding guarantee for public K-12 education that would supplement the guarantee under Proposition 98. The measure's guarantee requires that each fiscal year, in addition to funding appropriated under Proposition 98, the state apportion to school districts an amount based on the difference between average per-pupil expenditures for California and the nation as of 1999-00.

In addition, the measure directs that a specified amount of additional annual funding be directed to UC, CSU, and CCC.

Calculating the Guarantees

Guarantee for K-12 Education. The measure directs the Superintendent of Public Instruction to estimate the difference between per-pupil expenditures for California and the United States as of 1999-00. This number would then serve as the basis for the subsequent K-12 funding guarantee calculations required by the measure. According to the measure, the estimate would be based on total "current" expenditures for "elementary and secondary public schools" for 1999-00 divided by total enrollments. The estimate would exclude expenditures of federal funds, and expenditures for the acquisition or lease of land and the construction or renovation of school facilities.

Beginning in 2001-02, the estimated "gap" in per-pupil spending would be adjusted each fiscal year by the annual percent change in California per-capita personal income occurring after enactment of the measure. This adjusted amount would be multiplied by California public school enrollment in the given year to provide the measure's supplemental funding guarantee for K-12 schools. However, the amount of supplemental funding would be phased in over a five-year period starting in 2001-02. In that first year, the guarantee would equal at least 20 percent of the "adjusted base" amount. In each of the next four years, this minimum share of the adjusted base amount grows by 20 percentage-point increments until the guarantee level takes full effect in 2005-06.

Guarantee for Higher Education. For each higher education segment, the measure guarantees an additional $40 million in 2001-02, adjusted for full-time equivalent enrollment growth and change in California per-capita personal income since passage of the measure. The "base" amount guaranteed to each segment increases to $80 million in 2002-03, to $120 million in 2003-04, to $160 million in 2004-05, and fully phases in at $200 million in 2005-06. In each year, each segment's guarantee is further adjusted for enrollment growth and change in California per-capita personal income.

Tax Increases

The measure directs the Legislature to impose new taxes or increase existing taxes to generate revenues sufficient to fund the required spending increases. These additional taxes would be phased in over a five-year period corresponding to the phase-in schedule for spending increases. The measure, however, prohibits increasing ad valorem property tax rates as a means of generating the necessary revenues.

The tax revenues generated pursuant to this measure would be deposited into the newly created "Reinvesting in California Schools Fund." The measure continuously appropriates these monies to K-12 school districts and the higher education segments for the purposes specified in the measure. These appropriations would be excluded from the computation of allocations to school districts and CCC for purposes of Proposition 98. These appropriations also would not count toward the appropriation limits imposed on the state and local government by existing provisions of the State Constitution.

Uses of the Additional Funds

Funding for K-12 Education. The funds appropriated to school districts by the measure are restricted to the following purposes and could be used only to supplement existing levels of service:

- K-12 class size reduction.
- State curriculum standards implementation and assessment.

- Acquisition of textbooks, computers, and instructional equipment and supplies.
- Facility maintenance and safety.
- Teacher salaries and benefits.
- Staff training.
- Parental involvement programs.
- Administrative costs related to curriculum standards assessment and fiscal reporting on the use of funds provided under the measure.

For purposes of receiving funds under the measure, "school districts" are defined to include county offices of education, charter schools, and direct instructional costs of state-run schools.

Funding for Higher Education. The measure allows CSU, CCC, and UC to use the funds for operating expenses and faculty salaries.

Shortfalls and Suspensions

If in any fiscal year taxes imposed pursuant to this measure fail to generate adequate revenues to meet the funding guarantees, school districts and institutions of higher education would be entitled to the underfunded amount in the next fiscal year.

The measure provides that, in any fiscal year in which the prior year's percentage growth in California per-capita personal income is less than the increase in the California Consumer Price Index, the Legislature may temporarily suspend either or both of the guarantees by statute passed by two-thirds vote. If suspension occurs, school districts and institutions of higher education are entitled, in future years, to the amount that otherwise would have been provided during the suspension. The measure specifies that full repayment must occur within five years of the suspension.

FISCAL EFFECT

Estimates of the measure's fiscal effect vary greatly based on:

- Choice of K-12 expenditure index.
- Assumptions regarding growth rates in California and U.S. average expenditures per K-12 enrollment between the last fiscal year for which complete data exist (1996-97) and 1999-00.

The U.S. Department of Education's National Center for Education Statistics (NCES) and the National Education Association (NEA) produce the two national indices of K-12 expenditures that are most widely used by researchers and policy makers. Due to differing methodologies, the two produce different measurements of California and U.S. average expenditures per K-12 enrollment. For 1996-97, the most recent year for which both organizations have published data, NEA reports that California spent $784 less per enrollment than the national average and NCES reports California $659 behind the national average. The $125 difference between these measurements, when multiplied by California's approximately 6 million public school pupils, yields a $750 million variation. To produce a reasonable range of outcomes, we estimated fiscal effects using both NEA and NCES indices.

Estimating the difference between California and U.S. expenditures per pupil as of 1999-00 requires projecting these measurements forward from the most recently available data—1996-97 for NCES and 1997-98 for NEA. This, in turn, requires making assumptions about growth rates in per-pupil spending for the intervening years. These assumptions are very important because small differences in growth rates change the estimate of the gap by hundreds of millions of dollars. For purposes of this analysis, we assumed California expenditures per K-12 enrollment would grow at the same rate as Proposition 98 funding per pupil in the given year. For national expenditures per K-12 enrollment, we calculated the average annual growth rate for these expenditures since 1994-95 in each index and assume the respective rates continue to 1999-00. (These two rates are nearly identical, 3.62 percent in one case and 3.65 percent in the other.)

As both the NEA and NCES include federal funds in expenditure totals, both indices required adjustment in order to exclude federal funds as called for by the measure. For NCES, available data allowed us to subtract actual amounts of federal funds expended from both the California and national calculations. Amounts of federal funds expended were not available from NEA, preventing us from using the same adjustment. However, NEA does report percentage of total revenues received from federal sources. Using this percentage as a proxy for federal funds expended, we reduced NEA's reported California and U.S. expenditures accordingly.

Funding for K-12 Education

We estimate that the measure would provide K-12 schools between $550 million and $700 million in 2001-02. Over the following four years, the measure's supplemental K-12 guarantee would increase steadily to an annual level of between $3.3 billion and $4.1 billion in 2005-06. Beyond 2005-06, this annual amount would continue to grow based on changes in enrollment and California per-capita personal income. These amounts would increase overall K-12 funding to the extent the state does not otherwise change the level of spending from other sources.

Funding for Higher Education

The measure provides higher education segments with approximately $130 million in 2001-02. Over the following four years, the guarantee would grow steadily to an annual level of approximately $640 million. Beyond 2005-06, this annual amount would continue to grow based on changes in enrollment and California per-capita personal income. These amounts would increase overall higher education spending to the extent the state does not otherwise change the level of spending from other sources.

SUMMARY

The measure would have the following major impacts:

- Unspecified tax increases reaching between $4 billion and $4.8 billion annually by 2005-06.

- Most of these revenues—between $3.3 billion and $4.1 billion by 2005-06—would go to public K-12 schools, with the remainder—approximately $640 million by 2005-06—going to the public higher education segments.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance