

Governor's Budget-Related Reforms—Proposition 98

LEGISLATIVE ANALYST'S OFFICE

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What Have Been the Operative Tests?

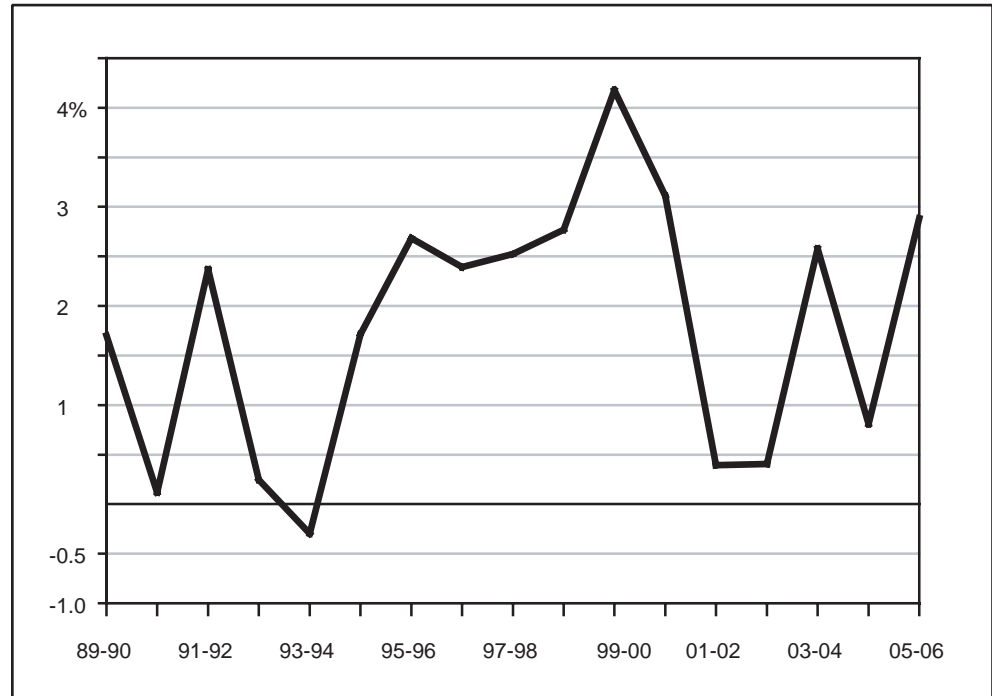
Year	Operative Test	Growth Factor Per Capita	
		Personal Income	General Fund
1998-89	1	3.9%	— ^a
1989-90	2	5.0	— ^a
1990-91	3	4.2	-4.0%
1991-92	2	4.1	8.0
1992-93	3	-0.6	-4.4
1993-94	3	2.7	-3.4
1994-95	2	0.7	6.6
1995-96	2	3.4	8.1
1996-97	2	4.7	5.6
1997-98	2	4.7	10.7
1998-99	2	4.2	6.5
1999-00	2	4.5	18.3
2000-01	2	4.9	6.9
2001-02	3	7.8	-18.6
2002-03	2	-1.3	1.0
2003-04	2	2.3	5.9
2004-05	Suspended	3.3	7.2
2005-06 ^b	2	4.5	5.7

^a Test 3 was added to Proposition 98 in 1990 by Proposition 111. Thus, per capita General Fund revenues were not part of the calculation in these years.

^b Based on 2005-06 Governor's Budget.



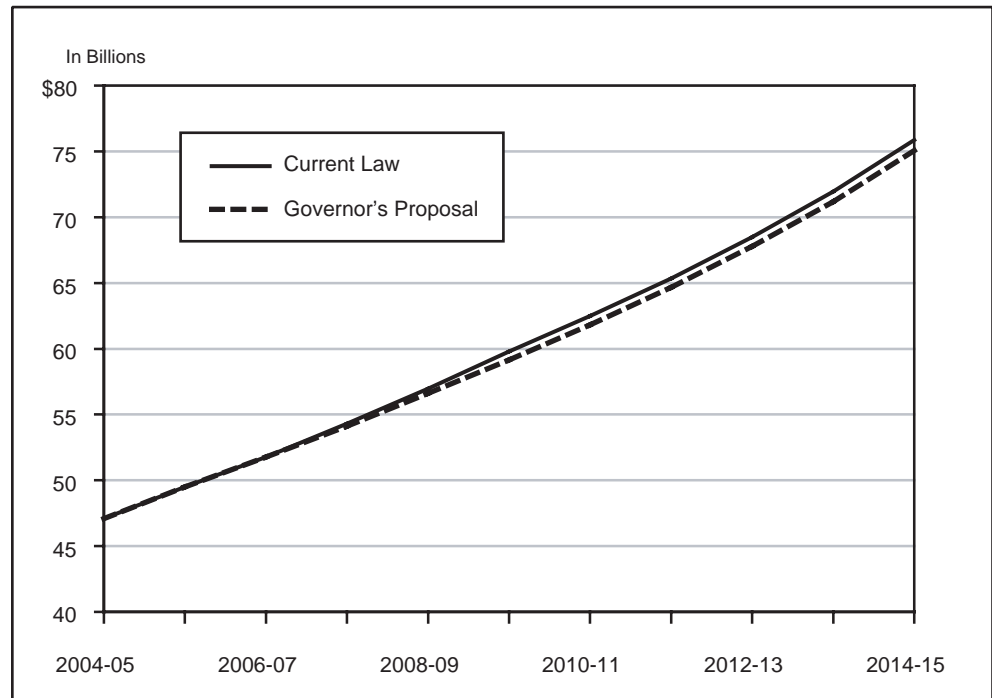
Year-to-Year Growth Proposition 98



- Year-to-year growth in Proposition 98 revenues is volatile. This volatility results from the dependence of Proposition 98 on General Fund revenues and the fact that General Fund revenues are volatile.



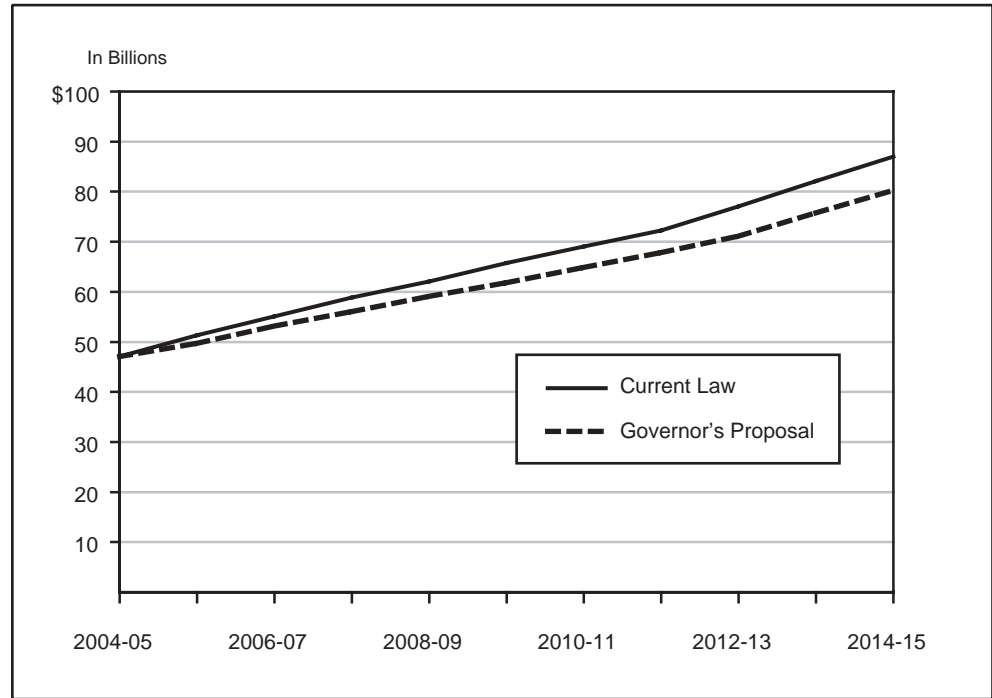
Impact of Governor's Proposal Under LAO Forecast



- We forecast that both the economy and General Fund revenues will grow at a moderate pace throughout the forecast period. Under stable growth, the impact of the measure would be minimal.



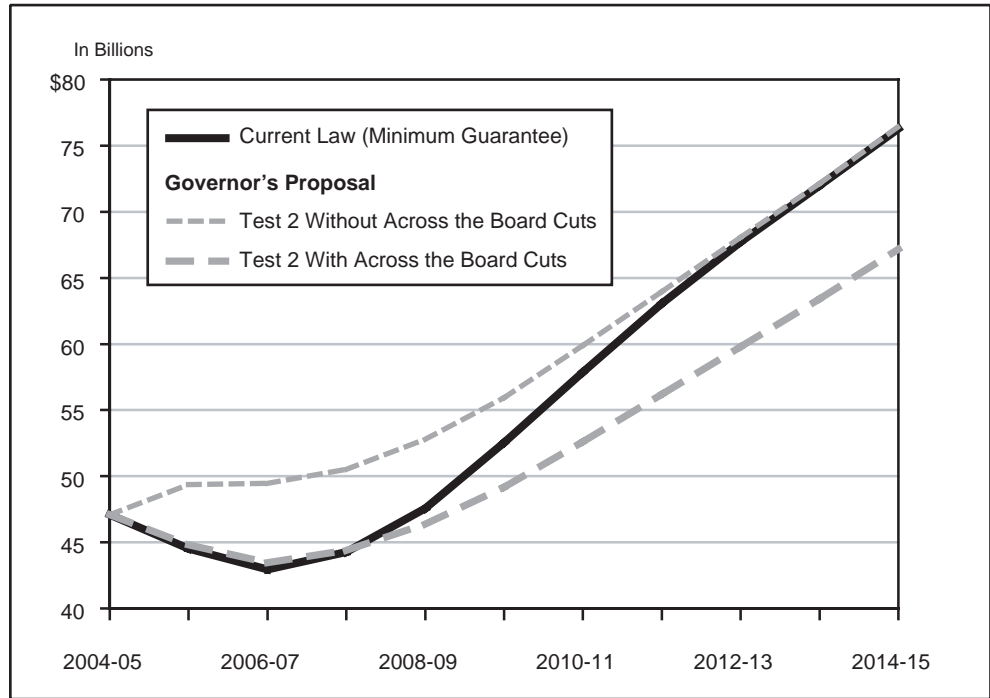
Impact of Governor's Proposal With Stronger Economic Growth



If General Fund revenues grow rapidly throughout the forecast, then the state would restore the current \$3.9 billion outstanding maintenance factor. Under this scenario, the Governor's proposal could save roughly \$4 billion annually in the out-years by converting the maintenance factor to a one-time obligation.



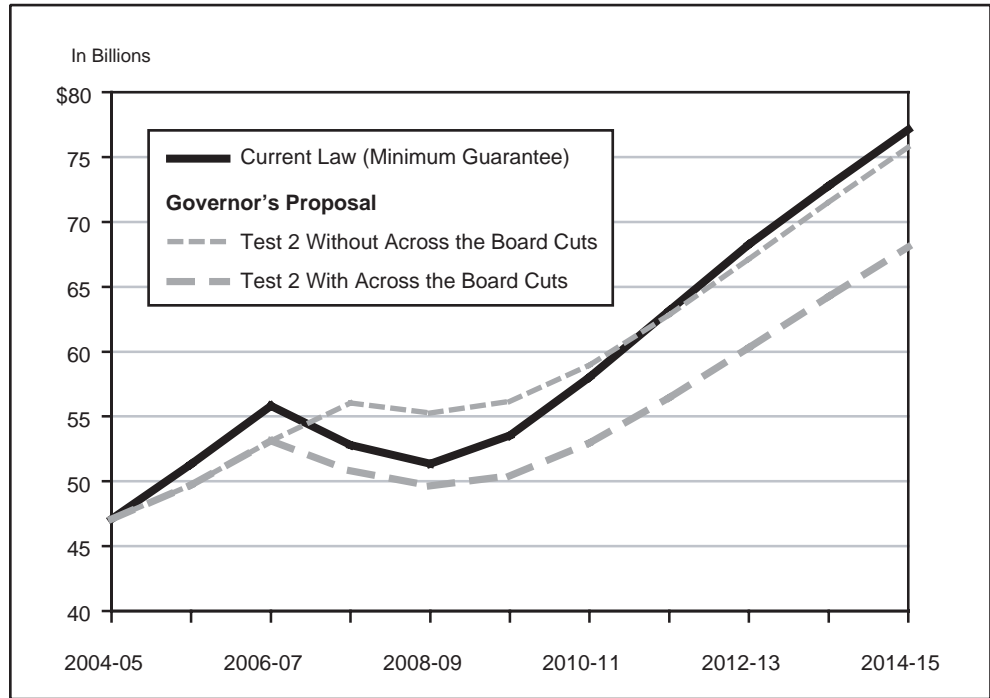
Impact of Governor's Proposal Under a Bust-Boom Forecast



- If revenues fell dramatically in the near term, the Governor's proposal would provide higher Proposition 98 spending than current law. The difference would decline in the out-years as the economy recovered.
- If the state needed to use across-the-board reductions to balance the budget, then education's guaranteed share of the budget would be permanently reduced. The state could provide funds above the guarantee to maintain education's share of the budget.
- Without across-the-board reductions, the percentage reduction in non-Proposition 98 programs would have to be nearly double the fall in General Fund revenues.



Impact of Governor's Proposal Under a Boom-Bust Forecast



- The Governor's proposal would provide lower funding during the initial boom, but higher funding during the bust years.

- If across-the-board reductions were needed to balance the budget, then education's guaranteed share of the state budget would be permanently reduced.