

Overview of Proposition 98 Budget Proposals

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Budget Subcommittee No. 2
On Education Finance
Hon. Al Muratsuchi, Chair





Changes in 2012-13 and 2013-14 Minimum Guarantees

(In Millions)

	2012-13			2013-14		
	Budgeted	Revised	Change	Budgeted	Revised	Change
Minimum Guarantee						
General Fund	\$40,454	\$42,207	\$1,752	\$39,055	\$40,948	\$1,893
Local property tax	16,011	16,135	124	16,226	15,866	-361
Totals	\$56,465	\$58,342	\$1,877	\$55,281	\$56,813	\$1,532



2012-13 Changes

- Minimum guarantee up \$1.9 billion, due to increase in General Fund revenues (\$1.8 billion) and local property tax revenues (\$126 million).
- Total costs \$130 million lower, primarily due to lower attendance.



2013-14 Changes

- Minimum guarantee up \$1.5 billion, due to higher 2012-13 minimum guarantee and higher General Fund revenue growth.
- Total costs \$150 million lower, primarily due to lower attendance.



2014-15 Minimum Guarantee

(Dollars in Millions)

	2012-13 Revised	2013-14 Revised	2014-15 Proposed	Change From 2013-14	
				Amount	Percent
Preschool	\$481	\$507	\$509	\$2	—
K-12 Education					
General Fund	\$37,740	\$36,361	\$40,079	\$3,718	10%
Local property tax revenue	13,895	13,633	14,171	537	4
Subtotals	(\$51,634)	(\$49,995)	(\$54,250)	(\$4,255)	(9%)
California Community Colleges					
General Fund	\$3,908	\$4,001	\$4,396	\$395	10%
Local property tax revenue	2,241	2,232	2,326	94	4
Subtotals	(\$6,149)	(\$6,233)	(\$6,723)	(\$489)	(8%)
Other Agencies	\$78	\$78	\$77	-\$1	-1%
Totals	\$58,342	\$56,813	\$61,559	\$4,746	8%
General Fund	\$42,207	\$40,948	\$45,062	\$4,115	10%
Local property tax revenue	16,135	15,866	16,497	631	4



Minimum Guarantee \$4.7 Billion Above Revised 2013-14 Level

- Primarily driven by year-to-year increase in General Fund revenues.
- Property tax revenues up \$631 million. Increase in baseline property taxes (\$939 million) partially offset by lower redevelopment agency revenues (\$308 million).



Factors That Can Affect 2014-15 Minimum Guarantee



Effects of New Revenues Will Vary Based on Year in Which Revenues Materialize

- If revenues are unchanged in 2013-14 but \$1 billion higher in 2014-15, virtually all new revenues would go to Proposition 98.
- If revenues are up \$1 billion in both 2013-14 and 2014-15, roughly half of new revenues go to Proposition 98 in 2013-14 and 40 percent of new revenues go to Proposition 98 in 2014-15.



Changes in Per Capita Personal Income (PCPI) Could Have Counterintuitive Effects

- The maintenance factor calculation is largely driven by the difference between per capita General Fund revenue growth and PCPI growth. As a result, a decrease in the PCPI factor would increase the state's maintenance factor payment. Conversely, an increase in the PCPI factor would reduce the maintenance factor payment.
- A 1 percent increase in the PCPI factor would decrease the minimum guarantee by roughly \$500 million, with a corresponding increase if the PCPI factor were to decrease by 1 percent.



Proposition 98 Spending Changes

(In Millions)

2013-14 Revised Spending	\$56,813
Crosscutting K-14 Adjustments	
Remove prior-year deferral payments	-\$1,955
Remove prior-year one-time funds	-468
Fund QEIA program outside of Proposition 98	-361
Adjust energy efficiency funds	-101
Make other adjustments	9
Subtotal	(-\$2,876)
K-12 Education	
Fund increase in school district LCFF	\$4,472
Pay down remaining deferrals	2,238
Increase funding for pupil testing	46
Provide 0.86 percent COLA to categorical programs	33
Fund increase in COE LCFF	26
Fund new English language proficiency assessment	8
Reduce categorical funding for lower ADA	-18
Subtotal	(\$6,805)
California Community Colleges	
Pay down remaining deferrals	\$236
Augment Student Success and Support Program	200
Augment maintenance and instructional equipment (one-time)	175
Fund 3 percent enrollment growth	155
Provide 0.86 percent COLA to apportionments	48
Create new community college technical assistance teams	3
Subtotal	(\$817)
Total Changes	\$4,746
2014-15 Proposed Spending	\$61,559
<small>QEIA = Quality Education Investment Act; LCFF = Local Control Funding Formula; COLA = cost-of-living adjustment; COE = county office of education; and ADA = average daily attendance.</small>	



Deferral Paydowns

(In Millions)

	K-12	CCC	Totals
Pay Down Scored to:			
2012-13	\$1,813	\$194	\$2,007
2013-14	1,520	163	1,683
2014-15	2,238	236	2,474
Totals	\$5,571	\$592	\$6,164

- Governor Dedicates All Additional 2012-13 and 2013-14 Spending to Paying Down Deferrals**
 - \$2 billion attributed to 2012-13.
 - \$1.7 billion attributed to 2013-14.

- Makes Final \$2.5 Billion Deferral Payment in 2014-15**



Governor's Multiyear Payment Plan

(In Millions)

Obligation	Total Owed at End of 2013-14 ^a	2014-15	2015-16	2016-17	2017-18
Deferrals	\$6,164	\$6,164 ^b	—	—	—
Mandates	4,482	—	\$1,245 ^c	\$1,600	\$1,637
ERP	462	188	274 ^c	—	—
QEIA	410	410 ^d	—	—	—
Totals	\$11,518	\$6,762	\$1,519	\$1,600	\$1,637

^a Based on July 2013 estimate.
^b Paydowns to be made in 2014-15 using 2012-13, 2013-14, and 2014-15 Proposition 98 funds.
^c Counts toward settle-up obligations, not towards the Proposition 98 minimum guarantee in 2015-16.
^d Of amounts reflected, \$94 million in QEIA funds not needed to support QEIA program is redirected to ERP.
 ERP = Emergency Repair Program; and QEIA = Quality Education Investment Act.



Governor Proposes to Pay Off All Outstanding Obligations by 2017-18

- Retires outstanding deferrals and Quality Education Investment Act obligation by end of 2014-15.
- Pays off Emergency Repair Program obligation in 2015-16.
- Retires mandate backlog by 2017-18.



LAO Comments



Governor's Overall Approach Is Reasonable

- Provides mix of one-time and ongoing spending.
- Pays off obligations before expiration of Proposition 30.



One-Time Funding Provides Cushion in Responding to Lower Revenues

- Helps the state minimize potential disruption to ongoing school and community college programs were the state's fiscal condition to deteriorate as a result of revenue volatility or an economic slowdown.