

# Overview of Proposition 98 Budget Proposals

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LEGISLATIVE ANALYST'S OFFICE

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Assembly Budget Subcommittee No. 2 on Education Finance  
Hon. Kevin McCarty, Chair





## Increases in 2013-14 and 2014-15 Minimum Guarantees

*(In Millions)*

	2013-14			2014-15		
	June 2014 Estimate	January 2015 Estimate	Change	June 2014 Estimate	January 2015 Estimate	Change
<b>Minimum Guarantee</b>						
General Fund	\$42,731	\$42,824	\$94	\$44,462	\$46,648	\$2,186
Local property tax	15,572	15,849	277	16,397	16,505	108
<b>Totals</b>	<b>\$58,302</b>	<b>\$58,673</b>	<b>\$371</b>	<b>\$60,859</b>	<b>\$63,153</b>	<b>\$2,294</b>



### 2013-14 Minimum Guarantee Up \$371 Million

- Due primarily to an increase in General Fund revenue and higher K-12 attendance.
- “Test 3” is the operative Proposition 98 test for calculating the minimum guarantee.
- State creates \$241 million in new maintenance factor.



### 2014-15 Minimum Guarantee Up \$2.3 Billion

- Due almost entirely to higher General Fund revenue.
- “Test 1” is the operative test. Due to a required maintenance factor payment, the minimum guarantee changes nearly dollar for dollar with changes in revenue.
- State pays off \$3.8 billion in outstanding maintenance factor.



## 2015-16 Minimum Guarantee

*(Dollars in Millions)*

	2013-14 Revised	2014-15 Revised	2015-16 Proposed	Change From 2014-15	
				Amount	Percent
<b>Preschool</b>	\$507	\$664	\$657	-\$8	-1%
<b>K-12 Education</b>					
General Fund	\$38,005	\$41,322	\$41,280	-\$43	—
Local property tax revenue	13,671	14,184	16,068	1,885	13
Subtotals	(\$51,675)	(\$55,506)	(\$57,348)	(\$1,842)	(3%)
<b>California Community Colleges</b>					
General Fund	\$4,235	\$4,581	\$5,002	\$421	9%
Local property tax revenue	2,178	2,321	2,628	307	13
Subtotals	(\$6,413)	(\$6,902)	(\$7,630)	(\$728)	(11%)
<b>Other Agencies</b>	\$78	\$80	\$80	—	—
<b>Totals</b>	<b>\$58,673</b>	<b>\$63,153</b>	<b>\$65,716</b>	<b>\$2,563</b>	<b>4%</b>
General Fund	\$42,824	\$46,648	\$47,019	\$371	1%
Local property tax revenue	15,849	16,505	18,697	2,192	13



### Minimum Guarantee \$2.6 Billion Above Revised 2014-15 Level

- “Test 2” is the operative test, with the minimum guarantee affected primarily by growth in per capita personal income (2.9 percent) and increases in the prior-year funding level.
- Includes a \$725 million maintenance factor payment, leaving \$1.9 billion in maintenance factor outstanding.



### Local Property Tax Revenue Increases \$2.2 Billion

- Includes \$1.2 billion in property tax revenue shifted back from cities and counties to schools and community colleges due to the end of the “triple flip.”
- Remainder due to increases in assessed property values and shifts in revenue from former redevelopment agencies.



## LAO Comments on Estimates of Minimum Guarantee

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### **Additional Revenue in 2014-15 Would Increase Minimum Guarantee Nearly Dollar for Dollar**

- We believe revenue is likely to exceed the administration's January projections by \$1 billion to \$2 billion, barring a sustained stock market drop between now and June.
- The Legislature could begin considering how it might allocate such a large increase in one-time funding for schools and community colleges.



### **Increase in 2014-15 Minimum Guarantee Would Affect 2015-16**

- To the extent the 2014-15 minimum guarantee increases, the 2015-16 minimum guarantee is likely to increase by a roughly similar amount.
- The 2015-16 minimum guarantee likely would increase even if the additional revenue in 2014-15 were temporary.



### **Economic Slowdown Could Drop Minimum Guarantee in 2016-17**

- Because Proposition 98 funding is sensitive to changes in state revenue, an economic slowdown in 2016 could reduce the 2016-17 Proposition 98 minimum guarantee below the Governor's 2015-16 estimate.



## Changes in 2013-14 and 2014-15 Spending

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### Higher 2013-14 Spending (\$371 Million)

- \$301 million to reduce the K-14 mandate backlog.
- \$70 million to account for other cost increases, primarily related to higher than expected Local Control Funding Formula (LCFF) costs (due to higher K-12 attendance).



### Higher 2014-15 Spending (\$2.3 Billion)

- \$992 million to pay down all remaining deferrals, consistent with budget trailer legislation adopted last June.
- \$975 million to reduce the K-14 mandate backlog.
- \$48 million to extend Career Technical Education Pathways Initiative for one additional year.
- \$279 million to account for other cost increases, primarily related to higher than expected LCFF costs.



## Changes in 2015-16 Spending

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### **Governor's Budget Includes Three Main Proposals**

- \$4 billion to continue implementation of the LCFF.
- \$828 million for a package of workforce education and training initiatives.
- \$772 million to support various increases in community college funding.



### **Overall Per-Pupil Funding Increases From 2014-15 Revised Estimates**

- K-12 funding per pupil increases from \$9,263 in 2014-15 to \$9,571 in 2015-16, an increase of \$308 (3.3 percent).
- Community college funding per full-time equivalent student increases from \$6,066 in 2014-15 to \$6,574, an increase of \$508 (8.4 percent).



## Changes in 2015-16 Spending (Continued)

(In Millions)

<b>2014-15 Revised Spending Level</b>	<b>\$63,153</b>
<b>Technical Adjustments</b>	
Remove prior-year, one-time payments	-\$3,503
Adjust energy efficiency funds	15
Annualize funding for 4,000 new preschool slots	15
Make other adjustments	166
Subtotal	(-\$3,307)
<b>K-12 Education</b>	
Fund LCFF increase for school districts	\$4,048
Fund Internet infrastructure grants (one time)	100
Provide K-12 COLA for select programs	71
Increase funding for the Charter School Facility Grant Program	50
Subtotal	(\$4,270)
<b>Workforce Education and Training</b>	
Fund adult education consortia	\$500
Fund career technical education grants (one time)	250
Fund certain noncredit courses at credit rate	49
Fund new apprenticeships in high-demand occupations	15
Increase funding for established apprenticeships	14
Subtotal	(\$828)
<b>California Community Colleges</b>	
Augment student support programs	\$200
Augment CCC funding (to be specified in May Revision) <sup>a</sup>	170
Pay down mandate backlog (one time)	125
Provide apportionment increase (above growth and COLA)	125
Fund 2 percent enrollment growth	107
Provide 1.58 percent COLA for apportionments	92
Remove enrollment stability funding	-47
Subtotal	(\$772)
<b>Total Changes</b>	<b>\$2,563</b>
<b>2015-16 Proposed Spending Level</b>	<b>\$65,716</b>
<p><small>a The Governor's January budget omitted \$170 million in available Proposition 98 funds. The administration indicates it will budget these funds for specified CCC purposes in the May Revision.            CTE = Career Technical Education; LCFF = Local Control Funding Formula; and COLA = cost-of-living adjustment.</small></p>	



## LAO Comments on Spending Package

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- Governor's Spending Priorities Generally Consistent With Legislature's Priorities**
  - LCFF implementation has been top priority for Legislature.
  - Proposed adult education block grant builds upon existing legislative efforts.
  
- Proposed Budget Makes Notable Progress Toward Retiring Education Obligations**
  - All state school and community college payments would be made on schedule for the first time since 2000-01.
  - Budget package provides total of \$1.5 billion to pay down the mandate backlog. We estimate the remaining backlog would be about \$2.9 billion.
  
- Devoting Some Funding to One-Time Purposes Provides Cushion Against Future Declines**
  - The Governor's budget dedicates \$475 million in 2015-16 to one-time purposes.
  - The Legislature could consider dedicating even more funding to one-time purposes to provide a larger cushion against a potential economic slowdown in 2016.