

March 5, 2015

Overview of Proposition 98 Budget Proposals

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Senate Budget Subcommittee No. 1 on Education Finance
Hon. Marty Block, 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
Minimum Guarantee						
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
Totals	\$58,302	\$58,673	\$371	\$60,859	\$63,153	\$2,294



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
Preschool	\$507	\$664	\$657	-\$8	-1%
K-12 Education					
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%)
California Community Colleges					
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%)
Other Agencies	\$78	\$80	\$80	—	—
Totals	\$58,673	\$63,153	\$65,716	\$2,563	4%
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.



Update on Dissolution of Redevelopment Agencies (RDAs)



State Dissolved RDAs in 2011

- Assets were to be sold and associated cash proceeds, along with any cash reserves, were to be allocated to schools and local governments.
- Existing debt obligations were to be retired over time, with a corresponding shift of local property tax revenue to schools and local governments.



Disposal of RDA Assets and Cash Reserves Provides General Fund Savings

- State is “rebenching” the Proposition 98 minimum guarantee every year to account for the shift of additional local property tax revenue. This adjustment reduces General Fund spending on schools dollar for dollar.
- Provided General Fund savings of \$1.2 billion in 2012-13, \$318 million in 2013-14, and \$67 million in 2014-15. (Small additional General Fund savings are expected for the next few years until the disposal of assets is complete.)



Some Ongoing Local Property Tax Revenue Provides General Fund Savings

- In 2012-13, the state rebenched the guarantee to account for \$700 million in new local property tax revenue shifted to schools, providing comparable General Fund savings.
- In subsequent years, the state has not updated its adjustments of the minimum guarantee to reflect increases in ongoing local property tax revenue shifted from former RDAs.
- The budget assumes the total revenue shifted in 2014-15 is \$824 million. Results in schools receiving an additional \$124 million that would otherwise benefit the General Fund.



LAO Comments on Estimates of Minimum Guarantee



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.



Deposits in State School Reserve Remain Unlikely

- Conditions necessary to trigger a deposit into the state school reserve unlikely to be met over the next several years.
- Limits on school district reserves linked to deposits likely would not take effect.



Changes in 2013-14 and 2014-15 Spending



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



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)

2014-15 Revised Spending Level	\$63,153
Technical Adjustments	
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)
K-12 Education	
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)
Workforce Education and Training	
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)
California Community Colleges	
Augment student support programs	\$200
Augment CCC funding (to be specified in May Revision) ^a	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)
Total Changes	\$2,563
2015-16 Proposed Spending Level	\$65,716
<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



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.