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L E G I S L A T I V E A N A L Y S T ' S O F F I C E

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Overview of Proposition 98 Budget Proposals

Presented to:
Senate Budget Subcommittee No. 1 on Education
Hon. Marty Block, Chair





Increases in 2014-15 and 2015-16 Minimum Guarantees

(Dollars in Millions)

	2014-15			2015-16		
	June 2015 Estimate	January 2016 Estimate	Change	June 2015 Estimate	January 2016 Estimate	Change
Minimum Guarantee						
General Fund	\$49,608	\$49,554	-\$54	\$49,416	\$49,992	\$575
Local property tax	16,695	17,136	441	18,993	19,183	191
Totals	\$66,303	\$66,690	\$387	\$68,409	\$69,175	\$766
Operative Test	1	1	—	3	2	—
Key Factors						
General Fund tax revenue	\$112,068	\$111,975	-\$93	\$116,619	\$120,205	\$3,585
Maintenance factor payment	\$5,402	\$5,392	-\$10	—	\$810	\$810
K-12 average daily attendance	5,994,522	5,981,073	-13,449	5,995,889	5,976,227	-19,662



2014-15 Minimum Guarantee Up \$387 Million

- Due primarily to an increase in local property tax revenue.
- State making a large maintenance factor payment in 2014-15 (\$5.4 billion).



2015-16 Minimum Guarantee Up \$766 Million

- Due primarily to higher-than-expected General Fund revenue resulting in a maintenance factor payment of \$810 million.
- Maintenance factor payment offset by changes in a few other inputs, including estimates of K-12 attendance.



2016-17 Minimum Guarantee

(Dollars in Millions)

	2014-15 Revised	2015-16 Revised	2016-17 Proposed	Change From 2015-16	
				Amount	Percent
K-12 Education^a					
General Fund	\$44,496	\$44,536	\$45,442	\$906	2.0%
Local property tax	14,834	16,560	17,802	1,242	7.5
Subtotals	(\$59,330)	(\$61,096)	(\$63,244)	(\$2,148)	(3.5%)
California Community Colleges^b					
General Fund	\$4,979	\$5,373	\$5,447	\$74	1.4%
Local property tax	2,302	2,624	2,812	188	7.2
Subtotals	(\$7,281)	(\$7,997)	(\$8,259)	(\$262)	(3.3%)
Other Agencies^c	\$80	\$82	\$83	—	0.3%
Totals	\$66,690	\$69,175	\$71,585	\$2,410	3.5%
General Fund	\$49,554	\$49,992	\$50,972	\$980	2.0%
Local property tax	17,136	19,183	20,613	1,430	7.5%

^a Includes State Preschool in 2014-15 and 2015-16 and proposed early education block grant in 2016-17.
^b Includes \$500 million for adult education regional consortia in 2015-16 and 2016-17.
^c Consists entirely of General Fund.



Minimum Guarantee \$2.4 Billion Above Revised 2015-16 Level

- Due primarily to growth in General Fund revenue.
- State makes a “Test 3 supplemental payment” of \$475 million to ensure Proposition 98 funding grows at least as quickly as the rest of the state budget.
- State also creates a new maintenance factor obligation of \$548 million.



Local Property Tax Revenue Increases \$1.4 Billion

- Primarily due to growth in assessed property values (\$929 million).
- Also reflects property tax revenue shifted back from cities and counties to schools and community colleges due to the end of the “triple flip” (\$419 million).



Overview of Governor's Proposition 98 Spending Package



Budget Package Contains Several Large Proposals

- For schools, the budget provides \$2.8 billion to continue implementation of the Local Control Funding Formula. It also provides \$300 million for the second year of the Career Technical Education Incentive Grant for Secondary Schools.
- For community colleges, the budget provides \$255 million (one time) for deferred maintenance and instructional equipment. On an ongoing basis, the budget provides \$200 million to create a new workforce development program and \$115 million to increase enrollment by 2 percent.
- The budget also includes a one-time payment of \$1.4 billion toward the mandate backlog for schools and community colleges.



Funding Per Student Increases

- K-12 funding per student increases from \$10,237 in 2015-16 (revised) to \$10,605 in 2016-17 (proposed), an increase of \$368 (3.6 percent).
- Community college funding per full-time equivalent student increases from \$6,878 in 2015-16 (revised) to \$7,003 in 2016-17 (proposed), an increase of \$125 (1.8 percent).



2016-17 Spending Proposals

(In Millions)

K-12 Education	
Increase LCFF Funding	\$2,825
Fund CTE Incentive Grant for Secondary Schools (year two of three)	240 ^a
Provide 0.47 percent COLA for select categorical programs	23
Fund truancy and dropout prevention program	7
Fund High Speed Network	5 ^b
Support Exploratorium	4
Fund improvement of web-based tools for state accountability system	1
Shift funding for transitional kindergarten and preschool into new block grant	0
Remove prior-year augmentation for infants and toddlers with disabilities	-30
Total	\$3,073
California Community Colleges	
Fund deferred maintenance and instructional equipment (one time)	\$255
Implement workforce recommendations of BOG task force	200
Fund 2 percent enrollment growth	115
Make CTE Pathways Initiative ongoing	48
Augment Basic Skills Initiative	30
Provide 0.47 percent COLA for apportionments	29
Fund Innovation Awards at community colleges (one time)	25
Increase funding for Institutional Effectiveness Initiative	10
Fund development of "zero-textbook-cost" degree programs	5
Improve systemwide data security	3
Increase apprenticeship reimbursement rate	2
Provide 0.47 percent COLA for selected student support programs	1
Total	\$723
^a Budget includes additional \$60 million from other Proposition 98 funds.	
^b Budget includes additional \$3.5 million from other Proposition 98 funds.	
LCFF = Local Control Funding Formula; COLA = cost-of-living adjustment; CTE = Career Technical Education; and BOG = Board of Governors.	



Comments on the Administration's Estimates of the Guarantee

- Administration's Estimates of General Fund Revenue and the Minimum Guarantee Are a Reasonable Starting Point for Budget Deliberations**

- Changes in General Fund Revenue Will Affect the Guarantee, With the Impact Varying Notably by Fiscal Year**
 - 2014-15 revenue changes would change the guarantee virtually dollar for dollar.
 - 2015-16 guarantee is relatively insensitive to revenue changes.
 - 2016-17 guarantee likely will change about 50 cents for every \$1 change in revenue.

- Administration's Estimate of Local Property Tax Revenue Likely About \$1 Billion Too Low Across 2015-16 and 2016-17**
 - We think the estimate of the ongoing revenue shifted to schools and community colleges from former redevelopment agencies is about \$700 million too low.
 - We think revenue associated with growth in assessed property values will exceed the administration's estimates by about \$300 million. Whereas the administration projects that property values will grow 5.6 percent per year, we estimate growth of 6 percent in 2015-16 (based on the latest data submitted by county assessors) and 6.3 percent in 2016-17 (based on continued growth in housing prices).
 - Higher local property tax revenue would reduce Proposition 98 General Fund costs and free up non-Proposition 98 General Fund.



Issues for Consideration



Devoting Some Funding to One-Time Purposes Provides Cushion Against Future Declines

- The Governor's budget dedicates \$520 million in 2016-17 funding to one-time purposes.
- The Legislature could dedicate even more funding to one-time purposes to provide a larger cushion against a potential economic slowdown in 2017.



Proposal to Extend Proposition 30 Income Tax Rates Would Affect School Funding

- An extension likely would raise between \$5 billion and \$11 billion per year.
- Every additional dollar of revenue likely would increase the guarantee by about 50 cents.



Deposits in the State School Reserve Remain Unlikely

- The State is projected to pay off all maintenance factor created before 2014-15, thereby satisfying one of the conditions for a deposit.
- Other conditions for a deposit, including the requirement for Test 1 to be operative, are unlikely to be met in the next few years.



District Retirement Contributions Are Rising

- A state law is ramping up CalSTRS employer contributions over a seven-year period, with rates increasing from 8.25 percent of payroll in 2013-14 to 19.1 percent of payroll in 2020-21. Employer rates for CalPERS also are increasing.
- Compared to 2013-14 levels, district costs are anticipated to be roughly \$5 billion higher annually by 2020-21.
- Under various economic scenarios, these higher costs reflect roughly between one-quarter and half of the projected increase in school funding over the period.