The Basics of Proposition 98
A Tutorial for State Policymakers
Legislative Analyst’s Office
Overview of Presentation

- Background and General Information
- Mechanics
- Budget Decisions and Proposition 98
Why Should Policymakers Care About Understanding Proposition 98 Basics?

- Largest area of state budget, key factor in budget decisions
- Major area of interest for California public
- Interacts with revenue proposals
- Frequently referenced topic in the Capitol
Part 1—Background Questions

- When?
- What?
- Why?
- Where?
- How Much?
When Was Proposition 98 Enacted?

- Voter-enacted amendment to the State Constitution in 1988.
- Amended by Proposition 111 in 1990.
What is Proposition 98?

- Set of formulas establishing a minimum annual funding level for K-12 schools and community colleges.
Why Proposition 98?

- Ensure that education funding:
  - Receives special status during annual budget decisions.
  - Receives minimum level of state funding each year.
  - Keeps pace with growth in the economy.
What Sources Fund Proposition 98?
Where Do Proposition 98 Funds Go?

- K-12 schools
- California Community Colleges (CCC)
- “Other” educational agencies
- Some preschool and child care services
- Not UC or CSU
How Much Funding Does Proposition 98 Provide?

2008-09 Budget Act, as Amended by Chapter 12, Statutes of 2009 (SB4xxx, Ducheny)

- CCC: $6 Billion
- K-12 Schools: $45 Billion
- Total: $51 Billion
Proposition 98 Is Primary Source Of Funding for K-14 Education
What Does Proposition 98 Fund?

- Formula relates to how much funding, not specific uses for funding.
- Legislature determines how Proposition 98 funds are used each year.
- Provides both general and targeted support for K-12 and CCC programs.
- In most years, funds growth and cost-of-living adjustments.
Part II— Proposition 98 Mechanics

- Basic Overview of the Formulas
- Terminology
Minimum Guarantee

- Proposition 98 funding requirement calculated each year.

  Minimum Guarantee

- Calculation done using one of three formulas.

  Tests
Proposition 98 Formulas

The state must provide the greater of:

- A specified share of General Fund spending.
  - Roughly 40 percent of General Fund.
    Test 1

  OR

- A funding level based on growth in California’s economy.
  - Measured by per capita personal income.
    Test 2
Proposition 98 Formulas—The Relief Valve

- If General Fund is growing more slowly than economy, state has a “relief valve.”
  - Adjusts funding by growth in per capita General Fund revenues instead.
    - Test 3
      - Cannot provide less than Test 1 requirement.
- Historically, Test 2 has been more common than Test 3.
Proposition 98 Formulas Apply Automatically

- Which formula applies depends on how K-12 enrollment, the economy, local property taxes and General Fund revenues grow from year to year.
  - Not a legislative decision.
  - Can change over course of fiscal year.
- Legislature can override formulas and provide any level of funding for K-14 education.
  - Providing less known as: Suspension
Catching Up to Long-Term Funding Target

- When K-14 funding is determined by the Test 3 formula, state creates long-term funding target.

  Maintenance Factor

- In future years, state “catches-up” to target level through faster annual growth in funding.

- Similar process when Legislature suspends Proposition 98 requirement.
Catching Up to Long-Term Target

- State Savings (Maintenance Factor)
- Proposition 98 Funding

Year 1 (Test 3 Year)  Year 2  Year 3  Year 4
Results of Formulas Not Always Intuitive

- Formulas look at year-to-year change in revenues, not state’s overall fiscal condition.
- Can result in funding requirements that may not track with state’s level of available resources.
Part III—Major Proposition 98-Related Budget Decisions

- Whether to fund at the minimum guarantee or another level
- Whether to make downward adjustments to current-year spending
- Whether to make revenue changes
- How to spend Proposition 98 funds
Proposition 98 Requirement Often is Moving Target

- Budget Act Proposition 98 appropriation based on revenue forecast for coming year.
- As actual revenues come in higher or lower, Proposition 98 requirement can go up or down.
Reconciling Proposition 98 Spending For Updated Revenues

- If higher revenues lead to higher Proposition 98 requirement, state must “settle up” and provide additional funding.
- If lower revenues lead to lower Proposition 98 requirement, state faces a choice of whether to reduce funding.
(1) Legislature Can Override Proposition 98 Requirement

- Legislature can always choose to provide more or less than minimum guarantee.
  - Overappropriation can have out-year effects.
  - Suspension takes a two-thirds vote.
(2) If Revenues Drop, Legislature Can:

- Reduce funding to newly lowered minimum requirement.
  - Mid-year cuts can be difficult for schools.
- Leave funding at Budget Act level.
  - Can make Proposition 98 funding requirement higher in subsequent years.
(3) Tax Revenue Changes Affect Proposition 98 Requirement

- Changing tax policy can increase or decrease General Fund revenues and, correspondingly, the Proposition 98 requirement.
- Exact interaction depends on several factors.
  - General guideline in recent years: about half of each dollar increase or decrease affects guarantee.
(4) Legislature Chooses How to Spend Funds

- Legislature decides how to allocate Proposition 98 funds.
- Split between K-12 and community colleges.
  - Usually about 89 percent K-12, 11 percent CCC.
- Always some one-time funds available.
Congratulations!

- Want to know more?
  - [www.lao.ca.gov](http://www.lao.ca.gov)
  - LAO Education Staff: (916) 445-4656