

Proposition 98 guarantees a minimum level of funding for public schools

THE STATE LEGISLATURE AND GOVERNOR largely control California's school finance system because they, for the most part, determine how much money school districts receive. Local school boards do not have independent authority to raise taxes. Further, while school district officials decide how to spend funds, they do so within the constraint that about a third of their operating money on average is earmarked by the state or federal government for special purposes. In addition, employee salaries and benefits make up more than 80% of most district budgets and are subject to collective bargaining.

When voters approved Proposition 98 as an amendment to the California Constitution, they sought to guarantee public schools and community colleges a level of funding that would at least keep pace with growth in student population and the personal income of Californians and at best increase the amount schools receive.

The calculation of the Proposition 98 minimum is based on the principle that K–I4 education should receive at least the same amount as it did the previous year, adjusted for changes in enrollment and per capita personal income. This is referred to as the “Test 2” guarantee. (“Test 1” is that K–I4 education receive about 41% of the state budget, a threshold the state has easily exceeded each year. Test 1 would apply if state tax revenues increased dramatically such that 41% of the state budget would be more than the Test 2 guarantee.)

The constitution allows state officials to temporarily reduce education funding below the minimum guarantee under two conditions. One is when the state's General Fund revenues grow less than personal income. This is often referred to as “Test 3.”* The other is when two-thirds of the Legislature votes to suspend the guarantee for a given year.

In both cases, the amount saved in that year must begin to be restored to the minimum guarantee level in the next year that state

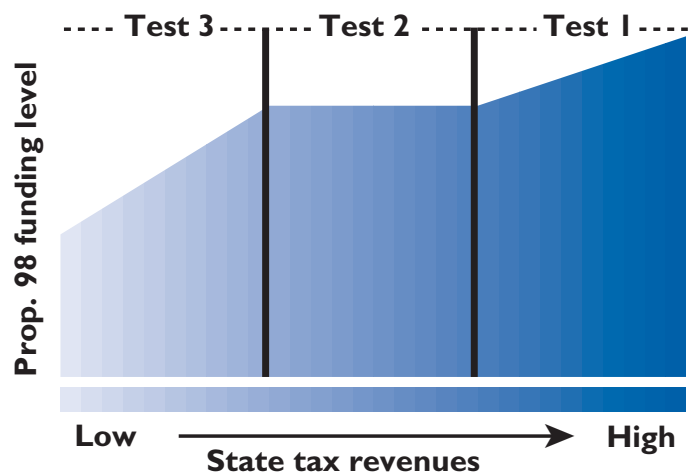
*“Test 3B” ensures that growth in K-14 education spending per student is at least as large as the growth in all other state-funded programs on a per-capita basis.

General Fund revenues grow faster than personal income. This hypothetical example explains (in a simplified way) how it works:

- In Year One, the Test 2 minimum guarantee is \$45 billion. But the state's fiscal condition dictates that Test 3 is in order, providing only \$43 billion.
- In Year Two, state revenues improve and the minimum guarantee must be provided. If the state can afford it, the calculation of the Year Two amount begins from the \$45 billion level because that was the minimum guarantee in Year One. Adjustments for enrollment and personal income growth then proceed from that level.

The state may not have enough revenue to cover the full amount of the resulting minimum guarantee in Year Two. It has solved this problem by funding below the guarantee and carrying forward a “maintenance factor” that keeps track of what full restoration of the guarantee would amount to. This can be restored gradually as the state's General Fund revenue growth is sufficient to do so.

The Legislature always has the option of funding K–I4 education above the minimum guarantee. When it does so, however, it also raises the base amount from which the guarantee is to be calculated the following year. [\[1\]](#)



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PROPOSITION 98 CRIB SHEET

Proposition 98 is . . .

- The biggest slice—more than 40%—of the State Budget pie
- Used to determine the *size* of the K-14 funding pie, *but not how the pie is sliced up*
- A ratchet-up mechanism—one year’s expenditure becomes the next year’s base

- A floor, not a ceiling
- A dynamic model, continually revised, based on projections and assumptions that change (state taxes, personal income, resident and student population)
- Suspendable
 - ⇒ Automatically (under Test 3) when state taxes grow slower than personal income

⇒ Suspension may also occur at any time with a two-thirds vote of the Legislature and Governor’s signature

- After suspension, formula provides for funding to eventually get back on track (under the “maintenance factor” formula)—but dollars lost in the interim are never recovered



PROPOSITION 98 CRIB SHEET: “THE TESTS”

Test 1—“A Slice of the Pie”

Test 1 guarantees Proposition 98’s share of State General Fund expenditures never fall below a certain percentage (currently 40.4%). Projections indicate that Test 1 could kick in—with a bang—for 2010-11.



Test 2—“Business as Usual”

“California schools do as well as California residents.” The annual change per ADA in Proposition 98 funding equals the annual change in Californians’ income (Per Capita Personal Income—PCPI).



Test 3—When State Tax Growth Lags Personal Income Growth

When the state taxes grow slower than personal income, the Proposition 98 minimum funding level per ADA grows by the percentage increase (or decrease) in State General Fund revenues per resident plus ½%.

