October 2006

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–14 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–14 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.)

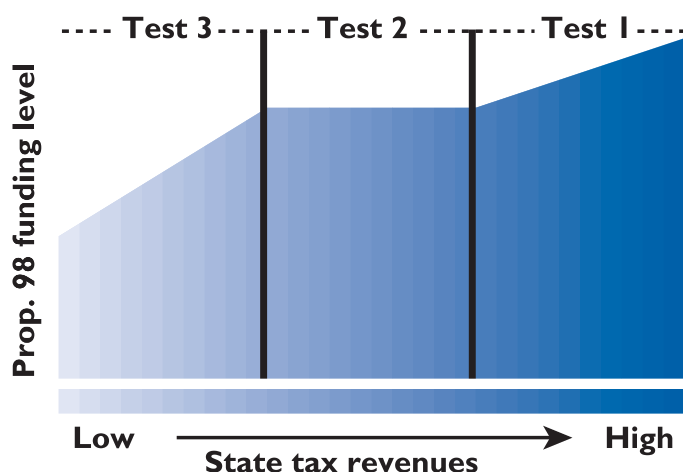
The constitution allows state officials to temporarily reduce education funding below the minimum guarantee under two conditions. One is when the state's General Fund revenues grow less than personal income. This is often referred to as "Test 3."* The other is when two-thirds of the Legislature votes 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 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–14 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.



* "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.

EdSource® is a not-for-profit 501(c)(3) organization established in California in 1977. Independent and impartial, EdSource strives to advance the common good by developing and widely distributing trustworthy, useful information that clarifies complex K-12 education issues and promotes thoughtful decisions about California's public school system.

© Copyright 2006 by EdSource, Inc.

520 San Antonio Rd, Suite 200, Mountain View, CA 94040-1217 • 650/917-9481 • Fax: 650/917-9482 • edsource@edsource.org • www.edsource.org • www.ed-data.k12.ca.us