

March 5, 2013

# Proposition 98 Budget Overview

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LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Assembly Budget Subcommittee No. 2 on Education Finance  
Hon. Susan Bonilla, Chair





## Total Proposition 98 Funding

<b>Proposition 98 Funding<sup>a</sup></b>					
<i>(Dollars in Millions)</i>					
	2011-12 Actual	2012-13 Revised	2013-14 Proposed	Change From 2012-13	
				Amount	Percent
<b>Preschool</b>	\$368	\$481	\$481	—	—
<b>K-12 Education</b>					
General Fund	\$29,368	\$33,406	\$36,084	\$2,679	8%
Local property tax revenue	11,963	13,777	13,160	-618	-4
Subtotals	(\$41,331)	(\$47,183)	(\$49,244)	(\$2,061)	(4%)
<b>California Community Colleges</b>					
General Fund	\$3,279	\$3,543	\$4,226	\$683	19%
Local property tax revenue	1,974	2,256	2,171	-85	-4
Subtotals	(\$5,253)	(\$5,799)	(\$6,397)	(\$597)	(10%)
<b>Other Agencies</b>	\$83	\$78	\$79	\$1	1%
<b>Totals</b>	<b>\$47,035</b>	<b>\$53,541</b>	<b>\$56,200</b>	<b>\$2,659</b>	<b>5%</b>
General Fund	\$33,097	\$37,507	\$40,870	\$3,362	9%
Local property tax revenue	13,937	16,034	15,331	-703	-4

<sup>a</sup> General Fund amounts include Education Protection Account funds.

- The Governor's budget increases total Proposition 98 funding by \$2.7 billion—a 5 percent increase from the revised current-year level.
- The General Fund share of Proposition 98 spending increases 9 percent, whereas the local property tax share drops 4 percent.
- The year-to-year increase is greater for community colleges (10 percent) than for K-12 education (4 percent). About half of the community college increase is related to the Governor's proposal to restructure adult education.



## Major Spending Changes

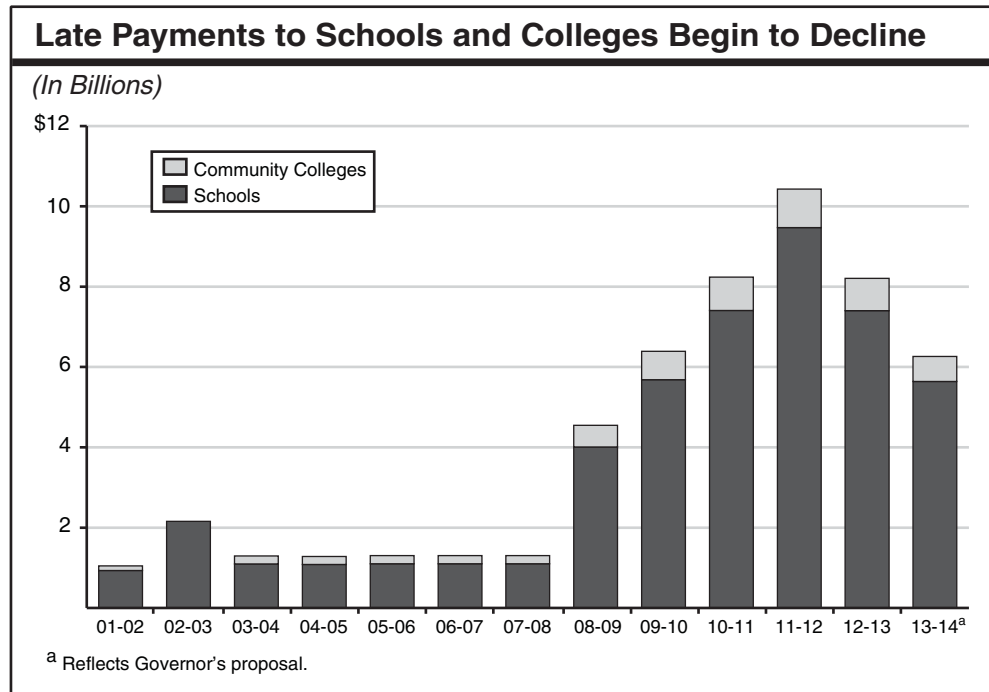
<b>Governor's Major Proposition 98 Budget Changes</b>	
<i>(In Millions)</i>	
<b>Technical Changes</b>	
Make technical adjustments	\$148
Fund K-12 categorical growth	49
Fund K-12 revenue limit growth	3
Adjust for prior-year deferral payments	-2,225
Subtotal	(-\$2,025)
<b>Policy Changes</b>	
Pay down deferrals	\$1,944
Transition to new K-12 funding formula	1,630
Allocate money for energy efficiency projects	450
Provide funding for CCC adult education	300
Provide general-purpose funds for CCC	197
Add two programs to K-12 mandate block grant <sup>a</sup>	100
Provide cost-of-living adjustment for certain K-12 programs <sup>b</sup>	63
Fund new CCC online project	17
Swap one-time funds	-17
Subtotal	(\$4,684)
<b>Total Changes</b>	<b>\$2,659</b>

<sup>a</sup> Adds Graduation Requirements and Behavioral Intervention Plans.  
<sup>b</sup> Applies to special education, child nutrition, and California American Indian education centers.

- The largest augmentation is \$1.9 billion to pay down K-12 and community college deferrals.
- Provides \$1.6 billion as part of a major initiative to restructure the way the state allocates funding to school districts, charter schools, and county offices of education.
- Includes \$450 million for Proposition 39 energy projects.
- Provides \$300 million for a restructured adult education program.
- Increases mandates block grant for schools by \$100 million to reflect the addition of two mandates: Graduation Requirements and Behavioral Intervention Plans.



## Payment Deferrals



- Reduces K-12 deferrals by \$1.8 billion and community colleges deferrals by \$179 million.
- Reduces outstanding deferrals to \$6.3 billion.
- Eliminates longest payment deferrals (those delayed from February and March to next fiscal year).



## Payment Plan for Retiring Outstanding Obligations

<b>Governor's Multiyear Plan for Paying Education One-Time Obligations</b>						
<i>(In Millions)</i>						
<b>Obligation</b>	<b>Paid Within Annual Proposition 98 Appropriation?</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>Total Payments Over Period<sup>a</sup></b>
Payment deferrals	Yes	\$1,950	\$2,986	\$3,137	\$132	\$8,205
Mandates	No	—	—	—	1,666	1,666
Emergency Repair Program	No	—	—	—	452	452
Quality Education Investment Act	No	—	247	—	—	247
<b>Fiscal-Year Totals</b>		<b>\$1,950</b>	<b>\$3,233</b>	<b>\$3,137</b>	<b>\$2,250</b>	<b>\$10,570</b>

<sup>a</sup> By the end of the period, all obligations would be retired, except for mandates, which would have \$2.3 billion in still outstanding obligations.

- Governor's plan uses roughly half of new Proposition 98 funds to pay down deferrals. All outstanding deferrals would be eliminated by 2016-17.
- Retires Quality Education Investment Act obligation in 2014-15.
- In 2016-17, uses \$1.7 billion in settle-up funds to pay mandates and \$452 million in General Fund to retire the Emergency Repair Program obligations.
- Governor's plan is a reasonable approach to retiring state's obligations.



## Adjustments for Property Tax Shifts

<b>Lower Estimates of Redevelopment-Related Transfers to Schools and Colleges</b>			
<i>(In Millions)</i>			
	<b>2012-13 Budget Act</b>	<b>2013-14 Governor's Budget</b>	<b>Difference</b>
<b>2011-12</b>			
Ongoing residual	\$113	\$147	\$34
Cash assets	—	—	—
<b>Totals</b>	<b>\$113</b>	<b>\$147</b>	<b>\$34</b>
<b>2012-13</b>			
Ongoing residual	\$1,676	\$784	-\$893
Cash assets	1,479	1,302	-177
<b>Totals</b>	<b>\$3,155</b>	<b>\$2,086</b>	<b>-\$1,070</b>
<b>2013-14</b>			
Ongoing residual	\$1,011	\$559	-\$452
Cash assets	600	558	-42
<b>Totals</b>	<b>\$1,611</b>	<b>\$1,117</b>	<b>-\$494</b>
<b>Totals Through 2013-14</b>			
Ongoing residual	\$2,800	\$1,490	-\$1,310
Cash assets	2,079	1,860	-219
<b>Totals</b>	<b>\$4,879</b>	<b>\$3,350</b>	<b>-\$1,529</b>

- Governor's estimates of redevelopment agency (RDA) revenues transferred to schools and community colleges are \$1.5 billion below *2012-13 Budget Act* estimates.
- Governor locks in 2013-14 rebenching adjustment for ongoing residual RDA revenues based on 2012-13 estimates.
- Governor updates 2013-14 rebenching adjustment for RDA cash assets based on revised 2013-14 estimates.
- Given uncertainty of RDA revenues, recommend annually updating rebenching adjustment in near term.