2009

EDUCATION FUNDING. PAYMENT PLAN.

QUICK-REFERENCE GUIDE

PROP 1A STATE BUDGET. CHANGES CALIFORNIA BUDGET PROCESS. LIMITS STATE SPENDING. INCREASES "RAINY DAY" BUDGET STABILIZATION FUND.

SUMMARY

Put on the Ballot by the Legislature

Changes the budget process. Could limit future deficits and spending by increasing the size of the state "rainy day" fund and requiring above-average revenues to be deposited into it, for use during economic downturns and other purposes. Fiscal Impact: Higher state tax revenues of roughly $16 billion from 2010–11 through 2012–13. Over time, increased amounts of money in state rainy day reserve and potentially less ups and downs in state spending.

WHAT YOUR VOTE MEANS

YES A YES vote on this measure means: Various state budgeting practices would be changed. In some cases, the state would set aside more money in one of its "rainy day" reserve funds. Higher state taxes recently passed would be extended for up to two years.

NO A NO vote on this measure means: No changes would be made to state's current budgeting practices or its rainy day reserve funds. Higher state taxes recently passed would end by 2010–11.

ARGUMENTS

PRO Yes 1A: REFORM OUR BROKEN BUDGET SYSTEM. 1A forces budget stability and accountability. It strictly limits state spending and mandates a bigger rainy day fund—forcing politicians to save more in good years to prevent tax increases and cuts to schools, public safety and other vital services in bad years.

CON 1A is not what its supporters promise. Why? Because 1A: Treats the "Rainy Day Fund" as a *slush fund for Pork Barrel spending*; Could *force service cuts even in good times;* Encourages *unlimited tax increases—doesn't stop them*; Gives *unchecked power* to Governor. Vote No on 1A.

FOR ADDITIONAL INFORMATION

FOR
Budget Reform Now
(866) 978-3444
info@cabudgetreformnow.com
www.cabudgetreformnow.com

AGAINST
Douglas Herman
790 E. Colorado Blvd.,
Suite #506
Pasadena, CA 91101
(626) 535-0713
www.VoteNoOn1A.com

PROP 1B EDUCATION FUNDING. PAYMENT PLAN.

SUMMARY

Put on the Ballot by the Legislature

Requires supplemental payments to local school districts and community colleges to address recent budget cuts. Fiscal Impact: Potential state savings of up to several billion dollars in 2009–10 and 2010–11. Potential state costs of billions of dollars annually thereafter.

WHAT YOUR VOTE MEANS

YES A YES vote on this measure means: The state would make supplemental payments to schools and community colleges beginning in 2011–12. These payments would replace other payments the state might otherwise be required to make in earlier years.

NO A NO vote on this measure means: The state would not make supplemental payments to schools and community colleges, and instead make other payments as required under current law.

ARGUMENTS

PRO The budget crisis has cut $12 billion from our schools. Over 5,000 teachers have been laid off, thousands more are threatened. Prop. 1B starts the process of paying our schools and community colleges back as economic conditions improve. Our future depends on the investment we make in educating our children.

CON No argument against Proposition 1B was submitted.

FOR ADDITIONAL INFORMATION

FOR
Andrea Landis
Kaufman Campaign Consultants
1510 J Street, Suite 210
Sacramento, CA 95814
(916) 443-7817
www.YES1B.com

AGAINST
No contact information was provided.

PROPOSITION

1B EDUCATION FUNDING. PAYMENT PLAN.

OFFICIAL TITLE AND SUMMARY

EDUCATION FUNDING. PAYMENT PLAN.

- Requires supplemental payments to local school districts and community colleges to address recent budget cuts.
- Annual payments begin in 2011–12.
- Payments are funded from the state's Budget Stabilization Fund until the total amount has been paid.
- Payments to local school districts will be allocated in proportion to average daily attendance and may be used for classroom instruction, textbooks and other local educational programs.

Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:

- Fiscal impact would depend on how current constitutional provisions would otherwise be interpreted.
- Potential state savings of up to several billion dollars in 2009–10 and 2010–11.
- Potential state costs of billions of dollars annually thereafter.

FINAL VOTES CAST BY THE LEGISLATURE ON ACA 2 (PROPOSITION 1B)

Senate:	Ayes 28	Noes 10
Assembly:	Ayes 68	Noes 11

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

This measure contains provisions relating to Proposition 98 "tests," the "maintenance factor," and K–12 "revenue limits." We provide basic information on each of these issues below.

Proposition 98 Tests

Proposition 98 Establishes Minimum Funding Level. Proposition 98, passed by voters in 1988 and modified in 1990, requires the state to provide a minimum level of funding each year for kindergarten through twelfth grade (K–12) education and community colleges. Together, these schools and colleges are commonly referred to as K–14 education. The Proposition 98 requirement is met using both state General Fund and local property tax revenues. In 2008–09, the state budget includes $51 billion in Proposition 98 funding. Of this total, about $35 billion is from the state's General Fund, with the other $16 billion from local property tax revenues.

"Minimum Guarantee" Determined by One of Three Tests. The minimum funding level—commonly known as the minimum guarantee—is determined by one of three funding formulas. The first formula, known as "Test 1," requires the state to provide roughly 40 percent of General Fund revenues for K–14 education. This test has been applied only once (1988–89). To date, the most common funding formula has been "Test 2" (applied 13 of the last 20 years). Under Test 2, the prior-year Proposition 98 funding level is adjusted based on changes in school attendance and the state's economy (as measured by per capita personal income). The final formula, known as "Test 3," adjusts prior-year Proposition 98 funding based on changes in attendance and the state's tax revenues. It has been applied in 6 of the last 20 years—generally in years when the state is experiencing slow growth or a decline in revenues. Test 3 permits the state to provide less Proposition 98 funding than required under Test 2.

Legislature Can Override Tests. The test that applies in any particular year depends upon a number of factors. The Legislature and the Governor, however, can override these tests and provide *less* than otherwise required. They can do so by suspending Proposition 98, which requires a two-thirds vote of each house of the Legislature and the approval of the Governor. As part of the regular state budget process, the Legislature and the Governor also can provide *more* than otherwise required.

Maintenance Factor

A Future Funding Obligation Is Created in Certain Proposition 98 Situations. Historically, Proposition 98 has created a future funding obligation—commonly called a maintenance factor—in two specific situations. It has created a maintenance factor when (1) the minimum guarantee is determined under Test 3 or (2) Proposition 98 has been suspended. In both cases, the state keeps track of the difference between the higher Proposition 98 amount that otherwise could have been required and the amount of funding actually provided to K–14 education in that year. As of the end of 2007–08, the state has an outstanding maintenance factor obligation of $1.4 billion.

Maintenance Factor Payments Based on Growth in General Fund Revenues. Proposition 98 requires the state to provide additional payments in future years until the maintenance factor (or funding gap) has been closed. Historically, education funding has been built up in future years to the level it would have otherwise reached (absent the previous decisions to spend below the Test 2 level or suspend). The minimum amount of maintenance factor that must be paid in one year depends on how quickly state revenues grow. When state revenues grow quickly, larger payments are made, and the obligation is paid off in a shorter period of time. These maintenance factor payments become part of the base for calculating the next year's Proposition 98 minimum guarantee.

Different Interpretations of Test 1 Years. Based on revenue estimates at the time this analysis was prepared, the minimum guarantee would be determined by Test 1 in 2008–09 and 2009–10. Other than the first year under Proposition 98 (1988–89), the state has always calculated the minimum guarantee using either Test 2 or Test 3. Two issues have arisen over how the maintenance factor is supposed to work under Test 1 years. These issues are described in more detail in the nearby box. Much disagreement exists over these issues, with different interpretations potentially resulting in very different Proposition 98 funding requirements.

K–12 Revenue Limits

Revenue Limits Provide Per-Pupil Funding for General Education Purposes. Approximately two-thirds of Proposition 98 funding for school districts is used for K–12 revenue limits. Revenue limits provide funding for general education purposes—that is, few requirements are attached to this funding. Districts decide how specifically to use the funds. School districts receive a funding amount per student (as measured by average daily attendance). Revenue limit amounts were initially based on each district's per-pupil funding level in the 1970s, which varied significantly among districts. Since then, the Legislature has provided additional revenue limit funding specifically for the purpose of "equalization." This funding has gone to those districts with the lowest per-pupil revenue limit amounts in order to reduce funding differences among school districts.

PROPOSAL

Proposition 1B amends the California Constitution related to Proposition 98, as described below.

Creates $9.3 Billion "Supplemental Education" Obligation. This measure requires the state to make a total of $9.3 billion in supplemental payments to K–14 education. The payments would be made in annual installments, beginning in 2011–12. They would become part of the base budget when calculating the following year's Proposition 98 minimum guarantee.

For text of Proposition 1B, see page 48.

Supplemental Payments in Place of Maintenance Factor Payments. These payments would replace any payments that the state would otherwise be required to make under current law for maintenance factor obligations created in 2007–08 and 2008–09. The measure, however, does not clarify the uncertainty regarding maintenance factor in Test 1 years for the future.

Distribution of Funds. The measure gives discretion to the Legislature and the Governor regarding how these payments would be distributed between K–12 education and community colleges. For any funds provided to K–12 education, the measure requires that the payments be made for revenue limits. Of the 2011–12 payment, up to $200 million can be provided to school districts with low per-pupil revenue limit amounts to equalize revenue limit payments among districts. All other K–12 payments would be distributed based on districts' per-pupil revenue limit rates. The measure makes no specific requirements on how any money provided to community colleges is to be used.

Measure Linked to Proposition 1A. The funding mechanism for making the supplemental payments established in this measure is provided in Proposition 1A, also on this ballot. That measure establishes a Supplemental Education Payment Account and requires the state to annually deposit 1.5 percent of General Fund revenues into the account, beginning in 2011–12. These funds would be put into the account annually until the entire $9.3 billion in supplemental payments had been provided. If Proposition 1A is not approved by the voters, the provisions of this measure would not go into effect, and there would be no obligation to make $9.3 billion in supplemental payments.

Unclear How the Constitution Would Be Interpreted

Two issues have arisen over how the maintenance factor is supposed to work in Test 1 years—how it is created and how it is paid back.

Maintenance Factor Obligation in 2008–09 Is Unknown. The first issue relates to whether the state creates a maintenance factor obligation in a year when Test 1 is applied. Historically, a maintenance factor obligation generally has been created when *Test 3* applies. It is unclear whether a maintenance factor is created when *Test 1* applies and is lower than Test 2. Some believe a maintenance factor is created in this situation. If so, this could result in an additional maintenance factor obligation of $7.9 billion being created in 2008–09 (for a total outstanding maintenance factor obligation of $9.3 billion). Others believe that no maintenance factor is generated under this situation.

Method of Paying Maintenance Factor Also Unclear. The second issue relates to how the maintenance factor (from previous years) is paid in a Test 1 year. One interpretation is that maintenance factor payments are to be made on top of the Test 1 level. A second interpretation is that maintenance factor payments are to be made on top of the Test 2 level. Because the Test 1 level is expected to be significantly higher than the Test 2 level in 2009–10, the first interpretation could result in a significantly higher minimum guarantee in 2009–10.

FISCAL EFFECTS

This measure's fiscal effect would depend on a number of key factors, including:

- ***Interpretation of Current Law.*** Because there is uncertainty over how the Constitution would be interpreted in its current form, it is unknown how Proposition 98 funding would work in the future under current law. As a result, it is difficult to know how this measure would change the state's finances.
- ***Economic and Revenue Outlook.*** The Proposition 98 minimum guarantee changes each year in large part due to changes in the state's economy and revenues. Thus, shifts in the economy and revenues can change the minimum guarantee by billions of dollars.
- ***Passage of Proposition 1A.*** If Proposition 1A is not approved by the state's voters, this measure would have no fiscal effect. Funding for Proposition 98 would be determined by interpreting the Constitution in its current form.

While these factors are uncertain, we describe below the likely effects of this measure for both the near- and the longer-term, assuming that Proposition 1A also passes.

Savings in Near Term. In 2009–10 and 2010–11, the measure could result in annual savings. This is because the measure could postpone maintenance factor payments that otherwise would have been made in these years. Any such savings could be up to several billion dollars each year. Under other interpretations of current law, however, this measure would result in no savings in 2009–10 and/or 2010–11.

Costs in Long Term. In 2011–12, the state would begin making supplemental payments. The $9.3 billion in payments likely would be paid over a five-to-six year period. As noted above, the long-term effect of these payments is subject to considerable uncertainty. Under most situations, however, costs for K–14 education likely would be higher than under current law—potentially by billions of dollars each year.

For text of Proposition 1B, see page 48.

★ ARGUMENT IN FAVOR OF PROPOSITION 1B ★

California schools have been hit very hard by the state budget crisis. Education spending has been cut by over *$12 billion.* These horrific cuts have forced the layoff of more than 5,000 teachers and threaten the jobs of at least 13,000 more.

These cuts have increased class sizes, left classrooms with out-of-date textbooks and provided school children with too few teachers, counselors, nurses and librarians. Important student programs like vocational education, art and music have been eliminated in many schools.

Prop. 1B starts the process of paying back to the schools and community colleges some of the money lost by these devastating cuts.

Instead of permanently losing these vital education funds, Prop. 1B sets up a repayment plan to ensure schools and community colleges are paid back as economic conditions improve. If we don't pass 1B, California will be permanently downgrading its public school system.

That is why the California Teachers Association urges you to vote Yes on Prop. 1B.

In 1988, voters passed Proposition 98 which provides a *minimum* guarantee of funding for K–12 education and community colleges. Prop. 98 is a safety net that provides the bare minimum funding necessary to keep our schools open . . . but we still rank 47th in the nation in per pupil spending. These recent budget cuts will push California even lower.

1B provides a way for schools to continue to get the *minimum* funding already set out in voter approved Prop. 98 by establishing a repayment schedule starting in 2011. This will allow local school districts to rehire teachers, reduce class sizes, purchase up-to-date textbooks and restore critical education programs. 1B requires strict accountability for education funding repayment and guarantees that the funding will go to local school districts to be spent in the classroom. School districts are audited annually by law.

During a crisis we all understand that every state program will receive cuts. But Californians have long recognized that high quality education leads to more prosperous and healthy communities for all of us. The future of our state depends on the investment we make in our public schools.

For future economic recovery and stability, California businesses need a well-educated workforce. California schools and community colleges must have adequate funding to educate our children to be vital members of this state's workforce. We cannot afford to lose jobs to other states.

Prop. 1B is part of a package of reforms that will provide short-term solutions to get us through these difficult economic times and long-term solutions to ensure we never again face the type of deficits we faced this year.

Prop. 1B is only a part of the solution, but it's a step we need if we are going to provide a quality public education to all students and keep public education a top priority in California.

Vote YES on Prop. 1B.

DAVID A. SANCHEZ, President
California Teachers Association

 Arguments printed on this page are the opinions of the authors and have not been checked for accuracy by any official agency.

★ ARGUMENT AGAINST PROPOSITION 1B ★

No argument against Proposition 1B
was submitted.

(A) Unfunded prior fiscal year General Fund obligations pursuant to Section 8.

(B) Any repayment obligations created by the suspension of subparagraph (A) of paragraph (1) of subdivision (a) of Section 25.5 of Article XIII.

(C) Any repayment obligations created by the suspension of subdivision (a) of Section 1 of Article XIX B.

(D) Bonded indebtedness authorized pursuant to Section 1.3.

(4) Any unanticipated revenues remaining after any appropriations and transfers described in paragraphs (1), (2), and (3) are made to retire all outstanding budgetary obligations shall be used for one or more of the following purposes:

(A) Transfer by statute to the Budget Stabilization Fund.

(B) Appropriation for one-time infrastructure or other capital outlay purposes.

(C) Appropriation to retire, redeem, or defease outstanding general obligation or other bonded indebtedness of the State.

(D) Return to taxpayers within the current or immediately following fiscal year by a one-time revision of tax rates, or by rebates.

(E) Appropriation for unfunded liabilities for vested nonpension benefits for state annuitants.

(d) For the 2010–11 fiscal year, and for each fiscal year thereafter, the revenue forecast amount shall be determined as follows:

(1) The General Fund revenues for the current fiscal year shall be forecast by extrapolating from the trend line derived by a linear regression of General Fund revenues as a function of fiscal year for the period of the 10 preceding fiscal years. For purposes of this paragraph, General Fund revenues shall exclude both of the following:

(A) The General Fund revenue effect of a change in state taxes that affects General Fund revenues for less than the entire period of the 10 preceding fiscal years.

(B) Any proceeds of bonds authorized by subdivision (a) of Section 1.3.

(2) The amount forecast pursuant to paragraph (1) shall be increased or decreased, as applicable, to reflect the net current fiscal year General Fund revenue effect of a change in state taxes for which General Fund revenue effects were excluded pursuant to subparagraph (A) of paragraph (1).

PROPOSITION 1B

This amendment proposed by Assembly Constitutional Amendment 2 of the 2009–2010 Third Extraordinary Session (Resolution Chapter 2, 2009–2010 Third Extraordinary Session) expressly amends the California Constitution by adding a section thereto; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

PROPOSED AMENDMENT TO ARTICLE XVI

That Section 8.3 is added to Article XVI thereof, to read:

SEC. 8.3. (a) School districts and community college districts shall receive supplemental education payments in the total amount of nine billion three hundred million dollars ($9,300,000,000). These payments shall be in lieu of the maintenance factor amounts, if any, that otherwise would be determined pursuant to subdivision (d) of Section 8 for the 2007–08 and 2008–09 fiscal years. These payments are not subject to subdivision (e) of Section 8. These payments shall be made only from the Supplemental Education Payment Account, subject to the deposit into that account of the amounts necessary to make the payments. The operation of this section is contingent upon the establishment of the Supplemental Education Payment Account pursuant to subdivision (a) of Section 20.

(b) Commencing with the 2011–12 fiscal year, in addition to the amounts required to be allocated pursuant to subdivisions (b) and (e) of Section 8, the Legislature annually shall appropriate to school districts and community college districts the amount transferred to the Supplemental Education Payment Account pursuant to subdivision (h) of Section 20 in satisfaction of the supplemental education payments required by subdivision (a), until the full amount of the supplemental education payments required by subdivision (a) has been allocated pursuant to this section.

(c) (1) Of the appropriations made to school districts for the 2011–12 fiscal year pursuant to subdivision (b), an amount not exceeding two hundred million dollars ($200,000,000) shall be available only for the purposes set forth in Section 42238.49 of the Education Code as that section read on March 28, 2009, as determined pursuant to the funding formula set forth in that section.

(2) The remaining amount of the appropriations made to school districts for the 2011–12 fiscal year pursuant to subdivision (b), and all of the appropriations made to school districts pursuant to subdivision (b) for each subsequent fiscal year, shall be allocated as an adjustment to revenue limit apportionments, as specified by statute, in a manner that does not limit a recipient school district with regard to the purposes of the district for which the moneys may be expended.

(d) All amounts appropriated in a fiscal year pursuant to this section shall be deemed allocations to school districts and community college districts from General Fund proceeds of taxes appropriated pursuant to Article XIII B for that fiscal year, for purposes of determining, in the following fiscal year, the amount required pursuant to paragraph (2) or (3), as applicable, of subdivision (b) of Section 8.

PROPOSITION 1C

This amendment proposed by Senate Constitutional Amendment 12 of the 2007–2008 Regular Session (Resolution Chapter 143, Statutes of 2008) and Assembly Bill 1654 of the 2007–2008 Regular Session (Chapter 764, Statutes of 2008) and Assembly Bill 12 of the 2009–2010 Third Extraordinary Session (Chapter 8, 2009–2010 Third Extraordinary Session) expressly amends the California Constitution by amending a section thereof and amends, adds and repeals sections of the Government Code and amends a section of the California State Lottery Act of 1984; therefore, existing provisions proposed to be deleted are printed in ~~strikeout type~~ and new provisions proposed to be added are printed in *italic type* to indicate that they are new.

PROPOSED LAW

PROPOSED AMENDMENT TO ARTICLE IV OF THE CALIFORNIA CONSTITUTION

That Section 19 of Article IV thereof is amended to read:

SEC. 19. (a) The Legislature has no power to authorize lotteries, and shall prohibit the sale of lottery tickets in the State.

(b) The Legislature may provide for the regulation of horse races and horse race meetings and wagering on the results.

(c) Notwithstanding subdivision (a), the Legislature by statute may authorize cities and counties to provide for bingo games, but only for charitable purposes.

(d) *(1)* Notwithstanding subdivision (a), there is authorized the ~~establishment of a~~ California State Lottery*, a lottery to be conducted by the State and operated for the purpose of increasing revenues to provide funds for the support of public education and other public purposes*.

(2) Notwithstanding any other provision of law or this Constitution to the contrary, the Legislature is hereby authorized to obtain moneys for the purposes of the California State Lottery through the sale of future revenues of the California State Lottery and rights to receive those revenues to an entity authorized by the Legislature to issue debt