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 in 1988, they guaranteed K–14 education (kindergarten through community college) a minimum amount of state and property tax revenue each year. The calculation of that guaranteed amount is largely based on the health of the state's economy. The Proposition 98 funding guarantee relies on three basic principles:

- In years of "normal" state revenue growth, K–14 education receives at least the same amount as the previous year, adjusted for changes in enrollment and per capita personal income.
- When revenue growth from one year to the next is particularly bad, K–14 education participates in the state's losses according to specified "fair share" formulas.
- Following a "fair share" reduction that causes the Proposition 98 funding guarantee to lag normal growth, the state is obligated to eventually restore K–14 funding to what it would have been if no reduction had occurred.

In practice, Proposition 98 has meant that education is entitled to the same amount allocated the previous year, plus enrollment growth and an inflation adjustment equal to the change in per capita personal income in the state. This is generally referred to as Test 2. (See the diagram at right.) In difficult economic years, the state can provide a lesser amount as specified in Test 3. The shortfall must be restored in a future year when state tax revenues grow faster than personal income.

These formulas and requirements were based on the unrealized assumption that the state's General Fund growth would be relatively stable from one year to the next. Revenues have been particularly volatile and unpredictable since 2000. During both the 2001–02 and 2002–03 budget cycles, the K–14 allocations were cut or deferred midway through the budget year in order to lower the amount of the guarantee for the following year.

The actual amount of the Proposition 98 minimum funding guarantee is calculated using one of three tests.

Test 1

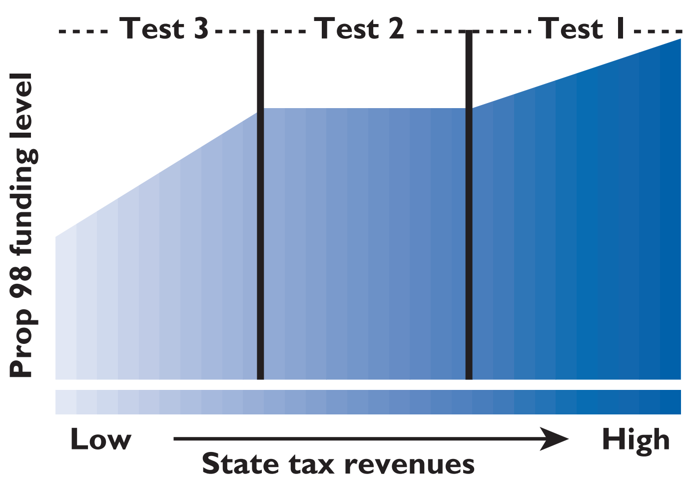
at least 34.6% of state General Fund revenues.

Test 2

same amount as previous year, plus enrollment growth and inflation adjustment based on growth in per capita personal income. For 2003–04 Test 2 applies.

Test 3

same as Test 2 except the inflation adjustment is the annual change (increase or decrease) in per capita General Fund revenues plus 0.5.



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4151 Middlefield Rd., Suite 100, Palo Alto, CA 94303-4743 • 650/857-9604 • Fax: 650/857-9618 • edsource@edsource.org • www.edsource.org • www.ed-data.k12.ca.us