

PROPOSITION 98: AN INTRODUCTION

Section 8 of Article XVI of the state constitution, added by Proposition 98 of 1988, establishes a minimum funding level or guarantee for K–12 education and community colleges. The amount guaranteed depends on a number of factors according to formulas specified in the constitution. Proposition 98 *is* complex. The following is an attempt to provide a brief overview of key provisions and concerns.

The Proposition 98 school funding guarantee consists of three “tests” that apply under varying economic and fiscal conditions. Proposition 98 states that K-12 education and community colleges shall receive the greater of a fixed percentage of state general fund revenues (test 1) or the amount they received in the prior year adjusted for enrollment and inflation (tests 2 and 3). Revenue and personal income growth determine whether test 2 or test 3 applies in any particular year. The final guarantee is determined after the end of the fiscal year, since some of the information needed to calculate the guarantee (i.e., actual average daily attendance) is not available until the close of the year. The process of reconciling the actual and estimated guarantee is known as “settle up.” Over the past several years, schools have received additional funds attributable to prior years’ guarantees several years after the close of the fiscal year.

✓ **Test 1** guarantees schools the same share of state General Fund revenues as they received in fiscal year 1986-87, approximately 40 percent. The percentage guarantee was modified to reflect the increased local contribution to school funding in the wake of the property tax shift that transferred local property tax revenues from counties, cities, and special districts to schools and community colleges. The test 1 percentage is now 34.559 percent. Test 1 has only applied in one year, 1988-89.

✓ **Test 2** provides that schools shall receive at least as much as they received from state and local sources in the prior year adjusted for enrollment growth and the change in state per capita personal income. Test 2 is designed to insure that school funding keeps pace with inflation and enrollment growth. Test 2 applies in years when revenue growth is moderately strong.

✓ **Test 3** provides that schools shall receive at least as much as they received from state and local sources in the prior year adjusted for enrollment growth and the change in per capita general fund revenues plus 0.5 percent. Test 3 is also designed to adjust for changes in enrollment and inflation, but applies only when it results in a lower guarantee than under test 2. In other words, test 3 applies when the percent change in per capita state general fund revenue growth plus 0.5 percent is less than the percent change in state per capita personal income. Test 3 (test 3B) guarantees schools an increase in funding no less than the increase provided to all other general fund programs on a per capita basis. Test 3 applies in years when revenue growth is weak.

The legislature can suspend Proposition 98 for a single year with a two-thirds vote. Proposition 98 includes a restoration provision that applies if the guarantee is suspended or test 3 applies. In

brief, restoration requires an increase in school funding in strong revenue growth years up to the level determined by the test 2 formula.

Proposition 98 In Practice

Tax cuts create test threes. In general, test 3 applies in years with relatively low state revenue growth, while test 1 applies when revenue growth is extremely strong. Low revenue growth can result from a lagging economy or from tax cuts that reduce state revenues. In short, tax cuts can cause a test 3 situation wherein as much as two-thirds of the reduction in state revenues comes out of education. While the legislature can allocate more money for education than required by Proposition 98, fiscal constraints make substantial overfunding unlikely, particularly in years where revenue growth is minimal.

Proposition 98 establishes a funding level not an entitlement for individual programs.

Proposition 98 establishes a required funding level for programs falling under the guarantee as a whole, it does not create an “entitlement” to funds for any individual program. The legislature has the authority to allocate Proposition 98 dollars to individual programs through the budget process and legislation.

Proposition 98 is not just K-12 education. The Proposition 98 guarantee applies to K - 12 education, community colleges, and county offices of education, as well as child development programs administered through the state Department of Education, and educational programs administered through the California Youth Authority and Department of Mental Health. In 1999-00, K - 12 education (including child development) accounted for 88.9 percent of Proposition 98 spending, community colleges accounted for 10.1 percent, and all other agencies accounted for 2.0 percent. What programs count toward the Proposition 98 guarantee is an area of controversy. Proponents of Proposition 98 have fought to limit the number of programs counting toward the guarantee in order to prevent erosion of core education spending. Advocates for individual programs see Proposition 98 as desirable, since the guarantee offers protection from competition for scarce resources by non-Proposition 98 programs. Examples of recent controversies include the status of state spending for various museums and spending on early mental health counseling programs.

The minimum has become the maximum. Proposition 98 specifies a minimum school funding guarantee. In practice, the minimum has become the maximum. Legislators have been reluctant to “overfund” the guarantee since the prior year’s spending increases the guarantee in future years under both tests 2 and 3.

Where are we now? The Legislative Analyst projects that test 2 will apply in 1999-2000 and 2000-01.

For More Information

Paul M. Goldfinger, *Revenues and Limits: A Guide to School Finance in California*, School Services of California, Inc (1998). This book provides an easy to understand, but fairly detailed description of Proposition 98 and other aspects of school finance.