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California's protection and advocacy system

**Disability Rights California Opposes Proposition 1B
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Background:

Proposition 98 (enacted in 1988) requires the state to provide a minimum level of funding each year for kindergarten through twelfth grade education and community colleges, collectively K-14. The minimum funding level—commonly known as the minimum guarantee—is determined by one of three funding formulas.

- “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).
- “Test 2”. 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 (measured by personal income).
- “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.

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. Then,

the funding gap must be paid back in future years. This is in addition to the minimum funding required in the future years.

This Proposition:

Proposition 1B is linked to Proposition 1A. If Proposition 1A fails, Proposition 1B does not succeed, even if it passes on its own. This is because the funding for this Proposition 1B is linked to the Budget Stabilization fund created by Proposition 1A.

Proposition 1A requires the state to transfer 3% of the estimated General Fund revenues into the Budget Stabilization Account annually until the account reaches 12.5% of the state funds.

Half of the 3% contributions would then be transferred (i.e. 1.5 percent of the estimated General Fund revenues) into a different account pursuant to Proposition 1B to fund education each year beginning on October 1, 2011 until a total of \$9.3 billion of payments have been made. The measure states that contributions to the fund created by Proposition 1B are in lieu of any maintenance factor obligation that otherwise may apply because of the level of funding provided under Proposition 98 in 2007-08 and 2008-09. The measure, however, does not clarify the uncertainty regarding maintenance factor in Test 1 years for the future. The measure gives discretion to the Legislature and the Governor regarding how these payments would be distributed between K–12 education and community colleges.

Analysis:

The Governor's Proposed Budget assumes that the minimum required 2008-09 funding level for education would be determined by Proposition 98's "Test 1" and that no maintenance factor obligation is created as a result. Therefore the state would not be required to restore funding to the level at which it would have been if 2008-09 funding had been determined under Proposition 98's "Test 2."

Education advocates and some analysts argue that the Governor's interpretation of Proposition 98 is in error and that a maintenance factor should be created in 2008-09. The difference of interpretation has a major impact on future years' school funding.

Proposition 1B is a compromise that avoids the controversy and requires the State to increase annual school funding by \$9.3 billion, to be paid over

several years, thereby closing the perceived budget gap, or the maintenance factor amount that advocates say is owed. This is accomplished via Proposition 1B because it uses funds linked to and transferred from the rainy day fund established under Proposition 1A. Transferred funds would be used to support Proposition 98 programs beginning in 2011-12. This allocation would continue until \$9.3 billion in payments is reached.

The overall impact of Proposition 1B on the budget depends on the interpretation of Proposition 98 and, in particular, resolution of the question of which test applies ("Test 1" or "Test 3" described above) and whether or not a maintenance factor obligation is created in 2008-09.

Those in favor of the measure believe that it will ensure recent education funding cuts are paid back in future years. It will help to close the immediate budget deficit by delaying supplemental payments that would otherwise be paid back sooner.

In the end, Proposition 1B either increases the state's school funding obligation or provides payments similar to those that would be required under current law. Those opposed believe that the proposition will not solve the long term issue of education funding. It will cost the state's general fund more in future years, possibly deepening future deficits.

The Legislative Analyst's Office (LAO) notes that Proposition 1B "could postpone maintenance factor payments that otherwise would have been made" in 2009-10 and 2010-11, but that under alternative interpretations, no savings would occur. Similarly, the LAO notes and agrees with the opposition that the long-term impact of payments mandated by Proposition 1B is "subject to considerable uncertainty...however, costs for K-14 education likely would be higher than under current law – potentially by billions of dollars each year."

http://www.lao.ca.gov/ballot/2009/1B_05_2009.aspx

Position of Others:

Support:

California Teachers Association
California Federation of Teachers
California Chamber of Commerce
California Peace Officers Association
California State Conference of NAACP

Oppose:

California Nurses Association
AFSCME