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POLICY BRIEF

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Proposition 98 Sets a Minimum Funding Guarantee for Education

Proposition 98, passed by voters as an amendment to the California Constitution in 1988, is designed to guarantee a minimum level of funding for public schools and community colleges that at least keeps pace with growth in the K–12 student population and the personal income of Californians and at best increases the amount schools receive. It was revised in 1990 by Proposition 111. Proposition 98 dollars are state funds raised primarily through income, sales, corporate, and capital gains taxes, combined with local property tax revenues. They represent about 72% of the funds that K–12 schools receive.

The minimum spending level under Proposition 98 is determined by one of three "tests" or formulas, which are described in detail in the table below.

Several factors influence which test is used to set the minimum guarantee, but the most important are the annual changes in statewide K–12 student attendance, per capita personal income, and per capita General Fund revenues. (The General Fund is the state's largest pot of money and is not dedicated to one specific program.)

Understanding the Three Tests of Proposition 98

TEST 1 **Percentage of General Fund Revenues** Times used: 2	**Requirement**	K–14 education must receive a minimum percentage of General Fund revenues, currently about 41%.
	When is it operative?	When it would provide more money than Test 2 or 3. It has been used only twice, in 1988–89 and under the revised 2008–09 budget passed in February 2009.
TEST 2 **Adjustment Based on Statewide Personal Income** Times used: 12	**Requirement**	K–14 education must receive at least the same amount of state aid and local property tax dollars (collected locally but the distribution among local governments is determined by the state) as received in the prior year, adjusted for changes in K–12 attendence and per capita personal income.
	When is it operative?	Basically, when General Fund revenues experience normal or strong growth during the prior year. (Specifically, it is used when the percentage growth in state per capita personal income is less than or equal to the percentage growth in per capita General Fund revenues plus 0.5%.)
TEST 3 **Adjustment Based on Available Revenues** Times used: 7	**Requirement**	K–14 education must receive at least the same amount of state aid and local property tax dollars as received in the prior year, adjusted for changes in K–12 attendence and per capita General Fund revenues, plus 0.5% of the prior year Proposition 98 spending amount.
	When is it operative?	Basically, when General Fund revenues fall or grow slowly during the prior year. The intent is for the K–14 education funding requirement to be responsive to reduced revenue. (Specifically, it is used when statewide per capita personal income is greater than the percentage growth in per capita General Fund revenues plus 0.5%.)
SUSPENSION Times used: 1		Proposition 98 can be suspended for a year with a two-thirds vote of the Legislature and concurrence of the governor. If suspended, policymakers have great discretion as to the level of funding they provide. It has been used only once, in 2004–05.
MAINTENANCE FACTOR		If Test 3 is used, or if Proposition 98 is suspended, the amount saved (the difference between what Test 2 would have provided and what was provided) must be restored over time to the minimum guarantee level, beginning in the next year in which the percentage growth in per capita General Fund revenues exceeds the percentage growth in per capita personal income.
"SETTLE UP"		When state leaders craft a budget for the upcoming fiscal year, they must estimate what the minimum Proposition 98 spending level will be before the fiscal year starts. If, during the course of the fiscal year, the estimate turns out to be too low, the state must later make up the shortfall. The amount of the shortfall is often referred to as the "settle up" amount.

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