

Appendix VII: Proposition 98

When voters approved Proposition 98 as an amendment to the California Constitution, they sought to guarantee K–14 education (kindergarten through community college) a level of funding that would at least keep pace with increases in student population and the personal income of Californians and at best increase the amount schools receive.

In practice, the minimum guarantee required under Proposition 98 sets a benchmark for school funding that the state has seldom exceeded and that it has often failed to meet. The calculation of that guaranteed amount is based on the principle that K–14 education should receive at least the same amount as it did the previous year, adjusted for changes in enrollment and per capita personal income. This is referred to as the “Test 2”* guarantee.

The constitution allows state officials to temporarily reduce education funding below the minimum guarantee under two conditions. One is when the state’s General Fund revenues grow less than personal income. This is often referred to as “Test 3.” The other is when two-thirds of the Legislature votes to suspend the guarantee for a given year.

In both cases, the amount saved in that year must begin to be restored to the minimum guarantee level in the next year that state general fund revenues grow faster than personal income. This hypothetical example explains (in a simplified way) how it works:

- In Year One, the Test 2 minimum guarantee is \$45 billion. But the state’s fiscal condition dictates that Test 3 is in order, providing only \$43 billion.
- In Year Two, state revenues improve and the minimum guarantee must be provided. If the state can afford it, the calculation of the Year Two amount begins from the \$45 billion level because that was the minimum guarantee in Year One. Adjustments for enrollment and personal income growth then proceed from that level.
- The state may not have enough revenue to cover the full amount of the resulting minimum guarantee in Year Two. It has solved this problem by funding below the guarantee and carrying forward a “maintenance factor” that keeps track of what full restoration of the guarantee would amount to. This can be restored gradually as the state’s General Fund revenue growth is sufficient to do so.

The Legislature always has the option of funding K–14 education above the minimum guarantee. When it does so, however, it is also raising the base amount from which the guarantee is to be calculated the following year.