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CAL-TAX URGES YES VOTE ON PROPOSITION 76 – BUDGET REFORM THAT WILL INCREASE SCHOOL FUNDING

The Board of Directors of the California Taxpayers' Association on September 23 voted to support Proposition 76, the budget process reform initiative sponsored by Governor Arnold Schwarzenegger. After an extensive analysis of the measure, the organization concluded it improves the budget process and protects taxpayers, and will increase funding available to school districts. Cal-Tax President Larry McCarthy called Proposition 76 "a good deal for schools."

Under Proposition 76, amounts of state aid to schools will still be governed by Proposition 98 (the 1988 initiative that established a guaranteed level of school funding). Proposition 76 makes three important changes to Proposition 98 that will, on balance, provide more funds to schools than current law:

- The initiative repeals "Test 3" of Proposition 98. Currently, schools get the *lower* of "Test 2" or "Test 3." (Test 3 is operative during the state's low revenue years. It increases prior-year school funding by the growth in attendance and per capita general fund revenues. It has been operative in 1990-91, 1992-93, 1993-94 and 2001-02.) By repealing "Test 3," Proposition 76 will result in schools getting more money in those years that "Test 3" would have been in effect. "Test 2" increases prior-year school funding by growth in attendance and cost of living. (*See note below for an explanation of Proposition 98's funding formula tests.*)
- The initiative provides that amounts given to schools in excess of amounts required by Proposition 98 will not be included in the "base" on which the following year's amount is computed. Currently, any over-appropriations are included in the base. As a result, Proposition 98 acts both as a floor and a ceiling. It is fiscally irresponsible to give one-time state revenues to schools because Proposition 98 treats such revenues as on-going revenue. For example, this year's tax amnesty program produced substantial one-time revenue. Of the amount of one-time revenue spent, almost all went to transportation and local government, instead of schools. With the change in Proposition 76, it is likely that schools will get more revenue because there will be no impediment to allocating one-time money to education.
- The initiative requires "Test 3 settle up" obligations and the outstanding maintenance factor obligation (estimated to be \$3.7 billion) to be paid within 15 years. This ensures these obligations will be paid. In fact, according to the

Legislative Analyst's Office, the language might be interpreted to give schools substantially more than is owed.

Other provisions of Proposition 76 are also beneficial. By allowing the current budget to continue during the all-to-frequent delays in passing the budget, Proposition 76 ensures that state employees and vendors selling goods to the state can continue to be paid.

In addition, the initiative prohibits the Legislature from raiding special funds to balance the General Fund, a fiscally irresponsible tactic that has become standard operating procedure in recent years.

Founded in 1926, Cal-Tax is a nonpartisan research and advocacy association that protects against unnecessary taxes and promotes efficient, quality government services.

(Note: This basic explanation of Proposition 98 was issued in April 2005 by the Legislative Analyst's Office:

Over time, K-14 funding increases to account for growth in K-12 attendance and growth in the economy. There are three formulas ("Tests") that determine K-14 funding. Which test depends on how the economy and the state's General Fund revenues grow from year to year.

- Test 1 – Share of General Fund. Provides 39 percent of General Fund revenues. This test has not been used since 1988-89.
- Test 2 – Growth in Per Capita Personal Income. Increases prior-year funding by growth in attendance and per capita personal income. Generally, this test is operative in years with normal to strong General Fund revenue growth.
- Test 3 – Growth in General Fund Revenues. Increases prior-year funding by growth in attendance and per capita General Fund revenues. Generally, this test is operative when General Fund revenues fall or grow slowly.)

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