

Superintendent's State of the District Budget FAQ—State Ballot Propositions



DATE: March 26, 2009

How will the May ballot measures affect school funding?

Proposition 1A	STATE FISCAL STABILIZATION
Proposition 1B	EDUCATION FUNDING PAYMENT PLAN
Proposition 1C	SECURITIZATION OF STATE LOTTERY PROCEEDS
Proposition 1D	CALIFORNIA AND FAMILIES ACT: USE OF FUNDS
Proposition 1E	PROPOSITION 63: USE OF FUNDS

Proposition 1A STATE FISCAL STABILIZATION

Proposition 1A reforms the State budget system by stabilizing future State spending and increasing the size of the State's "Rainy Day" fund. It does not impact the minimum guarantee for education funding required by law. Proposition 1A requires that 3% of revenues must be deposited into the rainy day fund each year until the fund is equal to 12.5% of the State budget. Above-average revenues are also deposited into this fund to assist with future economic downturns and stabilize State spending, preventing the peaks and valleys of the current budgeting system. Part of these reserve funds can be used to repay the \$9.3 billion owed to public schools from previous funding deficits. It would also extend the tax increases in the State budget from three to five years.

Proposition 1A Summary:

- *Caps state spending based on the ten-year trend
- * Increases "rainy day" fund and limits how that money can be spent
- * Extends temporary tax increases for one to two years

Fiscal Impact

- * Higher state tax revenues of about \$16 billion
- * Increased amounts of money in "rainy day" reserve over time

Proposition 1B EDUCATION FUNDING PAYMENT PLAN

Propositions 1A and 1B interrelated. The Department of Finance maintains that the \$9.3 billion owed to public schools in school funding law is not a valid interpretation. This threatens future payments to K-14 education agencies. This proposition guarantees that education will retain the right to receive catch-up funding in future years. These payments would begin 2011-2012. If the proposition fails, education would need to pursue reimbursement by other means.

Propositions 1B Summary:

- * \$9.3 billion in supplemental education payments over five to six years beginning in 2011-12
- * Contingent upon passage of Proposition 1A

Fiscal Impact

- * If Proposition 1A or 1B are rejected, no obligation to make \$9.3 billion payment to K-12 education

Proposition 1C SECURITIZATION OF STATE LOTTERY PROCEEDS

This proposition requires the State to maintain ownership of the Lottery and borrow against future earnings. Education would no longer receive funding based on Lottery sales but would receive an increase in funding based on what they received from Lottery sales in 2008-2009. This change in funding would transfer the payments under the Proposition 98 minimum school funding guarantee. Since Lottery sales have decreased in 2008-2009, this could result in loss of additional revenue should Lottery sales return to previous level; however, the funds would increase by future education cost of living adjustments.

Proposition 1C Summary:

- * Allows State to borrow \$5 billion in fiscal year 2009-10 from future Lottery proceeds

Fiscal Impact

- * Receipt of the \$5 billion is assumed in the 2009-10 budget
- * Annual debt service payments of \$350 to 450 million for 20-30 years
- * If 1C is rejected, legislature and governor will probably have to agree to billions of dollars of additional spending cuts, tax increases and/or other solutions

Proposition 1D CALIFORNIA AND FAMILIES ACT: USE OF FUNDS

This proposition redirects a portion of the unspent tobacco tax funds to fund children's health and social services over the next two years.

Fiscal Impact

- * Up to \$608 million in 2009-10 from one time redirection of reserves
- * Annual payment of \$268 million from 2010-11 through 2013-14

Proposition 1E PROPOSITION 63: USE OF FUNDS

This proposition redirects a portion of the Mental Health Service Trust Fund to prevent elimination of children's health programs.

Fiscal Impact

- * \$226.7 million is redirected in 2009-10
- * \$226.7-234 million is redirected in 2010-11

What happens if the Propositions do not pass?

If Proposition 1A or Proposition 1B fails to pass, K-14 education will need to pursue the \$9.3 billion owed to education through other means. The temporary tax increase included in the State Budget would also end earlier. If Proposition 1C fails, there will be an additional \$5 billion shortfall in the current State Budget. While Propositions 1D and 1E are not directly related to education, if any of these fail, there will be an additional shortfall of \$827 million in the State Budget.

At this point, the Legislature does not have a plan on how to deal with these shortfalls should they materialize. However, it is likely that this issue will be addressed through the May Revision, which must be released no later than June 8. As a result, the District must have a contingency plan in place in case of additional revenue cuts. These cuts will be in addition to the cuts already made by CUSD.



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