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PROPOSITION 111: BALLOT MEASURES JUNE 1990

A DECADE OF PROPOSITIONS

An expansion of the state's ability to spend its revenues. . . adjustments to Proposition 98. . . a package to address transportation needs. These three seemingly unrelated topics are combined into Proposition 111 on the June 1990 ballot in an attempt to modify the state's financial structure.

In the same election voters will have to approve Proposition 108 in order to fund the transit package. They will also decide whether or not to authorize more bonds (Proposition 123) to support the construction of schools.

During the past dozen years, many elections have contained lengthy measures with substantial impact on the state's budget and on education. This time is no exception, and this time is also exceptionally complicated.

PROVISIONS OF PROPOSITION 111

SCA (Senate Constitutional Amendment) 1, sponsored by Senator John Garamendi, has become Proposition 111. Titled "Traffic Congestion and Spending Act of 1990," it was passed in both houses of the California Legislature in June 1989 as part of a broad compromise to begin addressing the problems in the state's financial structure. The agreement included Proposition 108 for \$1 billion in passenger rail and clean air bonds, Senate Bill 98 and Assembly Bill 198 to implement Proposition 98, and now another bill, Senate Bill 88, to implement Proposition 111.

If Proposition 111 succeeds, it will take effect July 1, 1990, and will generate a total ten-year transportation package of \$18.5 billion. If it fails to pass, Proposition 108, SB 98 and AB 198 will be voided.

Proposition 111 has three parts which would:

- revise the California Constitution to expand the state's spending authority (Gann limit)
- rewrite portions of the original Proposition 98 to cap the potential additional funds directed to K-14 education
- increase gasoline taxes and truck weight fees to improve the state's transportation infrastructure.

REVISIONS TO THE GANN SPENDING LIMIT

The limitation on state spending, called the "Gann" limit after the author of the constitutional amendment, looms on the horizon during each budgeting season. Its threat is even darker now that Proposition 98 guarantees a minimum allocation to education plus additional amounts when tax revenues exceed the state's spending limit.

This new situation forced the Legislature and Governor into making some deft adjustments for 1989-90 and seeking more perma-

ELEMENTS OF PROPOSITION 111

- Limit on state spending
- School funding
- Transportation funding

nent changes for the following years. They agreed on three in Proposition 111:

1) **A new formula for calculating state and local Gann limits year to year.** Currently these limits are based on appropriations of tax revenues in 1978-79, adjusted thereafter for the change in population and in the cost-of-living. The latter is defined as the *lesser* of the change in the U.S. Consumer Price Index or California's per capita personal income.

Under Proposition 111, the new definition of population for the state would be a combination of 60% from the increase in state

TABLE OF CONTENTS

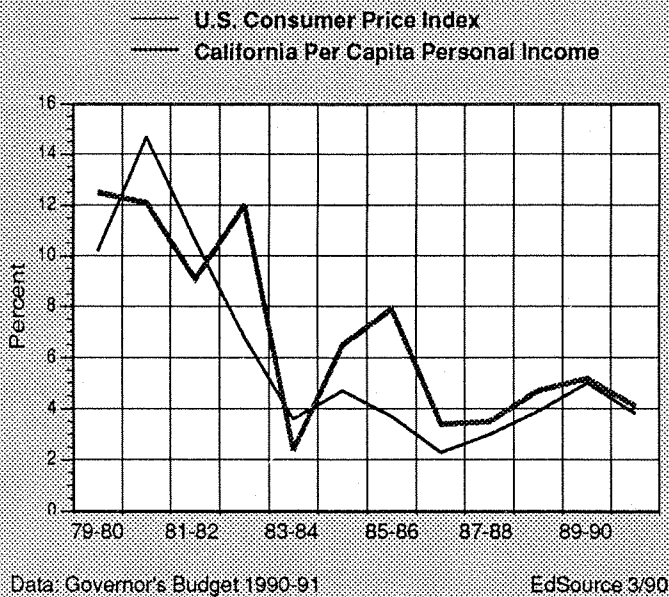
A Decade of Propositions	p. 1
Provisions of Proposition 111	p. 1
Revisions to the Gann Spending Limit	p. 1
Revisions to Proposition 98	p. 2
Transportation Tax and Proposition 108	p. 3
The Politics	p. 3
The Impact of Propositions 111 & 108	p. 4
Bonds for School Construction	p. 4

SUMMARY California voters again face a lengthy ballot with several measures that affect education. Proposition 111 would raise revenues to improve transportation and would modify the state's financial structure by expanding the state's spending limit and revising Proposition 98. Proposition 123 would authorize \$800 million in bonds to support the construction and major renovation of schools.


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FIGURE 1. INFLATION INDICES



population and 40% from increased K-14 enrollments. Since enrollments are growing faster than the state's population, this change would result in an expansion of the state's limit while still retaining the voter-approved containment of spending.

The proposed cost-of-living factor for schools and the state government would become simply the change in California per capita personal income, starting with the base year 1986-87. This index is generally agreed to reflect economic growth and therefore the fiscal health of the state. As Figure 1 shows, in recent years this new factor would have allowed faster growth in the state's Gann limit and spending authority.

2) New exemptions. Under the existing constitutional provision, nontax revenues (such as user fees), debt service, and the costs of state or federal mandates are not counted against the state's spending limit.

the state's budget caused by Proposition 98. It would also ensure that revenues raised specifically for highways, public transit and other transportation proposals could be spent on the targeted projects without a percentage being diverted to education.

3) Revision to the treatment of excess revenues. The original Gann limit amendment specified that tax revenues in excess of the state's limit had to be rebated to taxpayers (as happened in 1987). Proposition 98 amended that provision to direct that a portion of excess revenues be allocated to education, with any remaining rebated to taxpayers, and that the additional allocation be included in education's base amount for the following year.

Proposition 111 would require that excess revenues in one year be carried over to the next year; if they could not be expended within the state's limit, then the rebate provision would kick in. Proposition 111 would also limit education's share of excess revenues to 50%, as a one-time payment that is not included as part of the base. The calculation would be made as a two-year average.

Proposition 111 would also exclude all capital outlay expenditures (as defined by the Legislature), appropriations stemming from gasoline taxes above nine cents per gallon and current vehicle weight fees (which are presently included in the appropriations limit), and expenditures for natural disasters such as earthquakes.

This provision is meant to free the tight constraints on

The Legislature would still be able to

CHANGES TO GANN LIMIT

- Expanded formula for calculating limits
- Exemptions for capital outlay, natural disasters, transportation taxes
- Averaging of excess revenues
- 50% rebate to taxpayers

declare an emergency and suspend the Gann limitation by a two-thirds vote, but the limit would have to be reduced in the subsequent three years.

REVISIONS TO PROPOSITION 98

The interaction between the Gann limit and the provisions of Proposition 98 is the most complicated part of Proposition 111. The four components are:

1) A change in the formula for calculating K-14 education's guaranteed minimum revenue. The two tests for determining how much money education will receive are the *higher* of (1) the percentage spent from the state's general fund or (2) the total amount for the previous year adjusted by enrollment increases and cost-of-living as defined for Gann limits.

Proposition 111's revision in the definition of cost-of-living for Gann limits would therefore apply to the Proposition 98 guarantee. This would expand Test 2.

2) A temporary ceiling on education's guarantee. If Proposition 111 passes, a third test would be applied. If the growth in per capita personal income is greater than the growth in state revenues, the formula will be capped at the amount of revenue growth.

Proposition 111 states that the difference would have to be repaid over time as revenues became available. The purpose of this provision is to prevent education's guarantee from taking an even greater share of the state's budget in a year of slow revenue growth.

3) Limits to additional allocations. As described above, in a year of tax windfalls any

ADJUSTMENTS TO THE STATE'S GANN LIMIT

Current	Proposition 111
1) Change in California population	1) 60% California population growth, 40% K-14 enrollment growth
2) Lesser of U.S. CPI or California per capita personal income	2) California per capita personal income

excess above the state's Gann limit would be split between education and taxpayers.

4) Confirmation of AB 198 and SB 98.

These two laws contain the definitions and formulas for implementing Proposition 98. If Proposition 111 does not pass, the ongoing provisions of the two laws will be repealed, and the implementation will have to be renegotiated. The framework for this eventuality is Assembly Bill 2598.

Also tied to the passage of Proposition 111 is the current guarantee of increases in cost-of-living and student population for a number of state categorical aid programs. These include the large ones of Special Education for the Handicapped, Child Care, and Economic Impact Aid.

EFFECT ON SCHOOL FUNDING

- Change in inflation index
- 50% of revenues above Gann limit in one-time payment
- Cross-year averaging of Proposition 98 revenues
- Confirmation of SB 98 and AB 198

TRANSPORTATION TAX AND PROPOSITION 108

Proposition 111 is interwoven with an ambitious program to address the state's growing transportation needs. The four factors are:

1) Increased taxes on gasoline. Voter approval of this proposition would enact Senate Bill 300 and Assembly Bill 471, both already approved by the Legislature and signed by the Governor. Through this legislation, an additional five-cent per gallon tax would be imposed on gasoline starting in August 1990; a one-cent per gallon increase for the next four years would bring the total to nine more cents. These additional revenues would not be counted toward the state's spending limit.

2) Higher truck weight fees. The weight fees for trucks over two tons would increase 40% in August 1990 and 10% more in Janu-

ary 1995. This revenue would also be excluded from the state's spending limit.

3) A plan for transportation. A comprehensive Congestion Management Program has been developed. Its subjects are new highways, roads, and public mass transit facilities.

4) Proposition 108. The "Passenger Rail and Clean Air Bond Act of 1990" (Assembly Bill 973) is Proposition 108 on the June ballot. If voters approve, it would provide \$1 billion for mass transit bonds, primarily for capital improvements on intercity, commuter and urban rail transit. Other billion-dollar measures are planned for the November 1992 and November 1994 ballots. Proposition 108, which also transfers \$4 million for the repair of roads in state parks, becomes active only if Proposition 111 passes.

THE POLITICS

In a move remarkable for its near uniqueness, Governor Deukmejian, most of the Legislature, and many professional and citizen groups active in Sacramento joined in support of Proposition 111 – following intense negotiations in which interested parties both gained and lost.

The ballot argument is signed by Senator Garamendi and the presidents of the California Chamber of Commerce and the California Association of Highway Patrolmen. It points out that the money for transportation improvements will come through increased user fees, or about \$60 a year for the average driver, and that state and local Gann limits will be allowed to grow with, but no faster than, the economy.

The argument against Proposition 111, prepared by an Assemblyman, a Los Angeles County Supervisor, and a free-lance economist, states that Proposition 111 would "eliminate the Gann Limit" in order to raise taxes and increase government control. The rebuttal, signed by the Governor, the president of the California Taxpayers Association (CalTax), and the chair of the state legislative committee of the American Association of Retired Persons (AARP), reiterates the points in the proposition and the

purpose of the gas tax increase; it also mentions a "commitment" that one-quarter of education's share of excess funds would be used to reduce class size.

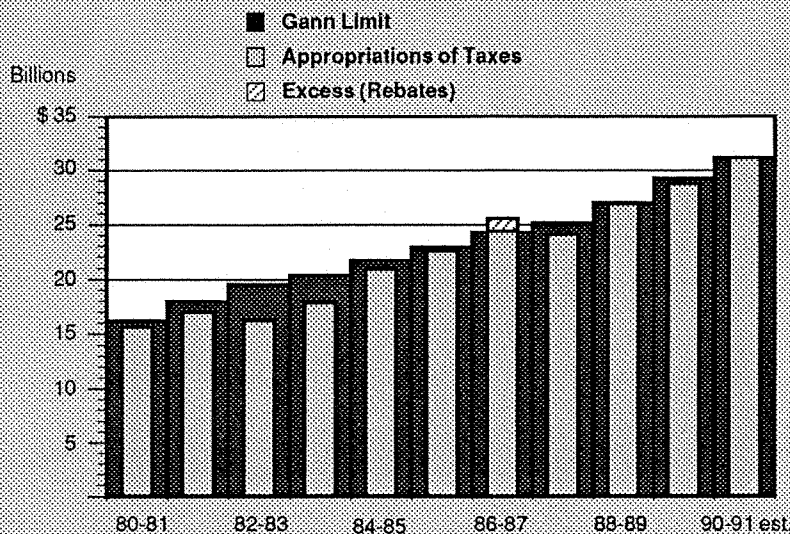
The response from the education community has ranged from support to irritation. Proposition 111 poses a dilemma: should education insist on maximizing its income at the expense of social services and other necessary government commitments? The answer evidently is no; as various groups analyzed the proposition, they appear to have concluded that the provisions of 111 would benefit many segments of the state, including education. Of particular importance to them was the potential expansion of the state's Gann limit as well as the validation of AB 198 and SB 98.

The powerful California Teachers Association (CTA), which generated and widely publicized Proposition 98, was originally opposed to what it saw as the watering down of Proposition 98 guarantees. Representatives of the union met with various coalitions to find compromises. Open issues were the extent to which increases in property taxes could be used to expand school funding or equalize growth on a workload basis, as well as how to protect education from losses in slower growth years. The Governor made a commitment to CTA to roll a portion of any appropriations from excess funds into education's base in order to reduce class size. The resolution of these issues is in Senate Bill 88. In late March CTA announced its support for Proposition 111.

TRANSPORTATION FUNDING OVER 10 YEARS

<i>Proposition 111 - Traffic Congestion Relief and Spending Act</i>	
Gasoline tax increases	\$ 12.9 billion
Truck weight fee increases	2.0 billion
New sales tax revenues	<u>.6 billion</u>
	\$ 15.5 billion
<i>Proposition 108 - Passenger Rail and Clean Air Bond Act</i>	
June 1990 bonds	\$ 1 billion
November 1992 bonds	1 billion
November 1994 bonds	<u>.1 billion</u>
	\$ 3 billion
Total	\$ 18.5 billion

FIGURE 2. THE GANN LIMIT AND STATE APPROPRIATIONS



Data: Governor's Budget 1990-91

EdSource 3/90

Publicity for this proposition has focused on the transportation package, perhaps in part because the other aspects are not easy to explain on billboards or radio spots. A Mervin Field poll in late February showed 46% of voters in favor, 46% opposed, and only 8% undecided. By early March a *Los Angeles Times* poll revealed close to a majority in opposition.

Beleaguered voters face a total of seventeen propositions this June in their continuing role of setting public policy for the state.

THE IMPACT OF PROPOSITIONS 111 & 108

The Office of the Legislative Analyst estimates that the increase to the state's Gann limit would be about \$800 million in 1990-91 and "unknown amounts annually thereafter." In 1990-91 there would be no effect on spending (aside from transportation), because state revenues are currently projected to be lower than the limit. If the proposition passes, education's minimum guarantee could grow somewhat, but the increase to the state's spending limit would reduce the likelihood of schools (and taxpayers) benefiting from "excess" revenues.

As for Proposition 108, the general obligation bonds would have to be repaid over 20 years from the state's General Fund. If sold at an interest rate of 7.5 percent, the average payment would be about \$90 million annually for principal and interest.

The Commission on State Finance projects that the modifications in Proposition 111 would be adequate to let the state spend all of its tax revenues for the next several years. They estimate that state expenditures would still be \$3 to 4 billion under the limit in ten years if the proposition passes.

At the end of the decade, education could take up 48 to 49% of a smaller state budget if Proposition 111 fails or 42 to 43% of a larger budget if it passes, according to the Commission. In either event, school population is growing at 3.5 to 4%, whereas state population is growing about 2%. Education will therefore receive slightly more of the budget solely because of workload.

Three consequences are not open to interpretation or dependent on predictions: the passage of Proposition 111 would provide a lot of money for transportation through the higher tax on gasoline; it would allow more tax revenues to be spent on all entities sup-

ported by government than possible under the current definitions of the Gann limit; and it would eliminate the need to start over with the formulas for implementing the Proposition 98 guarantee for education funding.

BONDS FOR SCHOOL CONSTRUCTION

Proposition 123 would authorize \$800 million in bonds. This includes \$40 million for air conditioning in schools with year-round programs and up to \$260 million for asbestos abatement, portable classrooms, reconstruction, and child care facilities. The rest would be for construction.

Securing the money to construct new schools is an ongoing problem because of the rapid growth in enrollments in various areas of the state. The current backlog of requests totals \$5.5 to 6 billion, and an additional \$17 to 20 billion is projected for the next ten years.

With over 170,000 new students annually, fourteen new classrooms will be needed each day for ten years. The \$1.1 billion authorized in 1988 was depleted by January 1990.

As usual, politics played a big role before Proposition 123 was placed on the ballot. A requirement for affirmative action in hiring contractors was removed from this first bond measure but was added to the companion proposition for another \$800 million request in November 1990.

A by-product of the legislative debate is an acknowledgement of the need for a new approach to the massive problem of financing more school buildings. One possibility is for the Legislature to lower the requirement for local general obligation bonds to a majority instead of two-thirds vote.

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