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UPDATE ON THE OUTCOME OF PROPOSITION 30

INFORMATION AND REPORTS

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Item 4.3

Background

On the recent November ballot, Governor Brown asked voters to support Proposition 30 which, if approved, would increase personal income taxes for upper-income earners for seven years (2012 through 2018) and would increase the sales tax by $\frac{1}{4}$ of a cent for every dollar of goods purchased for four years (2013 through 2016). The Legislative Analyst's Office estimates that the initiative would raise about \$6 billion in annual state revenues from the 2012-13 fiscal year through the 2016-17 fiscal year, and smaller amounts in the 2011-12, 2017-18, and 2018-19 fiscal years.

The 2012-13 budget assumed successful passage of Proposition 30, and the initiative's failure would have resulted in the enactment of \$6 billion in midyear trigger reductions, primarily in the area of education. As discussed in previous board meetings, the California Community Colleges would receive \$209.9 million in new funding (\$50 million for growth and \$159.9 million to buy down deferrals) assuming voter approval. Failure of the initiative would have resulted in losing that \$209.9 million plus an additional base reduction of \$338.6 million.

On November 7th, California voters approved Proposition with about 53.9 percent of the vote. Thus, the California Community Colleges have avoided trigger reductions for the current budget and can potentially hope for more stable budgets in future years.

Analysis

How does Prop 30 Work? The higher revenues authorized by Proposition 30 would be deposited into a new account, the Education Protection Account (EPA). K-12 receives 89 percent of these funds and community colleges receive 11 percent. The funds are distributed to districts in proportion to their general apportionment funding, with the exception that all districts must receive at least \$100 per FTES. For the 2012-13 fiscal year, all of the EPA funds will be distributed in June. Commencing in 2013-14, funds will be distributed on a quarterly basis. The EPA funds will be appropriated continuously, so they are not subject to the annual budget process.

How Much Funding Should We Expect? While revenue estimates are subject to change, the Department of Finance estimated that passage of Proposition 30 would lead to K-14 Proposition 98 growth of \$16 to \$17 billion from 2013-14 through the 2016-17 years. On average, this would suggest that community colleges could expect average annual increases of approximately \$400-\$500 million. Long range projections are volatile, of course, especially as California's revenues are highly dependent on high-income earners. Plus, the Governor has expressed a desire to first use new resources to pay down deferrals, so it's not clear how much will be available for growth, COLA

or other system needs. At the very least, though, Proposition 30's passage should help stabilize the budget over the next several years.

Special Conditions While the initiative characterizes the funds as "general purpose" and provides that a district has "sole authority to determine how the moneys received from the Education Protection Account are spent," the initiative also prohibits the funds from being used to pay salaries or benefits of administrators or for other administrative costs. Further, districts are required to determine the use of the funds in a public meeting, account for the receipt and use of the funds on its web site, and ensure through the annual audit that the funds were disbursed and expended as required.

Drawbacks While the colleges will certainly receive more funding in 12-13 with Prop 30's passage than had it failed, funds for the current year will not arrive until June. This may contribute to a cash crunch for districts. Further, there is the risk that the revenues generated will not be as high as estimated, creating a potential shortfall late in the fiscal year.

Another concern is the limited duration of the funds. The higher revenues generated by the initiative will begin to tail off in the 2017-18 fiscal year and will be gone as of the 2019-20 fiscal year. Districts need to be aware of the cliff they'll approach toward the end of the decade and prepare their communities for a soft landing.

Conclusion

The passage of Proposition 30 signals the public's desire to start reinvesting in public education. While the community colleges still face many challenges, the increased resources owing to the initiative's success should lead to greater system access and student success.