Ballot Proposition 123

Fiscal Impact Summary

State law requires the Joint Legislative Budget Committee Staff to prepare a summary of the fiscal impact of certain ballot measures. Proposition 123 raises the annual distribution rate of the State Land Trust Permanent Fund from 2.5% to 6.9% through Fiscal Year (FY) 2025 to provide additional resources to K-12 schools and other public institutions. Passage of the proposition also would permit related legislation that further increases K-12 funding to take effect. The proposition and related legislation are projected to result in $299 million of K-12 state aid in FY 2016 (current year) and $3.5 billion in the 10 year period through FY 2025.

As part of the $299 million FY 2016 funding, the proposition and related legislation would provide $249 million in permanent inflation-related adjustments in FY 2016. The $249 million would continue to grow over time due to further inflation and student population growth, totaling $2.9 billion over 10 years. Conditional upon the proposition's passage, the related legislation also would provide $50 million of additional non-inflation monies annually from FY 2016 – FY 2020 and $75 million of additional non-inflation monies annually from FY 2021 – FY 2025 for a total of $625 million over 10 years.

Of the $3.5 billion in K-12 state aid, $2.2 billion would come from increased distributions from the State Land Trust K-12 Permanent Fund. The sum of $800 million would come from reallocating current K-12 funding. The remaining $525 million would come from additional state General Fund appropriations.

The value of the State Land Trust K-12 Permanent Fund balance is $4.8 billion. Under the proposition, it is projected to be $6.2 billion by 2025. In the absence of the proposition, the projected balance would be $9.0 billion by 2025.

School districts with sufficient property tax collections to meet K-12 funding requirements do not receive state aid. As a result, the proposition's inflation adjustments could increase the levels of self-funding by these districts. The increase in self-funding by non-state aid districts could equal approximately $20 million in FY 2016.

By increasing the distribution rate of the State Land Trust Permanent Fund to 6.9%, the proposition also would increase distributions to other public institutions. Non-K-12 institutions would receive $12 million in additional funds in FY 2016, including $4 million for universities, $3 million for the Pioneers' Home, and $2 million for correctional facilities. Through FY 2025, non-K-12 institutions are expected to receive $160 million in additional distributions.

Determining the fiscal impact of the proposition requires the projection of the annual distributions and the market value of the Permanent Fund over time. The actual amounts distributed to K-12 and other institutions could be higher or lower than the projected estimates, depending on the actual investment performance of the Permanent Fund and the timing and magnitude of future land sales.

The proposition also would allow the state to temporarily suspend future inflation increases during periods of economic slowdown in which sales tax revenue and employment each grew more than 1% but less than 2% in the prior year. It would require this suspension if sales tax revenue and employment each grew less than 1%. Since 1992, economic conditions would have met the 1-2% threshold in 1 year and would have met the 1% threshold in 3 years.

The proposition also would allow the state to reduce the 6.9% distribution rate to no less than 2.5% for the following fiscal year if the 5-year average balance of the State Land Trust Permanent Fund fell below the average balance of the preceding 5 years. The criteria for reducing the distribution rate would not have been met in the last 10 years, as no 5-year period since 2001 has averaged a lower balance than the preceding 5 years.

Beginning in FY 2026, the proposition would allow the suspension of the annual inflation adjustment and a reduction in K-12 funding for the next fiscal year equal to the current year inflation adjustment if K-12 spending surpassed 49% of the total state General Fund appropriations. If K-12 spending surpassed 50%, the state could temporarily suspend the annual inflation adjustment and reduce K-12 funding for the next fiscal year by twice the current year inflation amount. Currently, K-12 spending constitutes approximately 42% of total state General Fund appropriations.