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Attorneys for Petitioners/Plaintiffs

IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA COUNTY OF SACRAMENTO

CALIFORNIA SCHOOL BOARDS
ASSOCIATION and EDUCATION LEGAL
ALLIANCE, ,

Petitioners,

v.

MICHAEL COHEN, in his official capacity as the DIRECTOR OF FINANCE; THE STATE OF CALIFORNIA; TOM TORLAKSON, in his official capacity as SUPERINTENDENT OF PUBLIC INSTRUCTION; and BETTY YEE, in her official capacity as the STATE CONTROLLER,

Respondents.

CASE NO.:

VERIFIED PETITION FOR WRIT OF MANDATE (Pursuant to CCP § 1085)

Petitioners CALIFORNIA SCHOOL BOARDS ASSOCIATION and the EDUCATION LEGAL ALLIANCE (hereinafter "petitioners") bring this petition for writ of mandate to California Code of Civil

Procedure section 1085 against respondents MICHAEL COHEN, in his official capacity as the

DIRECTOR OF FINANCE, THE STATE OF CALIFORNIA, TOM TORLAKSON, in his official

capacity as SUPERINTENDENT OF PUBLIC INSTRUCTION, and BETTY YEE, in her official capacity as the STATE CONTROLLER (hereafter "respondents") and alleges as follows:

INTRODUCTION

This case concerns the proper interpretation of Article XVI, section 8 of the California

Constitution, commonly referred to as "Proposition 98." That constitutional provision requires the State to spend a minimum amount of money on education each year. This minimum spending amount, or "minimum guarantee," is based on specific mathematical formulas that provide stability and predictability in state education spending. The formulas are based on the percentage of State spending on education in 1986-87 and actual prior year education spending; each formula is designed to yield a number that is objectively ascertainable in order to remove education spending from the political process.

Because Proposition 98 does not define what spending constitutes spending for the support of schools, the Legislature has some discretion in determining which expenditures are included in the formulas and count toward the State's required level of education spending in a given year. (Such expenditures are often referred to as being "in" Proposition 98 or as "satisfying" Proposition 98.) For instance, when Proposition 98 was first implemented, the Legislature defined State spending on childcare as satisfying Proposition 98. But in 2011-12, the State declared that most childcare costs did not satisfy Proposition 98, i.e., such costs were *not* part of the education program. The Legislature made this decision retroactive to 1986-87, and it adjusted or "rebenched" the mathematical formulas accordingly by subtracting childcare costs from the prior education spending calculations. As a result, the minimum guarantee amount for 2011-12 was lowered. This allowed the State to reduce education spending that year by more than a billion dollars and still claim to meet the minimum spending guarantee.

In the most recent budget, however, the State shifted a portion of these costs *back* to Proposition 98 but failed to rebench the formulas (and the resulting minimum spending requirement). As the Legislative Analyst explained:

Previously . . . Proposition 98 funded the part-time day preschool program and non-Proposition

98 General Fund supported the wrap portion of the day. The budget package shifts non-Proposition 98 General Fund wrap funding provided to local education agencies (LEA's) into Proposition 98. (*The minimum funding guarantee is not rebenched for this shift.*) Full-day State Preschool slots offered by non-LEA providers remains funded with a combination of Proposition 98 and non-Proposition 98 General Fund. (LAO, 2015-16 Budget: Major Features of the Adopted Plan (Child Care and Preschool), June 19, 2015, p. 6 [emphasis added].)

Had the State rebenched the two formulas, the minimum guarantee would been approximately \$150-180 million higher, requiring the State to spend that much more on education as provided for by Proposition 98. The State's failure to do so illustrates that the Legislative Analyst was undoubtedly correct when he expressed "concern" that "frequent changes in the approach [to rebenching] can result in arbitrary changes to the Proposition 98 minimum guarantee from year to year and allow otherwise technical calculations to be used as a way to meet other objectives."

Petitioners do not object to the childcare expenditures that were the subject of this legislation, nor do they contend that the State cannot define education spending to include these costs. However, if the State is permitted to re-define the education expenses that satisfy Proposition 98 without rebenching the calculations that are used to determine the amount of minimum funding guarantee, it can selectively use rebenching as a tool to manipulate and reduce the minimum spending guarantee for K-12 education and community colleges that is required by the California Constitution. This will render the "guarantee" of Proposition 98 essentially meaningless and inject the kind of politically-created instability into state education spending that Proposition 98 was intended to eliminate. In sum, this case is not about childcare; it is about the proper interpretation of Proposition 98. Petitioners request that the Court direct the State to use a consistent methodology for any programmatic adjustments and that State officials be directed to implement Proposition 98 in accordance with law.

<u>PARTIES</u>

1. Petitioner CALIFORNIA SCHOOL BOARDS ASSOCIATION is and was at all relevant times, a California nonprofit corporation duly formed and validly existing under the law of the State of California. CSBA is composed of the governing boards of nearly 1,000 K-12 school districts and county boards of education throughout California which supports local school board governance and advocates on behalf of school districts and county offices of education before state and federal education policy-

makers. CSBA and its members are directly affected by the State's appropriations to K-12 school districts; any error in the calculation of the State's minimum funding guarantee pursuant to article XVI, section 8 ("Proposition 98") which results in less funding for education than is legally required directly impacts CSBA and its members. CSBA brings this action on its own behalf and on behalf of its members. CSBA members would otherwise be entitled to bring this suit in their own right, the interests that CSBA seeks to protect in this litigation are germane to its purpose, and neither the claim nor the relief sought herein require the participation of individual members.

- 2. Petitioner EDUCATION LEGAL ALLIANCE ("Legal Alliance") of the CALIFORNIA SCHOOL BOARDS ASSOCIATION is composed of approximately 725 members of the CSBA. The Legal Alliance consists of CSBA members that are committed to addressing legal issues of statewide concern to school districts; the Alliance has authorized this litigation. Legal Alliance members are directly affected by the State's appropriations to K-12 school districts; any error in the calculation of the State's minimum funding guarantee pursuant to article XVI, section 8 ("Proposition 98") which results in less funding for education than is legally required directly impacts CSBA and its members, including the Legal Alliance and its members. The Legal Alliance brings this action on its own behalf and on behalf of its members. Legal Alliance members would otherwise be entitled to bring this suit in their own right, the interests that the Legal Alliance seeks to protect in this litigation are germane to its purpose, and neither the claim nor the relief sought herein require the participation of individual members.
- 3. Respondent MICHAEL COHEN ("Director of Finance") is the Director of the Department of Finance ("DOF") for the State of California. The Director of Finance has general powers of supervision over all matters concerning the financial and business policies of the State. (Gov. Code, § 13070.) As the chief fiscal advisor to the Governor, the Director of Finance directs the preparation of the Governor's Budget each year and the May revision. (Gov. Code, § 13308.) Together with the Superintendent of Public Instruction, respondent COHEN is responsible for calculating and certifying the minimum school funding guarantee of article XVI, section 8 of the California

Constitution. (Ed. Code, § 41206(b). 1) COHEN is named herein in his official capacity only.

- 4. Respondent STATE OF CALIFORNIA ("State") is the legal and political entity required by article IX of the California Constitution to provide an educational system for California students. In 1988, voters adopted Proposition 98, now codified in article XVI, section 8, to require the State to provide K-14 education with minimum funding each year in accordance with the formulas provided by that provision. While the formulas were slightly modified in 1990 by Proposition 111, the State remains responsible for ensuring that K-14 receives its constitutionally required share of state revenues each year.
- 5. Respondent TOM TORLAKSON is the Superintendent of Public Instruction ("SPI") for the State of California. Respondent TORLAKSON is responsible for the administration of the State's K-12 education system, including certification of the amount required to be appropriated for that system pursuant to Proposition 98. (Ed. Code, § 41206(b).) Respondent TORLAKSON is named in his official capacity only and is named in this action for remedial purposes only. References to "respondents" herein do NOT refer to TORLAKSON unless specifically indicated.
- 6. Respondent BETTY YEE is the Controller of the State of California and is sued in her official capacity. Respondent YEE is responsible for the administration of the State's finances, including school funding, and is responsible for allocating money to meet deficiencies in Proposition 98 funding. Respondent YEE is named in her official capacity only and is named in this action for remedial purposes only. References to "respondents" herein do NOT refer to YEE unless specifically indicated.

JURISDICTION

7. This Court has jurisdiction over this matter and authority to issue a writ of mandate pursuant to Code of Civil Procedure section 1085. Petitioners are beneficially interested in the proper construction and enforcement of article XVI, section 8 of the California Constitution and the respondents' legal duties arising from that provision, and have no other adequate remedy at law to enforce those duties.

¹ Hereinafter, all statutory code references are to the Education Code unless otherwise indicated.

FACTUAL ALLEGATIONS

[History and Purpose of Proposition 98]

- 8. On November 8, 1988, the people of the State of California adopted Proposition 98, which amended article XVI, section 8 of the California Constitution to provide a guaranteed minimum spending level each year for K-12 public schools and community college districts. The basic purpose of Proposition 98 is to provide public schools and community college districts with a stable and predictable source of funding that is not subject to political influence and to ensure that education spending grows with the economy and state General Fund revenues.
- 9. Proposition 98 requires the State to "first set apart" an amount of money each year for the support of school districts and community colleges that is determined by several formulas contained in that section. (Cal. Const., art. XVI, § 8(a)&(b).)
- applying the same percentage to the budget year at issue (referred to as Test 1, or the percentage of revenues test). The second formula is based on the amount actually allocated for the support of school districts and community college districts in the previous fiscal year, adjusted for changes in enrollment and inflation (referred to as Test 2, or the prior year spending test). (Cal. Const., art. XVI, § 8(b).) Proposition 111, adopted in 1990, provided an alternative method for calculating a lower inflation factor in years with relatively slow growth in General Fund revenues, leading to an alternative commonly referred to as Test 3. (*Id.*) References to "Proposition 98" herein include the 1990 amendments added by Proposition 111.
- 11. In order to determine the minimum guarantee in a given year, the State first determines whether Test 2 or 3 is operable (depending on inflation), and then calculates the amount required if the Test 1 percentage is applied to projected revenues and the amount required when prior year spending is adjusted by Test 2 or 3. The minimum spending guarantee is the higher of these two calculations.
- 12. Proposition 98 can only be amended to further its purposes by a two-thirds vote of the Legislature in furtherance of its purposes. (Proposition 98, § 13.)

[Legislative Interpretation and Implementation of Proposition 98]

13. Although Proposition 98 required annual education spending to meet the higher of two

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spending formulas, the Legislature had to immediately determine what constituted education spending within the meaning of Proposition 98. The Legislature did so with implementing statutes adopted in 1989, in which it found and declared that "by defining certain terms used in establishing a method of calculation for determining the guaranteed minimum level of funding . . .this chapter further the purposes of [Proposition 98]." (Stats. 1989, ch. 83, § 8.) The implementation statutes were approved by a two-thirds vote of the Legislature.

- 14. The State had to determine which expenditures constituted education spending for two purposes: First, it had to calculate education spending as a percentage of General Fund revenues (Test 1) and prior year education spending (Test 2 and, later, Test 3); second, once the amount of the minimum guarantee was determined, it had to decide which State spending counted toward that spending guarantee.
- 15. Section 41202, as initially adopted in 1989, defined "General Fund revenues appropriated for school districts" and "moneys to be applied by the state for the support of school districts" to include funds appropriated for Child Care and Development Services Act pursuant to sections 8200 *et seq*. The Legislature thus made childcare costs part of the 1986-87 education spending base when it calculated education spending as a percentage of General Fund spending (i.e., the Test 1 percentage calculation). It also counted childcare costs toward the minimum funding guarantee, and that spending became part of the State's spending for purposes of Test 2 in the next year.
- 16. Inclusion of child care costs as part of education spending was upheld in *CTA v. Hayes* (1992) 5 Cal.App.4th 1513. In that case, the Court affirmed the Legislature's authority to determine what expenditures could be used to both calculate and satisfy the State's minimum spending guarantee.
- 17. The implementing statutes do not prohibit the Legislature from making any changes to its initial implementation determinations, but the language of those provisions makes clear that the education spending guarantee of Proposition 98 requires a consistent interpretation and that any programmatic or revenue changes must be accompanied by appropriate rebenchings to the implementing formulas in order to ensure that consistency. (See, e.g., Ed. Code, § 41204.)

[Manipulation of the Proposition 98 Minimum]

18. As noted above, childcare costs were included as part of education spending when

Proposition 98 was implemented and they remained part of the Proposition 98 calculations until 2011.

- 19. In 2011-12, the State was faced with a significant revenue shortfall and needed to cut spending. It did so by reducing funding for childcare (among other programs). But Proposition 98 posed a barrier because childcare spending helped the State satisfy its education spending obligations under Proposition 98. Thus, even if the State reduced spending on childcare, it would have had to replace that spending with other education spending in order to meet the minimum guarantee amount.
- 20. To get around this obstacle, the State repealed the prior version of section 41202(f) and re-defined education spending under Proposition 98 to *exclude* most funds appropriated for Child Care and Development Services Act pursuant to sections 8200 et seq. (*except* funds appropriated for part-time state pre-school programs and after school programs -- sections 8235 and 8482, respectively). This amendment was adopted by a simple majority vote.
- 21. The Legislature also enacted section 41202.5, which "clarif[ied] that the part-time state preschool programs and After School Education and Safety Program fall within the Proposition 98 guarantee and to fund other child care programs less directly associated with school districts *from appropriations that do not count toward the Proposition 98 minimum guarantee.*" (Emphasis added.)
- 22. Most importantly, section 41202.5(c)(1) also directed the Director of Finance to "adjust" (i.e., rebench) "the percentage of General Fund revenues appropriated for school districts and community college districts, respectively, in fiscal year 1986-87," to exclude these costs in calculating Test 1 (based on the 1986-87 percentage of revenues spent on education) and to exclude prior year appropriations for the same costs in calculating Test 2 or 3 (based on prior year spending, adjusted for changes in attendance and inflation).
- 23. Thus, by revising what was done by the Legislature in 1989, excluding certain childcare costs from the education spending that satisfied Proposition 98, and rebenching the calculations on which Proposition 98 is based, the State was able to lower each of the base calculations and thereby lower the minimum guarantee amount. This allowed it to reduce funding for childcare without having to replace it with other education spending, and at the same time reduce its minimum funding obligation to schools by approximately \$1.1 billion.

- 24. Only a few short years later, the 2015-16 budget package once again defined certain childcare spending as meeting the minimum funding requirement, but without any adjustment or rebenching to the calculations or the ultimate funding guarantee.
- 25. The 2015-16 education trailer bill (Assembly Bill 104), adopted as part of the budget package, amends section 41202(f) just four years later, to include certain childcare expenses appropriated pursuant to section 8208 (the costs of extending part-time preschool to full-time care also called full-time pre-school or "wraparound" care) as "General Fund revenues appropriated for school districts" and "moneys to be applied by the state for the support of school districts." As a result, these costs now count toward the Proposition 98 minimum spending requirement for 2015-16.
- 26. However, the State did not amend section 41202.5 or rebench the Proposition 98 calculations to reflect the additional childcare costs that were shifted to education in the 2015-16 budget even though the State had rebenched those calculation in 2011-12 to exclude prior childcare costs from both Test 1 and Test 2 for purposes of determining the Proposition 98 funding requirement. Had the State rebenched the Test 1 and Test 2 calculations in 2015-16 to reflect the additional childcare costs, the minimum guarantee amount would also have increased, requiring the State to spend more on education. Instead, the State has it both ways: It did not consider the added childcare costs as part of prior education spending when calculating the minimum guarantee amount, but it is counting those additional childcare expenditures as satisfying Proposition 98 for this fiscal year.
- 27. Upon information and belief, expenditures in 2014-15 for full-time preschool costs paid by schools districts were approximately \$145 million. That amount, along with approximately \$35 million in additional costs due to anticipated rate increases, was then included in determining the spending that would satisfy the 2015-16 minimum funding requirement for education. As a result, approximately \$180 million in childcare spending was credited toward meeting the State's minimum spending requirement for 2015-16.
- 28. Upon information and belief, the 2015-16 budget assumes that the minimum funding guarantee under Proposition 98 for this fiscal year will be based upon the "Test 2" calculation, i.e., prior year education spending, adjusted for changes in attendance and cost of living.

- 29. When the State determined to include the full-time preschool costs as additional education spending in 2015-16, it was required to rebench the Test 1 and Test 2 calculations to reflect that additional spending in prior years. Upon information and belief, it did not rebench either the Test 1 or Test 2 calculations to reflect the additional costs of full-time preschool.
- 30. The State's failure to do so caused the Test 2 prior year spending calculation to be approximately \$145 million lower than it should have been, and thereby caused the minimum education spending requirement for 2015-16 to be approximately \$145 million lower than constitutionally required, plus the adjustments to that figure required to reflect changes in attendance and inflation.
- 31. The purpose and effect of the 2015-16 amendment to section 41202 is to reduce funding for K-14 education for 2015-16 below the constitutionally required minimum provided in article XVI, section 8 of the Constitution. The combined effect of the State's 2011-12 and 2015-16 actions has been to define certain childcare costs as *outside* Proposition 98 for purposes of calculating the minimum guarantee (thereby lowering it) and then define the same expenditures to be *inside* Proposition 98 for purposes of satisfying the spending requirement. The net result is that the minimum guarantee was reduced twice first in 2011-12 when it was actually reduced and, second, in 2015-16, when the State failed to rebench the minimum requirement to reflect the additional expenditures.
- 32. Proposition 98 requires the State to first calculate the percentage of education spending in 1986-87 and apply it to the current year's projected revenues and, second, to calculate the actual prior year education spending and adjust it for projected changes in attendance and inflation; each year's minimum funding requirement is based on the higher of those two calculations. Unless education spending is treated consistently over time and consistently for the various calculations, the calculations can be manipulated and the constitutional requirement evaded. If education spending is re-defined to include new costs that were not previously part of education spending in the prior years, those calculations must be rebenched to reflect those changes.
- 33. This intent is clearly reflected in section 41204, adopted shortly after Proposition 98 itself, which requires that the formulas be rebenched if revenues are shifted away from education or programs are shifted to education that were not included in the initial implementation. That section represents the longstanding legislative interpretation of the constitutional funding guarantee of

Proposition 98 and the contemporaneous understanding of the Legislature that the minimum funding requirement cannot be evaded or manipulated by selectively shifting revenues or programs in or out of the Proposition 98 calculations on which the minimum guarantee is based, regardless of the programmatic merits of such shifts, without rebenching those calculations.

- 34. Because the 2011-12 legislation defined these costs as *not* part of education spending, retroactive to 1986-87, the 2015-16 amendment to section 41202(f) shifts a program to schools that was not previously part of education spending within the meaning of section 41204(c). That section precludes the state from shifting those costs to schools "without appropriate corresponding adjustment to the calculations made pursuant to subdivision (b) of Section 8 of Article XVI of the California Constitution."
- 35. The Legislature's actions, if permitted, would allow the State to avoid its constitutional obligation to provide minimum education funding each and every year in accordance with the specific requirements of Article XVI, section 8. It would make the annual minimum guarantee of Proposition 98 illusory and subject the constitutional spending guarantee for public education to the political influences Proposition 98 was designed to avoid.

[The Proposition 98 Certification Process]

- 36. Because the education spending requirement for each year depends on final revenue, attendance, and spending numbers and those numbers cannot be ascertained until the end of the fiscal year, the Superintendent of Public Instruction and the Director of Finance are required to recalculate and certify the required funding level within nine months following the end of the fiscal year. (§ 41206(b).)
- 37. In practice, while the budget assumes a certain Proposition 98 minimum funding requirement, the actual number is often changed up or down after the close of the fiscal year (commonly referred to as the "settle-up number"). Thus, any error in the initial assumptions can be corrected, including the State's failure to properly rebench the minimum guaranteed spending amount to reflect programmatic shifts such as the shift in childcare expenditures in 2015-16.
- 38. If the certification reveals a deficiency in the funding for that fiscal year, the Controller is required to set aside the amount necessary to make up the shortfall. If the Legislature fails to appropriate the funds set aside to remedy the minimum funding guarantee shortfall within 90 days, such

funds "shall be allocated by the Controller" to the school districts. (Ed. Code, § 41206(b)(1).) Any such appropriation is deemed to be an appropriation in the fiscal year in which the deficiency occurred unless otherwise provided by law.

FIRST CAUSE OF ACTION Writ of Mandate - Code of Civil Procedure Section 1085 (Violation of Article XVI, Section 8 of the California Constitution)

- 39. Petitioners re-allege and incorporate by reference as if fully set forth herein the allegations of paragraphs 1 through 38 above. Respondents and those public officers and employees acting by and through their authority, have a clear, present and ministerial duty to comply with the requirements of article XVI, section 8, of the California Constitution as follows:
 - a. The language, structure, and purpose of article XVI, section 8 impose a duty on the State and its officers to determine the moneys to be provided for education each year in accordance with certain mathematical calculations that are implemented consistently. The methodology used for such calculations must allow education spending to be compared from year to year despite possible programmatic shifts.
 - b. Having rebenched childcare costs in 2011 retroactive to 1986-87, Proposition 98 imposes a duty on the State and its officers to calculate the 2015-16 Proposition 98 minimum guarantee using a rebenching methodology consistent with the rebenching methodology used in 2011-12.
 - c. The 2011-12 amendments to section 41202 and the addition of section 41202.5 defined childcare costs (except pre-school and after-school care) as non-education expenditures retroactive to 1986-87. These provisions therefore impose a legal duty to refrain from including these expenditures to satisfy the Proposition 98 minimum funding guarantee for 2015-16.
 - d. To the extent that the 2011-12 education spending determinations are being changed in 2015-16, Proposition 98 and its implementing statutes impose a duty to rebench the Proposition 98 calculations to reflect the shift of these costs to education.
 - 40. The treatment of additional childcare costs in the 2015-16 budget and related trailer bills,

and more generally the State's inconsistent rebenching methodologies and inconsistent interpretation of Proposition 98, violate the foregoing duties of the State and its officers.

- 41. Petitioners have no plain, speedy, or adequate remedy at law to correct the foregoing failures of respondents.
- 42. Petitioners are beneficially interested in a peremptory writ of mandate compelling respondents, and those public officers and employees acting by and through their authority, to comply with article XVI, section 8 and directing respondents to take such steps as are necessary to ensure that Respondents properly calculate the constitutionally required minimum level of funding, including but not limited to the following:
 - a. An order directing Respondents to calculate the 2015-16 minimum guarantee consistent with the mathematical formulas required by article XVI, section 8 in a manner that treats all education spending consistently from year to year and for all purposes of that provision.
 - b. An order directing Respondents to calculate the 2015-16 minimum guarantee in a manner consistent with its calculation of the 2011-12 minimum guarantee.
 - c. An order directing Respondents to calculate the 2015-16 minimum guarantee in a manner consistent with the implementing legislation and particularly section 41204.
 - d. An order directing Respondents to comply with the terms of section 41202.5 and refrain from using the 2015-16 expenditures for full-time preschool provided to local education agencies to satisfy the State's 2015-16 education spending requirement under Proposition 98.

WHEREFORE, Petitioners/Plaintiffs pray for relief as follows:

- 1. That this Court order the issuance of the peremptory writ of mandate as requested;
- 2. That this Court direct respondents and those public officers and employees acting on their behalf, to recalculate the minimum funding guarantee required in 2015-16 in accordance with section 41206(b) or take such other action to properly implement the requirements of article XVI, section 8 for the 2015-16 fiscal year and the future as the Court shall direct.

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- 4. That this Court order an award of attorney fees to petitioners; and
- 5. That this Court provide such other and further legal and/or equitable relief as it deems appropriate.

Dated: 9/22/15

Respectfully submitted,

OLSON HAGEL & FISHBURN LLP

DEBORAH B. CAPI AN
Attorneys for Petitioners

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VERIFICATION

I, KEITH BRAY, am the General Counsel of the California School Boards Association, and Director of the Education Legal Alliance, and am authorized to make this declaration on their behalf. I hereby certify that I have read the foregoing VERIFIED PETITION FOR WRIT OF MANDATE.

' and the contents thereof are true and accurate to the

best of my knowledge and belief.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Date: 7-22-15