

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

TUESDAY, FEBRUARY 23, 2016

9:00 AM - STATE CAPITOL ROOM 444

OVERVIEW OF THE GOVERNOR'S 2016-17 BUDGET: PROPOSITION 98 FUNDING

I. OPENING REMARKS

Assemblymember McCarty, Chair

Committee Members

II. BUDGET PERSPECTIVES

Tom Torlakson, Superintendent of Public Instruction

III. GOVERNOR'S 2015-16 BUDGET: PROPOSITION 98 FUNDING LEVEL AND MAJOR K-12 EDUCATION PROPOSALS

Kenneth Kapphahn, Legislative Analyst's Office

Lisa Mierczynski, Department of Finance

Debra Brown, Department of Education

IV. PUBLIC COMMENT

ITEMS TO BE HEARD

6100 DEPARTMENT OF EDUCATION

ISSUE 1: GOVERNOR'S 2016-17 BUDGET: PROPOSITION 98 FUNDING LEVEL AND MAJOR K-12 EDUCATION PROPOSALS

The Subcommittee will consider the Governor's proposed Proposition 98 funding level for the 2016-17 Fiscal Year. The Subcommittee will also hear an overview of the Governor's major K-12 education spending proposals. An overview of the Governor's community college proposals will be heard during the higher education overview hearing on March 1st.

PANELISTS

- Kenneth Kappahn, Legislative Analyst's Office
- Lisa Mierczynski, Department of Finance
- Debra Brown, Department of Education

BACKGROUND

Proposition 98, approved by voters and enacted in 1988, amended California's Constitution and established an annual minimum funding level for K-14 education (K-12 schools and community colleges). The intent of Proposition 98 was to create a stable funding source for schools, which grows with the economy and student attendance. Two years later, Proposition 111 was also enacted, which made significant changes to Proposition 98 to allow for lower K-14 funding when General Fund revenues are weak, and significant growth when revenues improve. Propositions 98 and 111 created three formulas, or "tests," to calculate the minimum funding level for schools, also called the "minimum guarantee."

- Test 1 – Share of General Fund. Provides the same percentage of General Fund revenues appropriated to schools and community colleges in 1986-87, or approximately 40 percent.
- Test 2 – Growth in Per Capita Personal Income. Provides the prior year funding level adjusted for growth in the economy (as measured by per capita personal income) and K-12 attendance. Applies in years when state General Fund growth is relatively healthy and the formula yields more than under Test 1.
- Test 3 – Growth in General Fund Revenues. Adjusts prior-year funding for changes in attendance and per capita General Fund revenues. Generally, this test is operative when General Fund revenues grow more slowly than per capita personal income.

The Constitution provides two comparisons for determining which test to use in calculating the minimum guarantee. First, compare Test 2 and Test 3 and select the test with the lower amount of funding. Compare that test to Test 1 and select the test with the higher amount of funding to determine your minimum guarantee. The State has the option of funding the designated minimum guarantee, funding above the minimum guarantee or "suspending" the guarantee to provide less funding than the formula requires. Suspending the Proposition 98 guarantee requires a two-thirds vote by the Legislature. The minimum guarantee was determined by Test 1 in 2014-15 and Test 2 in 2015-16. Test 3 will apply for the 2015-16 fiscal year.

Proposition 111 also created the "maintenance factor," which was intended to help the state balance the budget in tough economic times. Maintenance factor is created in Test 3 years or if the minimum guarantee is suspended. Essentially, in times of slow economic growth, when the state cannot provide the Test 2 level of funding, the state keeps track of the funding commitment and eventually restores the Proposition 98 guarantee to what it would have been had education funding grown with the economy. Proposition 98 also uses a formula to dictate how much maintenance factor is paid back in strong fiscal years.

Overall Proposition 98 Funding

The Governor's budget assumes that schools and community colleges will receive \$71.6 billion in 2016-17, \$3.2 billion above the level enacted in the 2015-16 Budget Act and \$2.4 billion above the revised 2015-16 level. With Test 3 operative in 2016-17, the increase in the minimum guarantee is the result of an increase in per capita General Fund revenue and the higher prior year level.

	Proposition 98 Funding				
	<i>(Dollars in Millions)</i>				
	2014-15 Revised	2015-16 Revised	2016-17 Proposed	Change From 2015-16	
			Amount	Percent	
K-12 Education ^a					
General Fund	44,496	44,536	45,442	906	2.0%
Local property tax	14,834	16,560	17,802	1,242	7.5%
Subtotals	59,330	61,096	63,244	2,148	3.5%
California Community Colleges ^b					
General Fund	4,979	5,373	5,447	74	1.4%
Local property tax	2,302	2,624	2,812	188	7.2%
Subtotals	7,281	7,997	8,259	262	3.3%
Other Agencies ^c	80	82	83	0	0.3%
Totals	66,690	69,175	71,585	2,410	3.5%
General Fund	49,554	49,992	50,972	980	0
Local property tax	17,136	19,183	20,613	1,430	7.5%

^a Includes State Preschool in 2014-15 and 2015-16 and proposed early education block grant in 2016-17.

^b Includes \$500 million for adult education in 2014-15 and 2015-16.

^c General Fund.

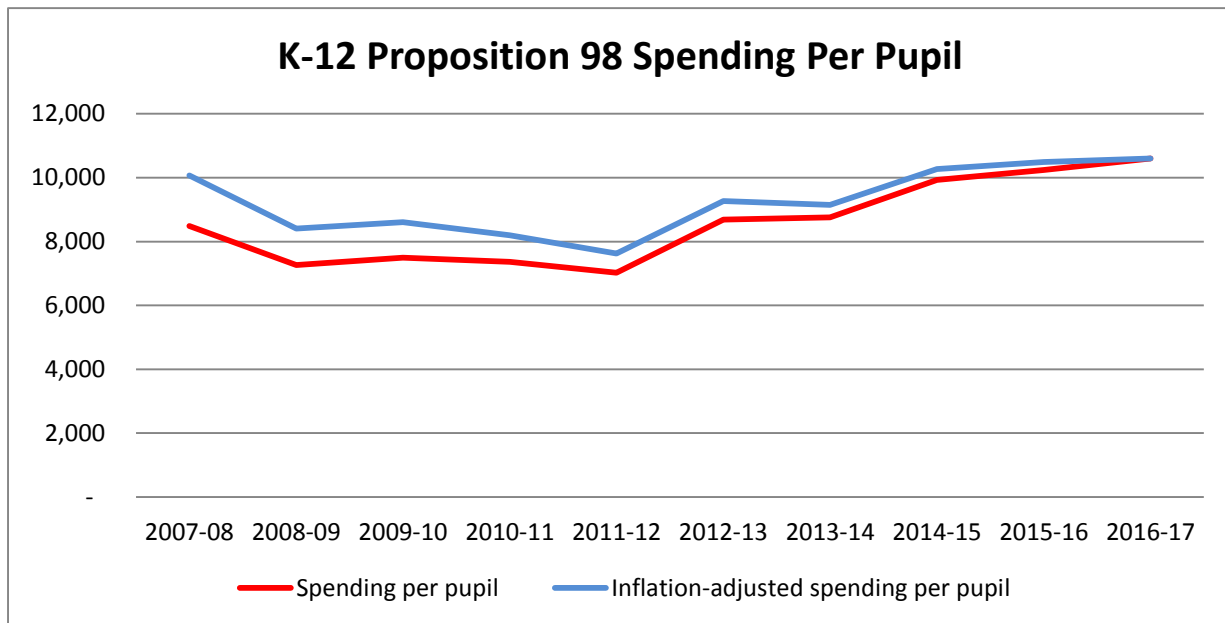
Source: Legislative Analyst's Office

The Governor's budget also updates its estimates of the minimum guarantee in prior years. The 2014-15 minimum guarantee is \$387 million above the estimate made in the 2015-16 budget. This increase is primarily due to an increase in local property tax revenue. The revised 2015-16 minimum guarantee is estimated to be \$766 million above the level assumed in the 2015-16 budget. This increase is due to an increase in General Fund revenue, which requires the state to make a larger maintenance factor payment. After this payment, the state will have paid off the entire maintenance factor owed to schools. However, since Test 3 is operative in 2016-17, the administration estimates the state creates \$548 million in new maintenance factor in 2016-17.

The Governor also proposes to make a \$257 million settle-up payment to pay down obligations the state owes from 2009-10. After this payment, the state would have \$1 billion remaining in outstanding settle-up.

Per Pupil Funding

Per-pupil spending under the Governor's plan is expected to be \$10,591 in 2016-17, an increase of \$368 per-pupil from the 2015-16 level. As shown in the chart below, per-pupil spending has increased significantly since 2011-12.



Source: Legislative Analyst's Office

Despite recent increases, California still ranks far below the national average in per-pupil spending and other measures. According to the California Budget and Policy Center, California's education spending lags the nation by almost any measure. In 2014-15, the most recent data available, California ranked 42nd among all states in per-pupil funding (adjusted for differences in cost of living). California also ranked 36th in the nation in K-12 education spending as a share of the state economy and was ranked last in the number of K-12 students per teacher.

How Does California’s Support for K-12 Education Compare?

	Rank	California	US	Source
Spending Per Student				
K-12 Spending Per Student Adjusted for Cost of Living (2014-15)*	42	\$10,139	\$12,040	National Education Association (NEA) and Texas A&M University
Spending as a Share of the Economy				
K-12 Spending as a Percentage of Personal Income (2014-15)*	36	3.48%	3.88%	NEA and US Bureau of Economic Analysis
Student-to-Teacher Ratio				
Number of K-12 Students Per Teacher (2014-15)*	51	22.4	15.5	NEA

* Data are estimated.

Note: All figures reflect Budget Center calculations. K-12 spending reflects "current expenditures," and cost-of-living adjustment calculations use a "comparable wage index" developed by the National Center for Education Statistics and updated by Texas A&M University. Spending per student and student-to-teacher ratio are based on average daily attendance.

Source: California Budget and Policy Center

School Attendance

School attendance grew in 2011-12, declined slightly in 2012-13 and grew again in 2013-14. Attendance declined in 2014-15 and is expected to decline slightly in 2015-16 and 2016-17. The budget includes a decrease of \$150.1 million in 2015-16 for school districts and county offices of education due to a decrease in projected average daily attendance (ADA) from the 2015 Budget Act, and a decrease of \$34.1 million in 2016-17 due to further projected decline in ADA. The Governor’s budget provides an increase of \$61 million to support projected charter school ADA growth and a decrease of \$15.5 million to support a projected decrease in special education ADA in 2016-17.

Major Proposition 98 Spending Proposals

The Governor's budget includes a total of \$4.3 billion in Proposition 98 spending increases (including increases from prior years). The Governor proposes to dedicate most of the new ongoing funding toward the LCFF formula and provides one-time funding for one-time purposes, such as paying down the education mandate backlog. The Subcommittee will examine the Governor's spending proposals in more detail in subsequent hearings.

Major K-12 Education Proposals:

- Provides \$2.8 billion to further implement the Local Control Funding Formula (LCFF), an increase of 5.4 percent from 2015-16. This proposed funding level will fund the LCFF at 95 percent.
- Proposes an Early Education Block Grant, consolidating \$1.6 billion in Proposition 98 funding from the State Preschool Program (\$878 million), transitional kindergarten (\$726 million), and the Preschool Quality Rating and Improvement System Grant (\$50 million). Although the Administration does not yet have a specific proposal, the intent of the block grant is to provide local education officials with more flexibility in designing preschool programs that addresses local needs and prioritizes low-income and at-risk children. The Administration proposes that block grant funding be distributed based on factors such as population and need, similar to the LCFF. The Administration also

intends to have a hold harmless provision. The Department of Finance has committed to engaging stakeholders and plans on coming out with a specific proposal at the May Revision.

- Provides \$1.2 billion to further reduce the K-12 education mandate backlog. This funding would be distributed to schools on a per student basis and could be used for any educational purpose.
- Maintains the Career Technical Education Incentive Grant program established in the 2015-16 Budget, which allocates \$900 million over three years (\$400 million in 2015-16, \$300 million in 2016-17 and \$200 million in 2017-18).
- Includes no specific proposal related to school facilities, but commits to continue a dialogue to shape a future state program focused on districts with the greatest need.
- Allocates \$365.4 million to support energy efficiency projects using funds available through Proposition 39.
- Provides \$22.9 million for a 0.86 percent cost-of-living adjustment for categorical programs outside the Local Control Funding Formula. Provides \$1.7 million to support a COLA and attendance changes for county offices of education.
- Includes \$20 million in one-time Proposition 98 funding to backfill the loss in federal funds for start-up costs for new charter schools in 2016 and 2017.
- Allocates an additional \$30 million in one-time Proposition 98 funds for local educational agencies to provide academic and behavioral supports, building on the \$10 million provided in 2015-16.
- Estimates \$7.3 million to be available through Proposition 47 to support programs to reduce truancy and support students at risk of dropping out of school or are victims of crime.

The Governor's budget makes other adjustments including a decrease of \$149.4 million in 2015-16 and \$1.2 billion in 2016-17 in Proposition 98 funding for school districts and county offices of education due to higher offsetting property tax revenues.

The chart below outlines the specific changes proposed by the Governor for 2016-17.

2016-17 Proposition 98 Changes	
<i>(In Millions)</i>	
Revised 2015-16 Proposition 98 Spending	\$69,175
Technical Adjustments	
Remove prior-year one-time payments	-1,446
Make other adjustments	-115
Adjust categorical programs for 0.4 percent decline in attendance	-16
Make LCFF adjustments	101
Revise estimate of energy efficiency funds	58
Annualize funding for previously approved preschool slot increases	31
Subtotal	-1,386
K-12 Education	
Increase LCFF Funding	2,825
Fund CTE Incentive Grant for Secondary Schools (Year 2 of 3)	240 ^a
Provide 0.47 percent COLA for select categorical programs	23
Fund truancy and dropout prevention program	7
Fund High Speed Network	5 ^b
Support Exploratorium	4
Fund improvement of web-based tools for state accountability system (Year 1 of 3)	1
Shift funding for transitional kindergarten and preschool into new block grant	0
Remove prior-year augmentation for infants and toddlers with disabilities	-30
Subtotal	3,073
California Community Colleges	
Fund deferred maintenance and instructional equipment (one time)	255
Implement workforce recommendations of BOG task force	200
Fund 2 percent enrollment growth	115
Make CTE Pathways Initiative ongoing	48
Augment Basic Skills Initiative	30
Provide 0.47 percent COLA for apportionments	29
Fund Innovation Awards at community colleges (one time)	25
Increase funding for Institutional Effectiveness Initiative	10
Fund development of "zero-textbook-cost" degree programs	5
Improve systemwide data security	3
Increase apprenticeship reimbursement rate	2
Provide 0.47 percent COLA for selected student support programs	1
Subtotal	723
Total Changes	2,410
2016-17 Proposition 98 Spending Level	\$71,585
a Budget also includes \$60 million in 2015-16 funding for this purpose.	
b Budget also includes \$3.5 million in unspent prior-year funds for this purpose.	

Source: Legislative Analyst's Office

LAO Recommendations on Overall Proposition 98 Proposal

The LAO estimates that local property tax revenue for 2015-16 and 2016-17 will be approximately \$1 billion higher than the Administration estimates. This would result in lower Proposition 98 General Fund costs and correspondingly higher available non-Proposition 98 General Fund. Although the LAO anticipates continued economic growth in the near term, they warn that the minimum guarantee could decrease in future years if stock market prices drop or growth in the economy and personal income were to decline. The LAO recommends dedicating a larger share of 2016-17 funding for one-time purposes in order to minimize any future reductions in the event of a downturn.

STAFF COMMENTS/QUESTIONS

The Proposition 98 funding level is largely driven by General Fund revenues. Staff recommends holding open the Proposition 98 funding level and Proposition 98 spending plan pending the May Revision, when updated revenue estimates are available.

Suggested Questions:

- How are the LAO's revenue projections different from the Administration's estimates?
- What would be the impact on the Proposition 98 level if revenues come in higher or lower than expected in 2015-16 and 2016-17?
- How would the proposed initiative to extend the personal income temporary taxes impact long-term education funding?

Staff Recommendation: Hold Open Pending May Revision
