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The 2022-23 Budget: Overview of May Revision K-12 Education Proposals



LEGISLATIVE ANALYST'S OFFICE

Changes to Proposition 98 Guarantee Since January

Estimates of the Minimum Guarantee Up \$19.6 Billion Across the Budget Period

- Growth in the guarantee is attributable to significant increases in General Fund revenue in 2021-22 and 2022-23.
- Lower property tax estimates offset a small portion of the General Fund increase.

| Changes in the Proposition 98 Guarantee | | | | |
|--|-----------------|------------------|------------------|--------------------------|
| (In Millions) | | | | |
| | 2020-21 | 2021-22 | 2022-23 | Three Year Totals |
| Governor's Budget | | | | |
| General Fund | \$70,035 | \$71,845 | \$73,134 | \$215,015 |
| Local property tax | 25,901 | 27,219 | 28,846 | 81,966 |
| Totals | \$95,936 | \$99,064 | \$101,980 | \$296,981 |
| May Revision | | | | |
| General Fund | \$70,204 | \$83,639 | \$82,292 | \$236,135 |
| Local property tax | 25,869 | 26,560 | 28,042 | 80,470 |
| Totals | \$96,073 | \$110,199 | \$110,334 | \$316,606 |
| Change | | | | |
| General Fund | \$169 | \$11,793 | \$9,158 | \$21,120 |
| Local property tax | -32 | -659 | -804 | -1,495 |
| Totals | \$137 | \$11,135 | \$8,354 | \$19,625 |



Update on Proposition 98 Reserve Deposit

Required Proposition 98 Reserve Deposit Down \$206 Million

- The State Constitution requires reserve deposits when (1) the minimum guarantee is growing more quickly than per capita personal income and student attendance, (2) the state receives capital gains revenue exceeding a specified percentage of General Fund revenue, and (3) certain other conditions are met.
- The Governor's budget estimated the state would be required to deposit \$9.7 billion into the reserve across 2020-21, 2021-22, and 2022-23.
- The May Revision estimates the required deposit has decreased to \$9.5 billion over the three-year period. The decrease is due to revised capital gains estimates, which are larger in absolute terms but smaller as a percent of total General Fund revenue.

Reserve Balance Approaching 10 Percent Threshold

- Under the May Revision, the balance in the Proposition 98 Reserve in 2022-23 would be approximately 8.6 percent of the Proposition 98 guarantee that year.
- Deposits are not required once the balance reaches 10 percent.

School District Reserve Cap Operative Starting in 2022-23

- A state law caps school district reserves the year after the balance in the Proposition 98 Reserve exceeds 3 percent of the funding allocated for schools.
- The state would reach this threshold in 2021-22 and remain above it in 2022-23, making the reserve cap operative for at least the next two years.
- Various exemptions and exceptions exist, including for districts with 2,500 or fewer students.



Assessing Estimates of the Guarantee

Estimates of General Fund Revenue Seem Reasonable

- To the extent revenue estimates changes, the guarantee would increase (or decrease) about 40 cents for each dollar of higher (or lower) revenue.

Estimates of Local Property Tax Revenue Seem Low

- Over three-year period, our estimates of local property tax revenue are roughly \$1.5 billion above the May Revision estimates.
- Most of the difference relates to our estimates of revenue from former redevelopment agencies. Whereas the administration anticipates a decline in 2021-22 and 2022-23 relative to 2020-21 levels, we project growth consistent with previous years.
- If property tax revenue increases, the Proposition 98 guarantee would increase on a dollar-for-dollar basis.

Estimates of Proposition 98 Reserve Deposit are Consistent With Underlying Revenue Assumptions



Changes in K-12 Proposition 98 Funding Per Student

| | 2020-21 Revised | 2021-22 Revised | 2022-23 Proposed |
|--------------------------------------|--------------------|--------------------|---------------------|
| Governor's Budget | | | |
| Total funding (in millions) | \$82,089 | \$84,407 | \$87,326 |
| Average daily attendance | 5,871,581 | 5,711,791 | 5,715,844 |
| Funding per student | \$13,981 | \$14,778 | \$15,278 |
| May Revision | | | |
| Total funding (in millions) | \$82,014 | \$93,960 | \$95,505 |
| Average daily attendance | 5,871,691 | 5,518,744 | 5,615,432 |
| Funding per student | \$13,968 | \$17,026 | \$17,008 |
| Change From Governor's Budget | | | |
| Total funding (in millions) | -\$75 | \$9,553 | \$8,178 |
| Average daily attendance | 110 | -193,047 | -100,412 |
| Funding per student | -\$13 | \$2,248 | \$1,730 |



Overview of K-12 Spending Package

May Revision Contains \$32.9 Billion in K-12 Proposition 98 Spending Proposals

- Consists of \$15.9 billion in spending proposals from January and another \$17 billion for new augmentations in May.
- Allocates nearly \$19.1 billion for one-time activities and \$13.8 billion for ongoing augmentations.
- The May Revision contains the largest K-12 funding package since the adoption of Proposition 98 in 1988. It exceeds the amount in the 2021-22 May Revision by nearly \$3 billion.
- Contains \$4.4 billion in K-12 Proposition 98 facility spending that is excluded from the state appropriations limit (SAL).

Largest Proposal Is for One-Time Discretionary Grants

- The May Revision proposes \$8 billion in per-pupil discretionary grants. Based on current attendance estimates, each school district, county office of education, and charter school would receive nearly \$1,500 per student.
- Trailer bill language encourages districts to use these funds for various purposes, including (1) maintaining staffing levels, (2) implementing other recently created programs, (3) covering operational costs, and (4) supporting student mental health and wellness.
- These funds would count toward districts' outstanding mandate claims, if any.

Several Other Notable One-Time Proposals

- \$1.8 billion for deferred maintenance.
- \$1.5 billion for grants to plan and implement community schools (augmenting the \$3 billion allocation in the 2021-22 budget plan).
- More than \$900 million for several teacher training initiatives.



Local Control Funding Formula (LCFF)

Most New Ongoing Funding Allocated for LCFF

- The May Revision provides a \$7.2 billion augmentation for LCFF, an increase of \$2.9 billion compared with Governor’s budget.
- The total increase from 2021-22 would be nearly 11 percent (compared with approximately 6.5 percent in January).

Net LCFF Increase Relative to January Reflects Four Changes

- A reduction due to lower baseline attendance estimates. For 2022-23, the May Revision assumes attendance is down approximately 100,000 students (1.8 percent) relative to January estimates.
- An increase associated with a proposed temporary adjustment to offset low attendance-to-enrollment ratios:
 - For funding purposes, the state would assume that the students enrolled in each district in 2021-22 attend school at the same rate as students prior to the pandemic.
 - The proposal is in addition to the Governor’s January proposal to begin crediting districts with their average attendance over the three previous years. Under the May Revision, the state would use the higher adjusted attendance in 2021-22 for the calculation of the three-year average in the subsequent three years.
- An increase related to the statutory cost-of-living adjustment (COLA), which grows from 5.33 percent in January to 6.56 percent in May.
- An increase for a proposed augmentation of roughly 3 percent on top of the COLA.

Changes Affecting County Offices of Education (COEs)

- Proposes an ongoing increase for the county operations grant. The increase would affect COEs differently, but on average would result in roughly a 15 percent increase in total LCFF funding.
- Some COEs would receive increases even though their funding already exceeds their LCFF targets.



K-12 Proposition 98 Spending Proposals

(In Millions)

| | January | May | Difference |
|---|-----------------|-----------------|-----------------|
| Ongoing | | | |
| Expanded Learning Opportunities Program (ELOP) | \$3,400 | \$3,803 | \$403 |
| LCFF baseline attendance declines and COLA | 2,106 | 772 | -1,334 |
| New LCFF adjustment for declining enrollment districts | 1,200 | 3,265 | 2,065 |
| Additional LCFF increase above COLA | — | 2,100 | 2,100 |
| Transitional Kindergarten (TK) expansion | 639 | 614 | -25 |
| Child nutrition reimbursement rate increase | — | 612 | 612 |
| Universal school meals implementation | 596 | 596 | — |
| Special Education base rates | 500 | 500 | — |
| TK lower staffing ratios | 383 | 383 | — |
| COLA for select categorical programs | 352 | 427 | 75 |
| State Preschool adjustment for students with disabilities | 198 | 202 | 4 |
| Annualization of State Preschool rate increases | 166 | 166 | — |
| After school program rates | 149 | 149 | — |
| COE LCFF increase above COLA | — | 101 | 101 |
| Classified School Employee Summer Assistance | — | 80 | 80 |
| Other | 47 | 50 | 2 |
| Subtotals | (\$9,736) | (\$13,819) | (\$4,083) |
| One Time | | | |
| Discretionary block grant | — | \$8,000 | \$8,000 |
| Deferred maintenance | — | 1,850 | 1,850 |
| Community schools | — | 1,500 | 1,500 |
| Career pathways development | 1,500 | 1,500 | — |
| Green school bus grants | 1,500 | 1,500 | — |
| ELOP arts and music infrastructure | 936 | 1,000 | 64 |
| Literacy coaches and reading specialists | 500 | 500 | — |
| Inclusive Early Education Expansion Program | 500 | 500 | — |
| Dual enrollment access | 500 | 500 | — |
| Teacher and counselor residency programs | — | 500 | 500 |
| Declining enrollment adjustment for charter schools | — | 463 | 463 |
| School kitchen upgrades | 450 | 450 | — |
| Math and science professional development | — | 385 | 385 |
| Multilingual classroom libraries | 200 | 200 | — |
| Community Engagement Initiative | — | 100 | 100 |
| Other | 81 | 146 | 65 |
| Subtotals | (\$6,167) | (\$19,094) | (\$12,926) |
| Totals K-12 | \$15,903 | \$32,913 | \$17,009 |

LCFF = Local Control Funding Formula; COLA = cost of living adjustment; and COE = county office of education.



Comments on Overall K-12 Proposition 98 Package

May Revision Builds Budget Resiliency

- Of the K-12 spending attributable to 2022-23, nearly \$4.5 billion is for one-time activities. Combined with the reserve deposit and one-time community college activities in that year, the total one-time Proposition 98 cushion is nearly \$8 billion.
- The one-time cushion—combined with the balance in the Proposition 98 Reserve—would mitigate disruption to school budgets in the event of an economic downturn.

Most Augmentations for LCFF Are Reasonable

- Providing funding that exceeds the statutory COLA would allow districts to address cost increases next year, including inflationary pressure and higher pension costs.
- The proposed hold-harmless provisions for school districts and charter schools would mitigate temporary drops in attendance while maintaining the link between attendance and funding over time.
- The proposed augmentation for COEs would exceed the increase provided for school districts with no clear rationale. It also would expand certain historical funding inequities. We recommend rejecting that proposal and instead providing an increase that is comparable to the increase for districts.



Comments on Overall K-12 Proposition 98 Package

(Continued)

Legislature Could Adjust the Discretionary Grant Proposal to Reflect Its Priorities

- The proposed discretionary grants could help districts address a range of local priorities and cost pressures.
- The Legislature could modify the intent language based on its priorities. The Governor’s suggestions are reasonable, but the Legislature might want to encourage districts to address local debts and liabilities and/or accelerate pandemic recovery.
- The Legislature could modify the amount based on its other K-12 budget priorities.
- The Legislature could modify the disbursement schedule to align with its goals for the grant. For example, if the grants are intended to complement certain other programs, the state could disburse the grants on a schedule that mirrors those programs.

Weak Justification for a Few Proposals

- We recommend rejecting most of the teacher training proposals and the additional one-time arts and music funding within the Expanded Learning Opportunities Program.
- These proposals would either (1) increase funding to programs that have significant unspent funds remaining from previous budgets or (2) increase funding relative to the January budget without clear justification.



Comments on Overall K-12 Proposition 98 Package

(Continued)

Consider Providing More Proposition 98 Funding for Facilities

- Allocating more funding for facilities would allow the state and districts to obtain long-term benefits from the one-time funds available in the budget.
- Several promising options are available:
 - The Legislature could allocate more funding for Transitional Kindergarten. Districts indicate that limited facility space is a key challenge for expanding the program over the next several years.
 - The Legislature could augment the proposed \$1.8 billion for deferred maintenance. We think the maintenance backlog for district facilities likely is larger than \$1.8 billion, in part because the state reduced required spending on facility maintenance from 2008-09 through 2019-20.
 - The Legislature could augment the School Facility Program, which funds major construction and renovation.
- Funding allocated for school facilities or infrastructure could qualify as excludable capital outlay under the SAL. The excluded amounts would ease some of the pressure on the overall state budget.

