

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

WEDNESDAY, MARCH 4, 2020

4:00 PM - STATE CAPITOL, ROOM 447
(PLEASE NOTE ROOM CHANGE)

OVERVIEW OF THE GOVERNOR'S 2020-21 BUDGET: K-12 AND EARLY CHILDHOOD EDUCATION

I. OPENING REMARKS

- Assemblymember McCarty, Chair
- Committee Members

II. BUDGET PERSPECTIVES

- Tony Thurmond, Superintendent of Public Instruction

III. GOVERNOR'S 2020-21 BUDGET: PROPOSITION 98 AND EARLY EDUCATION

- Lisa Mierczynski, Department of Finance
- Kenneth Kappahn, Legislative Analyst's Office
- Sara Cortez, Legislative Analyst's Office
- Julian Cuevas, California Department of Education

V. PUBLIC COMMENT

ITEMS TO BE HEARD

6100 DEPARTMENT OF EDUCATION

ISSUE 1: GOVERNOR'S 2019-20 BUDGET: K-12 AND EARLY EDUCATION

The Subcommittee will discuss the Governor's proposed Proposition 98 funding level for the 2020-21 Fiscal Year and related proposals. The Subcommittee will also hear an overview of the Governor's major K-12 and early education spending proposals.

PANELISTS

- Lisa Mierczynski, Department of Finance
- Kenneth Kapphahn, Legislative Analyst's Office
- Sara Cortez, Legislative Analyst's Office
- Julian Cuevas, California 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 Administration projects Test 1 to be operative in 2018-19, 2019-20 and 2020-21.

Proposition 2 (2014) created a state reserve specifically for schools and community colleges - the Public School System Stabilization Account (Proposition 98 Reserve). The Constitution requires the State to deposit Proposition 98 funding into this account when the minimum guarantee is growing relatively quickly and other conditions are met. As part of the 2019-20 budget plan, the State made its first deposit into the Proposition 98 Reserve (\$377 million). The size of this deposit was determined by the difference between the Test 1 and Test 2 funding levels (described in the previous box). Due to the Administration's higher estimate of the minimum guarantee, this difference has increased to \$524 million. The Governor's budget accordingly provides for an additional deposit of \$148 million to meet the higher requirement. Under the Governor's budget, the minimum guarantee in 2020-21 is \$38 million below the inflation-adjusted funding level from 2019-20. The Constitution requires the state to make up this difference by withdrawing a corresponding amount of funding from the Proposition 98 Reserve. This withdrawal reduces the balance in the reserve to \$487 million.

Overall Proposition 98 Funding

The Governor's January budget provides a total Proposition 98 funding level of \$84 billion in 2020-21, \$2.5 billion above the revised 2019-20 level (3 percent). Test 1 is operative, meaning that schools and community colleges will receive a fixed share, about 40 percent, of General Fund revenue.

The Governor's budget revises the Proposition 98 minimum guarantee upward by \$517 million in 2019-20 due to higher revenue assumptions than in the 2019 budget package years.

The Governor's budget also revises the 2018-19 minimum guarantee upward by \$302 million due to the higher year-to-year growth in General Fund revenue.

Per Pupil Funding

Per-pupil funding under the Governor’s proposed budget is expected to be \$12,619 in 2020-21, an increase of \$449 from 2019-20.

STAFF COMMENTS/QUESTIONS

This hearing will provide the Subcommittee with an overview of the Governor’s January budget proposals related to K-12 and early education. The Subcommittee will discuss these proposals in more detail in subsequent hearings. The Subcommittee will likely hold most issues open until the May Revision when updated revenue estimates are available.

Staff Recommendation: Hold Open
