

## AGENDA

### ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assemblymember Kevin McCarty, Chair

TUESDAY, MARCH 5, 2019

9:00 AM - STATE CAPITOL ROOM 447

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### OVERVIEW OF THE GOVERNOR'S 2019-20 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 2017-18 BUDGET: PROPOSITION 98 AND EARLY EDUCATION

Aaron Heredia, Department of Finance  
Kenneth Kappahn, Legislative Analyst's Office  
Khieem Jackson, Department of Education

#### V. PUBLIC COMMENT

## ITEMS TO BE HEARD

### 6100 DEPARTMENT OF EDUCATION

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#### 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 2019-20 Fiscal Year and related proposals. The Subcommittee will also hear an overview of the Governor's major K-12 and early education spending proposals. An overview of the Governor's community college proposals will be heard during the higher education overview hearing on March 6<sup>th</sup>.

#### PANELISTS

- Aaron Heredia, Department of Finance
- Kenneth Kappahn, Legislative Analyst's Office
- Khiem Jackson, 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 2017-18 and 2019-20 and Test 3 to be operative in 2018-19.

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. The Governor's budget assumes no maintenance factor is paid or created in 2019-20 and the total outstanding maintenance factor would be \$150 million.

Additionally, the State creates a "settle-up" obligation when the state appropriates less funding for schools and community colleges than the minimum guarantee requires. The Governor's budget proposes to make a \$687 million settle-up payment to pay down obligations the State owes from prior years, largely 2009-10. After this payment, the State would have no remaining outstanding settle-up.

### **Overall Proposition 98 Funding**

The Governor's January budget provides a total Proposition 98 funding level of \$80.7 billion in 2019-20, \$2.8 billion above the revised 2018-19 level (3.6 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 downward by \$164 million in 2017-18 due to lower student attendance and lower maintenance factor payments due to adjustments to the minimum guarantee in prior years. These drops are partially offset by higher General Fund revenue. The Governor's budget proposes leaving the Proposition 98 funding level \$44 million higher than the minimum guarantee in 2017-18.

The Governor's budget also revises the 2018-19 minimum guarantee downward by \$526 million due to the lower attendance estimates carrying forward and slower year-to-year growth in General Fund revenue. With these and other adjustments, funding for schools and community colleges is \$475 million higher than the revised estimate of the minimum

guarantee. The Governor’s budget proposes counting this funding as a “settle-up” payment, essentially accounting for this funding in a prior fiscal year.

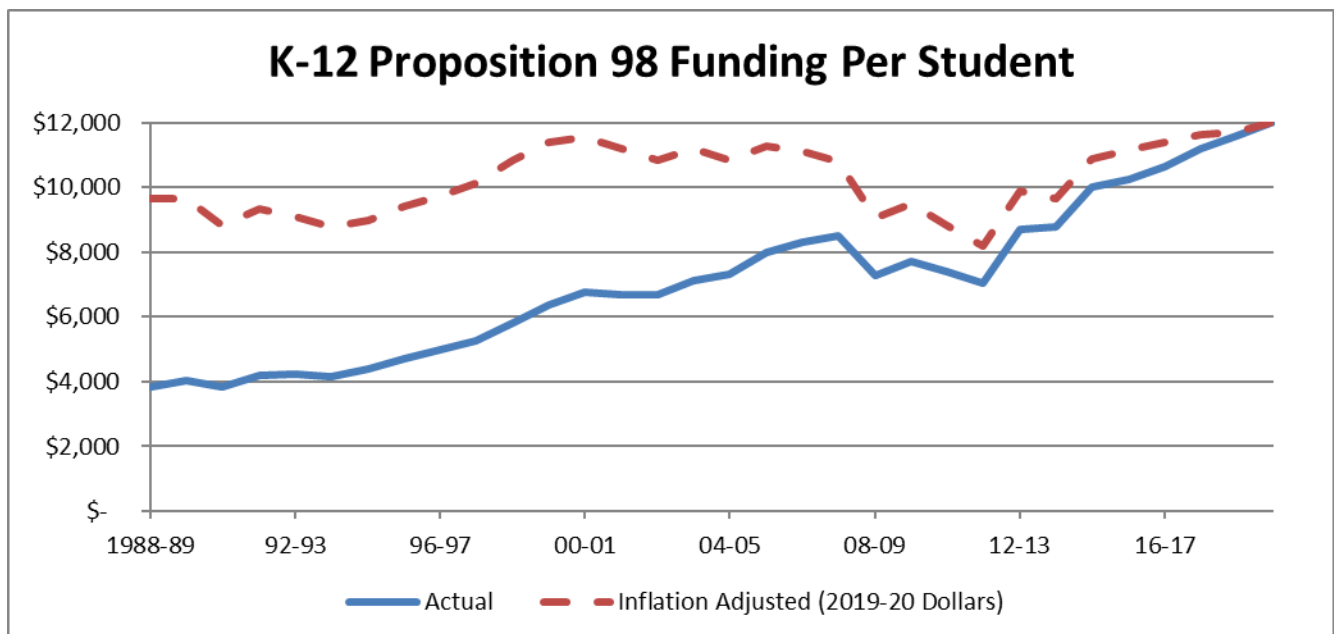
**Proposition 98 Certification and True-Up Process**

The 2018-19 budget made changes to the Proposition 98 certification process. Specifically, these changes: 1) created a new process for annual certifications of the Proposition 98 minimum guarantee, 2) increased certainty around the payment of future certification settlements, 3) created a new cost allocation schedule in order to provide the State with additional budgetary flexibility, 4) provided a continuous appropriation of the LCFF COLA and 5) certified the minimum guarantee for the prior years 2009-10 through 2016-17. (These changes could be repealed if pending litigation is successful.)

The Governor’s budget proposes eliminating the cost allocation schedule, or true-up process, that was created in last year’s budget. Additionally, the Governor’s budget proposes to prohibit the State from making any downward adjustments to the Proposition 98 funding level once a fiscal year is over. The State would still be required to make upward adjustments.

**Per Pupil Funding**

Per-pupil funding under the Governor’s proposed budget is expected to be \$12,018 in 2019-20, an increase of \$444 from 2018-19. As shown in the chart below, this is a significant increase since the passage of Proposition 98 and especially since the recent recession in 2011-12.



Source: Legislative Analyst’s Office

Despite recent increases, California still ranks below many states in per-pupil funding. Based on data from 2015-16, the most recent data available, California ranked 23rd among all states in per-pupil funding. If adjusted for regional cost differences, California ranks lower. According to the Education Week Research Center, California ranks 44th in the nation in per-pupil funding when adjusting for regional cost differences. However, given the significant increases in funding in recent years, California's ranking will likely improve when newer data becomes available.

### **School Attendance**

The Governor's budget includes a decrease of \$388 million in 2018-19 for school districts as a result of a decrease in projected average daily attendance (ADA) from the 2018 Budget Act, and a decrease of \$187 million in 2019-20 for school districts as a result of further projected decline in ADA for 2019-20.

### **Major K-12 Education Spending Proposals**

The Governor's January budget includes a total of \$2.9 billion in new Proposition 98 spending. The Governor proposes to use almost all of this increase for ongoing purposes, with \$198 million provided for one-time purposes. The Governor's budget includes the following proposals related to K-12 education:

- Local Control Funding Formula. The Governor's budget includes \$2 billion in additional Proposition 98 funding for the LCFF. This equates to a 3.46 percent COLA and brings the total LCFF funding level to \$63 billion.
- Special Education. The Governor's budget includes \$577 million Proposition 98 funding for special education related services, including \$390 million ongoing and \$187 million one-time. The funding would be allocated based on a formula. School districts and charter schools with a high concentration of low-income and English learners and low-income students (above 55 percent) and with high proportions of students with disabilities (above the state average) would receive funding. School districts and charter schools could then use the funds to support early intervention and school readiness programs for students currently receiving or might otherwise be identified for special education services. The one-time funds are intended for associated start-up activities, such as equipment or professional development.
- Pensions. The Governor's budget includes a \$3 billion one-time non-Proposition 98 payment to CalSTRS to make payments on behalf of employers (local educational agencies). Specifically, \$700 million would be provided to pay down employer contributions rates in 2019-20 and 2020-21 (\$350 million each year) and \$2.3 billion would be paid toward the employer's long term unfunded liability.

- School Facilities. The Governor's budget proposes to release \$1.5 billion in Proposition 51 bond funds in 2019-20, an increase of \$906 million from 2018-19, for school construction projects that have been approved and are awaiting funding. The budget also includes \$1.2 million in ongoing Proposition 51 bond funds for 10 positions for the Office of Public School Construction to support the increased workload.
- COLA. The Governor's budget includes \$187 million in Proposition 98 funding to support a 3.46 percent COLA for categorical programs outside the LCFF, including Special Education, Child Nutrition, State Preschool, Youth in Foster Care, the Mandates Block Grant, American Indian Education Centers and the American Indian Early Childhood Education Program. The budget also provides \$9 million in Proposition 98 funding to support a 3.46 percent COLA and ADA changes for county offices of education.
- Longitudinal Data System. The Governor's budget includes \$10 million in one-time non-Proposition 98 General Fund to plan and begin development of a longitudinal data system to connect student information from early education providers, K-12 schools, higher education institutions, workforce entities, and health and human services agencies.
- LCFF Transparency. The Governor's budget includes \$350,000 one-time Proposition 98 funding for the State Board of Education to contract with the San Joaquin County Office of Education to merge the Dashboard, LCAP electronic template, and other local school site and school district reports into a single web-based application.

The table below outlines the Governor's proposed \$2.9 billion in new Proposition 98 spending.

**Governor's Budget Contains \$2.9 Billion in Proposition 98 Spending Proposals  
(In Millions, Ongoing Commitments Unless Otherwise Noted)**

<b>Preschool</b>	
COLA (3.46 percent)	\$41
2,959 full-day slots added in April 1, 2019 (annualize cost)	27
Non-LEA programs (shift to non-Proposition 98 funding)	-297
<b>Total Preschool</b>	<b>(-\$229)</b>
<b>K-12 Education</b>	
LCFF adjustment for districts and charter schools	\$2,027
Grants for schools with large concentrations of students with disabilities	390
Grants for schools with large concentrations of students with disabilities (one time)	187
COLA for select categorical programs (3.46 percent) <sup>a</sup>	146
LCFF adjustment for county offices of education (attendance and COLA)	9
Three previously approved 2018-19 initiatives (one time, shift to Proposition 98 funding) <sup>b</sup>	8
Standardized school district accounting system (replacement)	3
<b>Total K-12 Education</b>	<b>(\$2,770)</b>
<b>California Community Colleges</b>	
COLA for apportionments (3.46 percent)	\$248
College Promise fee waivers (extend program to sophomores)	40
COLA for select student support programs (3.46 percent) <sup>c</sup>	32
Enrollment growth (0.55 percent)	26
Student Success Completion Grants (caseload adjustment)	11
Legal services for undocumented students	10
<b>Total California Community Colleges</b>	<b>(\$367)</b>
<b>Total Spending Proposals</b>	<b>\$2,908</b>

Note: The spending proposals in this table are attributable to various fund sources but primarily reflect a \$2.8 billion increase in the 2019-20 minimum guarantee and a \$687 million settle-up payment. After backfilling for a decrease in the 2018-19 minimum guarantee and covering various formula-driven cost increases, among other adjustments, \$2.9 billion is available for new proposals.

<sup>a</sup> Applies to special education, child nutrition, mandates block grant, services for foster youth, adults in correctional facilities, and American Indian education.

<sup>b</sup> Consists of \$4 million for facilities in San Francisco Unified School District, \$2 million for facilities in Sweetwater Union High School District, and \$1.7 million for suicide prevention training.

<sup>c</sup> Applies to Adult Education, Apprenticeship Programs, Extended Opportunity Programs and Services, mandates block grant, Disabled Students Programs and Services, CalWORKs student services, and campus child care support.

COLA = cost-of-living adjustment. LEA = local education agency. LCFF = Local Control Funding Formula.

Source: Legislative Analyst's Office

## Major Early Childhood Education Proposals

The Governor's January budget includes an increase of \$665 million (14 percent) for overall child care and preschool funding in 2019-20 (this does not include the proposed funding for full-day kindergarten). This includes a total \$1.1 billion increase in non-Proposition 98 General Fund, a \$216 million decrease in Proposition 98 funding (due to shifting certain preschool costs outside of Proposition 98), and a \$218 million decrease in federal funding (due to the expiration of a one-time Child Care and Development Fund). The Governor's 2019-20 budget includes a total of \$5.3 billion for child care and preschool programs (including Transitional Kindergarten).

The Governor's budget includes the following major proposals related to early childhood education:

- Full-Day Kindergarten. The Governor's budget includes \$750 million in one-time non-Proposition 98 General Fund to construct new or retrofit existing facilities for full-day kindergarten programs, building upon the \$100 million General Fund provided in the 2018-19 budget. This funding would be allocated by the Office of Public School Construction through the existing Full-Day Kindergarten Facilities Grant Program. The Governor's proposal includes one change to the program to allow for any remaining grant funding to be used for any other one-time costs to implement the full-day kindergarten program, including professional development (currently any excess funds must be spent on capital projects).
- Preschool. The Governor's budget includes \$124.9 million in non-Proposition 98 General Fund for 10,000 additional full-day, full-year State Preschool slots in 2019-20, with the intent to fund an additional 10,000 slots in 2020-21 and 2021-22, for a total of \$30,000 slots over 3 years. These additional slots will be available for non-LEA preschool providers. With this funding, the Governor's goal is to fund slots for all eligible low-income four year olds by 2021-22.

The Governor's budget proposes to shift \$297.1 million in Proposition 98 funding for part-day State Preschool programs at non-local educational agencies to the non-Proposition 98 General Fund. The Administration argues that this will provide more flexibility in the provider's contract.

The Governor also proposes to eliminate the current requirement to provide proof of employment or enrollment in higher education in order to enroll in full-day State Preschool. Part-day State Preschool does not have this requirement.

The Governor's budget also includes \$10 million General Fund for the State Board of Education to contract with a research entity to develop a plan to improve access and quality of the State's subsidized child care system. Part of this plan would include a plan to provide universal preschool.



- Child Care Infrastructure. The Governor's budget includes \$500 million in one-time non-Proposition 98 funding to expand subsidized child care facilities, invest in the education of child care workers and develop a long-term strategic plan to implement universal preschool and a comprehensive, high-quality child care system in California. Specifically, the proposal includes:
  - Facilities. \$245 million for the Superintendent to administer grants to non-LEA child care and preschool providers for construction of new or retrofitting of existing child care and preschool facilities. The Superintendent would allocate the funding in equal amounts over five years. Priority would be given to applicants with a demonstrated need for facilities, those serving low-income communities and who plan to serve children that qualify for subsidies.
  - Workforce Development. \$245 million for the Superintendent to administer competitive grants to expand the number of qualified child care and early learning professionals and increase the educational credentials of existing providers. The Superintendent would allocate the funding in equal amounts over 5 years and would administer the grants through local partnerships in all 58 counties. The funding would be allocated based on the demonstrated need, cost of living and number of children under the age of 13 that qualify for subsidized care in each county. The grants could be used for educational expenses, including tuition, supplies, transportation, child care, substitute teacher pay and other expenses determined by the Superintendent.
  - Strategic Plan. \$10 million for the state board to contract with a research entity to develop recommendations for future investment in the state's system of subsidized child care and early learning for children birth to age five.
- Child Savings Accounts. The Governor's budget includes \$50 million in one-time General Fund for pilot projects and partnerships with First 5 California, local First 5 Commissions, local government and philanthropy to develop models to expand access to Child Savings Accounts for incoming kindergarteners.
- Caseload Adjustments. The Governor's budget includes an increase of \$103 million for changes in CalWORKs caseload and cost of care. This includes a \$16 million decrease in Stage 1, a \$36 million increase in Stage 2 and a \$83 million increase in Stage 3.
- COLA. The budget includes \$79 million for a 3.46 percent COLA for non-CalWORKs child care and State Preschool programs. The budget also decreases these slots by \$20 million to account for a 0.89 percent decrease in the 0-4 population.

- Annualize Adjustment Factor Increases. The Governor's budget includes \$40 million to annualize funding for the increased adjustment factors for infant and toddlers and children with special needs and severe disabilities, which went into effect on January 1, 2019. The Governor's budget also provides \$3 million to annualize Alternative Payment slots added in September 2018.
- Other Early Childhood Investments. The Governor's budget also includes a number of other proposals related to early childhood that will be heard in other Subcommittees. These include:
  - Paid Family Leave
  - Adverse Childhood Experiences (ASEs) and developmental screenings
  - Home Visiting and Black Infant Health Programs
  - Increased CalWorks grants
  - Local Child Support Agencies

The table below outlines the Governor's proposals related to child care and preschool.

<b>Governor's Budget Includes Several Child Care and Preschool Proposals<sup>a</sup></b>	
(in Millions)	
<b>One-Time Initiative</b>	
Workforce development	\$245
Infrastructure	\$245
Plan	\$10
<b>Subtotal</b>	<b>\$500</b>
<b>Ongoing Commitments</b>	
10,000 additional full-day State Preschool slots	\$125
CalWORKs child care caseload and cost of care	\$103 <sup>b</sup>
Non-CalWORKs child care COLA and slots	\$59
Annualization of certain adjustment factors applied January 2019	\$40
Annualization of State Preschool slots added April 2019	\$27
Annualization of Alternative Payment slots added September 2018	\$3
<b>Subtotal</b>	<b>\$357</b>
<b>All Other Changes<sup>c</sup></b>	<b>-\$188</b>
<b>Total</b>	<b>\$669</b>
<sup>a</sup> In addition to these child care and preschool proposals, the Governor proposes \$750 million one time to increase the number of full-day kindergarten programs.	
<sup>b</sup> Of this amount, \$80 million is associated with higher 2018-19 caseload. Excludes \$1.4 million that is embedded in the "annualization of certain adjustment factors" row.	
<sup>c</sup> Largely reflects the expiration of one-time 2018-19 funds.	

Source: Legislative Analyst's Office

## LAO Recommendations

The LAO's recommendations related to Proposition 98 include:

- Prepare for possible drops in Proposition 98 funding based upon (1) recent economic developments suggesting state revenues and the minimum guarantee could be somewhat lower than the Governor's budget assumes, and (2) the likelihood of higher costs for certain programs within the guarantee. Even a small drop in the guarantee could mean the State has little ability to increase Proposition 98 programs beyond covering cost-of living adjustments (COLAs).
  - Expect the 2018-19 minimum guarantee to decrease about 55 cents for each dollar of lower state revenue.
  - Expect the 2019-20 minimum guarantee to decrease about 40 cents for each dollar of lower state revenue.
- Begin evaluating the Governor's specific proposals and identify those the Legislature might be willing to reject or reduce in response to a smaller Proposition 98 budget.
- Consider replacing some of the Governor's ongoing funding with one-time initiatives to provide a cushion if the minimum guarantee declines now or in the future.

Related to the Governor's proposal to eliminate the Proposition 98 true-up account, the LAO recommends the Legislature:

- Reject the Governor's proposal to eliminate the automatic true-up process and prohibit downward Proposition 98 funding adjustments in the prior year. The proposal would make balancing the state budget more difficult.

### 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.

The Subcommittee should consider the Proposition 98 priorities, in the event that revenues are lower at the May Revision. Additionally, should carefully consider the Governor's proposal to eliminate the cost allocation schedule, or true-up process, and the proposal to prohibit the state from making downward adjustments to the Proposition 98 level. Although this may

sound like a benefit to schools, it could make it challenging for the Legislature and Governor to balance the budget during an economic downturn.

Suggested Questions:

- If revenues come in lower than the Governor's projections, what would be the impact on funding for schools?
- Under the Governor's proposal to eliminate the true-up account and prohibit the State from making downward adjustments to the Proposition 98 funding level, what options would the state have in balancing the budget in tough economic times?
- The Governor's focus on early childhood education is encouraging, however, the Governor's budget includes little ongoing funding for needed slots and rates for early education. How does the Governor intend to support early education programs in an ongoing way?

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**Staff Recommendation: Hold Open**

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