

## AGENDA

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

Assemblymember Kevin McCarty, Chair

TUESDAY, FEBRUARY 28, 2017

9:30 AM - STATE CAPITOL ROOM 444

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

#### I. OPENING REMARKS

Assemblymember McCarty, Chair  
Committee Members

#### II. BUDGET PERSPECTIVES

Tom Torlakson, Superintendent of Public Instruction

#### III. GOVERNOR'S 2017-18 BUDGET: PROPOSITION 98 AND EARLY EDUCATION

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

#### IV. FEDERAL EDUCATION FUNDING

Natasha Collins, Legislative Analyst's Office  
Marguerite Ries, Department of Education

#### V. PUBLIC COMMENT

## ITEMS TO BE HEARD

### 6100 DEPARTMENT OF EDUCATION

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#### ISSUE 1: GOVERNOR'S 2017-18 BUDGET: PROPOSITION 98 AND EARLY EDUCATION

The Subcommittee will discuss the Governor's proposed Proposition 98 funding level for the 2017-18 Fiscal Year. 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 9<sup>th</sup>.

#### PANELISTS

- Lisa Mierczynski, Department of Finance
- Kenneth Kappahn, Legislative Analyst's Office
- 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 Administration projects "Test 3" to be operative in 2015-16 through 2017-18.

Proposition 111 created an additional formula in Test 3 years to ensure that school funding is treated no worse than the rest of the budget. The formula requires the state to provide a supplemental appropriation when Proposition 98 funding would otherwise grow less than the rest of the budget. This formula is known as the "equal pain/equal gain" formula. The Governor's budget includes a \$266 million supplemental appropriation under this formula.

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 estimates the state will create a new maintenance factor obligation of \$219 million in 2017-18, bringing the total maintenance factor obligation to \$1.6 billion.

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 \$400 million settle-up payment to pay down obligations the state owes from 2009-10. After this payment, the state would have \$626 million remaining in outstanding settle-up.

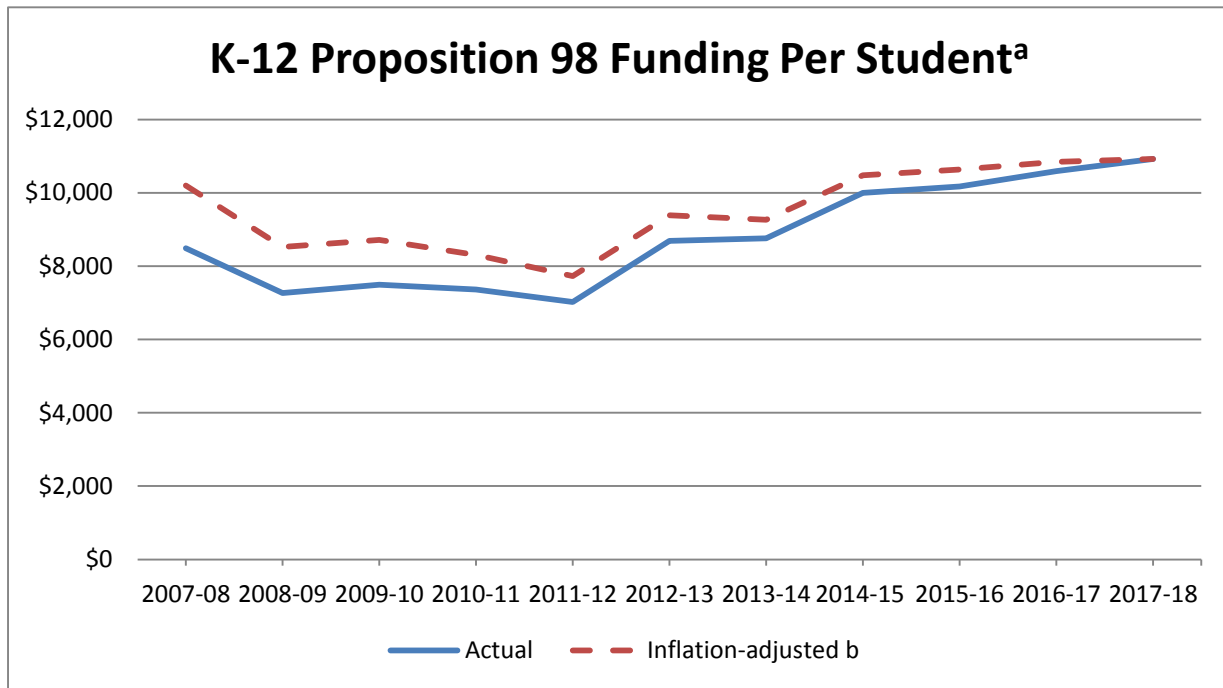
### **Overall Proposition 98 Funding**

The Governor's January budget provides a total Proposition 98 funding level of \$73.5 billion in 2017-18, \$2.1 billion above the revised 2016-17 level (3 percent). This increase is primarily due to higher per capita General Fund revenue. The Governor's budget revises the Proposition 98 minimum guarantee downward by \$379 million in 2015-16 due to decreased General Fund tax revenue. The Governor's budget also revises the 2016-17 minimum guarantee downward by \$506 million mostly due to the lower Proposition 98 level carrying over from the prior year.

In order to reduce spending to match the lower estimated Proposition 98 levels in the prior years, the Governor's budget proposes shifting some one-time payments from the 2015-16 fiscal year to the 2016-17 fiscal year, and shifts \$859.1 million in LCFF funding from the 2016-17 fiscal year to the 2017-18 fiscal year.

### **Per Pupil Funding**

As shown in the chart below, per-pupil spending under the Governor's plan is expected to be \$10,924 in 2017-18, a significant increase from 2011-12.



a. Reflects all Proposition 98 funding except the amount going to the California Community Colleges.  
 b. In 2017-18 dollars. Adjusted using the state and local government price index.  
 Source: Legislative Analyst's Office

Despite recent increases, California still ranks far below the national average in per-pupil spending. Based on data from 2013-14, the most recent data available, California ranked 35th among all states in per-pupil funding. If adjusted for regional cost differences, California ranks much lower. According to the Education Week Research Center's analysis, California ranks 46th in per-pupil spending. 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 \$168.9 million in 2016-17 for school districts as a result of a decrease in projected average daily attendance (ADA) from the 2016 Budget Act, and a decrease of \$63.1 million in 2017-18 for school districts as a result of further projected decline in ADA for 2017-18. The Governor's budget includes an increase of \$93 million to support projected charter school ADA growth and a decrease of \$4.9 million to reflect a projected decrease in special education ADA.

**Major K-12 Education Spending Proposals**

The Governor's January budget includes a total of \$2.1 billion in Proposition 98 spending increases for 2017-18. The Governor proposes to dedicate most of this funding to retire the LCFF deferral and increase LCFF funding. The Governor's budget includes the following major spending proposals related to K-12 education:

- Proposes a one-time payment deferral of \$859.1 million in LCFF expenditures from June 2017 to July 2017 in order to maintain programmatic expenditures. The Governor's Budget also proposes to repay this deferral in 2017-18.

- Provides an increase of \$744 million for the Local Control Funding Formula (LCFF) in order to maintain the current year implementation level of 96 percent. This amount is equal to providing a cost-of-living adjustment for the LCFF.
- Dedicates \$287 million in one-time Proposition 98 funding for school districts, charter schools and county offices of education to use at their discretion. This funding would also count toward paying down the education mandates backlog for certain districts.
- Provides \$200 million in one-time Proposition 98 funding for the third and final year of the Career Technical Education Incentive Grant program. This program was established in the 2015-16 Budget and committed to allocating \$900 million over three years (\$400 million in 2015-16, \$300 million in 2016-17 and \$200 million in 2017-18).
- Proposes making changes to California's special education finance system to better align it with the LCFF. Provides no specific proposal, but commits to engaging stakeholders throughout the spring budget process.
- Proposes additional accountability and oversight requirements for all participants in the School Facilities Program, including front-end grant agreements and including facility bond expenditures to local school audit requirements.

Other Adjustments:

- Allocates \$422.9 million to support energy efficiency projects using funds available through Proposition 39.
- Includes an increase of \$58.1 million in Proposition 98 funding to provide a 1.48 percent cost-of-living adjustment for categorical programs outside the LCFF.
- Provides \$29.9 million of the Proposition 56 revenues to support tobacco and nicotine prevention and reduction programs at K-12 schools.
- Estimates \$10.1 million to be available through Proposition 47 savings to support programs to reduce truancy and support students at risk of dropping out of school or are victims of crime.
- Proposes an increase of \$8.5 million in Proposition 98 funding for the K-12 Mandate Block Grant to reflect the addition of the Training for School Employee Mandated Reporters program.
- Delays the deadline to revise the content standards for visual and performing arts and world language, develop standards for computer science, and create model curriculum in ethnic studies. The Governor also proposes delaying the deadline for the Superintendent of Public Instruction to convene a computer science strategic implementation advisory panel.

The Governor's budget makes other adjustments including a decrease of \$149.2 million in 2016-17 and \$922.7 million in 2017-18 in Proposition 98 funding for school districts and county offices of education due to higher offsetting property tax revenues.

The chart below includes the specific changes proposed by the Governor for 2017-18.

<b>Figure 12</b>	
<b>2017-18 Proposition 98 Changes</b>	
<i>(In Millions)</i>	
<b>2016-17 Revised Proposition 98 Spending</b>	<b>\$71,368</b>
<b>Technical Adjustments</b>	
Make Local Control Funding Formula (LCFF) adjustments	\$65
Revise estimate of energy efficiency funds	27
Annualize funding for previously approved preschool slot increases	24
Make various other adjustments <sup>a</sup>	-30
Subtotal	(\$85)
<b>K-12 Education</b>	
Retire June-to-July LCFF deferral (one time) <sup>b</sup>	\$859
Increase LCFF funding	744
Provide 1.48 percent COLA for select categorical programs <sup>c</sup>	58
Add mandated reporter training to Mandates Block Grant	8
Subtotal	(\$1,670)
<b>California Community Colleges</b>	
Fund guided pathways initiative (one time)	\$150
Provide 1.48 percent COLA for apportionments	94
Fund 1.34 percent enrollment growth	79
Provide unallocated increase	24
Fund Innovation Awards (one time)	20
Augment Online Education Initiative	10
Develop integrated library system (one time)	6
Provide 1.48 percent COLA for select categorical programs <sup>d</sup>	4
Subtotal	(\$387)
<b>Total Changes</b>	<b>\$2,143</b>
<b>2017-18 Proposition 98 Spending</b>	<b>\$73,511</b>
<sup>a</sup> Includes the removal of prior-year one-time payments, a special education fund swap (using one-time instead of ongoing funds), a High Speed Network fund swap (using ongoing rather than one-time funds), and various minor adjustments.	
<sup>b</sup> Under the Governor's proposal, the state would make 11 LCFF payments in 2016-17 (producing savings relative to the <i>2016-17 Budget Act</i> ) and 13 LCFF payments in 2017-18 (12 normal monthly payments plus an additional payment for the prior year).	
<sup>c</sup> Applied to special education, child nutrition, services for foster youth, adults in correctional facilities, and American Indian education.	
<sup>d</sup> Applied to Extended Opportunity Programs and Services, Disabled Students Programs and Services, CalWORKs student services, and support for certain campus child care centers.	
COLA = cost-of-living adjustment.	

Source: Legislative Analyst's Office

## Major Early Childhood Education Proposals

The Governor's January budget includes a slight increase (two percent) for overall child care and preschool funding in 2017-18, as shown in the chart below.

### Child Care and Preschool Budget (Dollars in Millions)

	2015-16 Revised	2016-17 Budget Act <sup>a</sup>	2017-18 Proposed	Change from 2016-17		
				Amount		Percent
<b>Expenditures</b>						
<b>CalWORKs Child Care</b>						
Stage 1	\$334	\$418	\$386	-\$32		-8%
Stage 2 <sup>b</sup>	\$419	\$445	\$505	\$60		13%
Stage 3	\$257	\$287	\$303	\$15		5%
Subtotals	\$1,010	\$1,150	\$1,193	\$43		4%
<b>Non-CalWORKs Child Care</b>						
General Child Care <sup>c</sup>	\$305	\$321	\$319	-\$1		0% d
Alternative Payment Program	\$251	\$267	\$279	\$12		4%
Migrant Child Care	\$29	\$31	\$31	\$0	d	0% d
Care for Children With Severe Disabilities	\$2	\$2	\$2	\$0	d	0% d
Infant and Toddler QRIS Grant (one-time)	\$24	-	-	-		-
Subtotals	\$611	\$620	\$630	\$10		2%
<b>Preschool Programs<sup>e</sup></b>						
State Preschool--part day <sup>f</sup>	\$425	\$447	\$445	-\$2		0%
State Preschool--full day	\$555	\$627	\$648	\$21		3%
Preschool QRIS Grant	\$50	\$50	\$50	\$0		0%
Subtotals	\$1,030	\$1,124	\$1,143	\$19		2%
<b>Support Programs</b>	\$76	\$89	\$82	-\$7		-8%
<b>Totals</b>	<b>\$2,727</b>	<b>\$2,984</b>	<b>\$3,049</b>	<b>\$66</b>		<b>2%</b>
<b>Funding</b>						
Proposition 98 General Fund	\$885	\$975	\$995	\$20		2%
Non-Proposition 98 General Fund	\$885	\$984	\$1,002	\$18		2%
Federal CCDF	\$573	\$639	\$606	-\$32		-5%
Federal TANF	\$385	\$385	\$446	\$61		16%

a. Reflects Department of Social Services' revised Stage 1 estimates for cost of care and caseload. Reflects budget act appropriation for all other programs.

b Does not include \$9.2 million provided to community colleges for certain child care services.

c General Child Care funding for State Preschool wraparound care shown in State Preschool-- full day.

d Less than \$500,000 or 0.5 percent.

e Some CalWORKs and non-CalWORKs child care providers use their funding to offer preschool.

f Includes \$1.6 million each year used for a family literacy program at certain State Preschool programs.

Source: Legislative Analyst's Office

The Governor's budget includes the following major proposals related to child care and early education:

- Includes \$87.9 million in non-Proposition 98 General Fund and \$23.5 million Proposition 98 funding in 2017-18 to reflect full-year costs of the 2016 Budget Act adjustments and increased costs for CalWORKs Stage 2 and Stage 3 child care programs.
- Proposes pausing additional provider reimbursement rate increases and the addition of 2,959 full-day State Preschool slots agreed to in the 2016-17 budget until 2018-19, due to lower-than-expected revenue growth.
- Proposes a number of policy changes intended to alleviate some of the administrative requirements that providers face when operating multiple early education programs. The Governor proposes the following changes to better align child care and early education programs:
  - Allow children with exceptional needs whose families exceed income eligibility guidelines to access part-day state preschool if all other eligible children have been served. The intent of this proposal is to allow part-day state preschool providers to fill unused slots.
  - Eliminate licensing requirements for state preschool programs utilizing facilities that meet transitional kindergarten facility standards, specifically K-12 public school buildings.
  - Allow state preschool programs flexibility in meeting minimum adult-to-student ratios and teacher education requirements, allowing for alignment with similar transitional kindergarten requirements. Under the Governor's proposal, programs that meet Tier 4 standards of the Quality Rating and Improvement System matrix would be exempted from the State Preschool teacher-child ratio, class size, and teacher qualification requirements. Additionally, State Preschool classrooms would be required to have a minimum of one adult for every 12 students (rather than the 1:8 ratio currently required) if the lead teacher has a multiple subject teaching credential.
  - Simplify the process for school districts to align program minutes for state preschool and transitional kindergarten students. The Administration proposes to exempt school districts from having to submit a waiver to the State Board of Education to de-link the minutes for kindergarten and transitional kindergarten classes, if the purpose is to align their transitional kindergarten program with their State Preschool program.



- Includes the following proposals intended to provide administrative efficiencies for early education providers:
  - Authorize the use of electronic applications for child care subsidies. The Administration argues that this change will improve access for families and help providers process applications more efficiently.
  - Align the state's definition of homelessness with the federal McKinney-Vento Act for purposes of child care eligibility. This change will alleviate the administrative burden for providers receiving both state and federal funds.
- Provides no cost-of-living adjustment for child care or preschool programs.

### LAO Recommendations

The LAO estimates that the Proposition 98 minimum guarantee will not change much in 2015-16, but could change somewhat in 2016-17. The LAO expects the 2017-18 minimum guarantee to exceed the administration's January estimate by as much as \$1.5 billion due to increased tax revenue. Overall, the LAO recommends relying on a mix of one-time and ongoing spending in 2017-18 to minimize the likelihood of programmatic cuts to schools if there was an economic downturn.

### 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.

### Suggested Questions:

- If revenues come in higher than the Governor projects, what would be the impact on funding for schools?
- How does the payment deferral impact schools? What are the alternatives to doing a payment deferral?
- When does the Governor plan to have a specific special education proposal? Will the Legislature and the public have enough time to review it?
- Why does the Governor's budget not honor the increases for early education agreed to in the 2016-17 budget? If additional General Fund is available in May, will these increases be prioritized?

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**Staff Recommendation: Hold Open**

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**ISSUE 2: FEDERAL EDUCATION FUNDING (INFORMATION ONLY)**

The Subcommittee will hear an overview of the federal funding California receives for K-12 education and child care programs. The Department of Education will provide an update on recent and possible federal actions impacting California.

**PANELISTS**

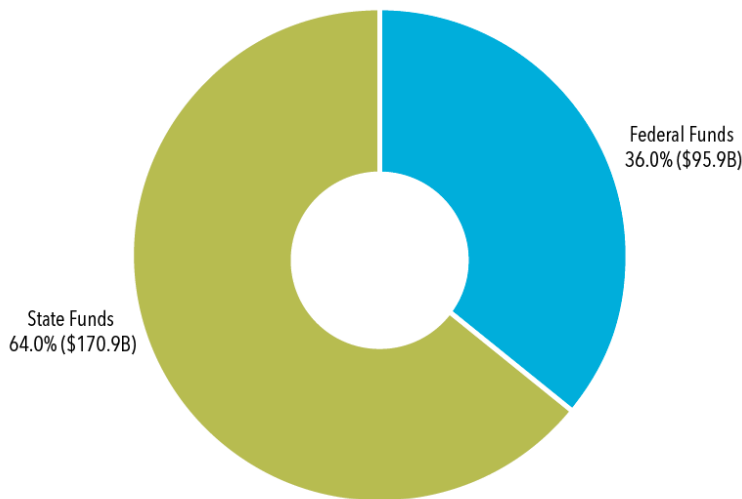
- Natasha Collins, Legislative Analyst’s Office
- Marguerite Ries, Department of Education

**BACKGROUND**

According to the California Budget and Policy Center’s analysis, the current state budget includes nearly \$96 billion in federal funds for 2016-17. This equates to 36 percent of the total state budget, which includes more than \$170 billion in state funds.

**Federal Funds Account for More Than One-Third of California’s State Budget**

Total Enacted 2016-17 Expenditures = \$266.8 Billion



Note: State funds reflect General Fund, special fund, and bond fund dollars.  
Source: Department of Finance



The majority of federal funding (approximately 72 percent) is used to support health and human services. The next largest federal funding category is K-12 education. The 2016-17 budget included approximately \$7.6 billion in federal funding for K-12 education, representing approximately 8 percent of the federal funds received.

**Federal K-12 Education Funding**

California's schools are funded through state, local and federal funds. State funding makes up the largest portion of funding for schools (about 60 percent). Local funding, such as property taxes, makes up about 30 percent of school funding and federal funds contribute about 10 percent. The federal government has three major K-12 education programs, which include:

Every Student Succeeds Act. In 2015, the federal government reauthorized the Elementary and Secondary Education Act (ESEA) through the Every Student Succeeds Act (ESSA). The Governor's budget estimates the state will receive approximately \$2.6 billion through the ESSA in 2017-18. The largest ESSA program is Title I, which provides approximately \$1.9 billion to support low-income students. The ESSA also provides funding for professional development for teachers and administrators, support for English learners, after school programs and various other programs.

<b>Figure 8</b>	
<b>Funding for Every Student Succeeds Act</b>	
<i>Proposed 2017-18<sup>a</sup> (In Millions)</i>	
<b>Support for:</b>	
Low-income students (Title I)	\$1,958
Teachers and administrators (Title II)	238
English learners (Title III)	145
After-school programs and charter schools (Title IV)	164
Rural schools (Title V)	1
American Indian education (Title VI)	7 <sup>b</sup>
Schools on federal lands (Title VII)	85 <sup>b</sup>
<b>Total</b>	<b>\$2,598</b>

<sup>a</sup> Does not include various competitive grant awards. In 2016, we estimate California educational entities received a total of \$60 million in competitive grant funding.  
<sup>b</sup> LAO estimates.

Source: Legislative Analyst's Office

The ESSA also includes federal testing and accountability requirements, but removes many of the punitive measures included in the previous No Child Left Behind Act. The Obama administration issued regulations around the ESSA accountability requirements in November, however the House recently voted to overturn the regulations. The Senate is also expected to vote to overturn the regulations. If the regulations are overturned, Congress is barred from issuing "substantially similar" regulations on these two issues before lawmakers reauthorize ESSA and the Higher Education Act.

Individuals with Disabilities Education Act. The federal Individuals with Disabilities Education Act (IDEA) supports services for students with disabilities. The state expects to receive \$1.3 billion in IDEA funding in 2017-18. Nearly all of this funding (96 percent) is for children with disabilities ages 3 through 22. The remaining federal funding is used to support children birth through age three. The state is expected to dedicate \$3.8 billion in Proposition 98 funding for students with disabilities in 2017-18.

Child Nutrition Programs. The federal Healthy, Hunger-Free Kids Act provided \$2.6 billion for California in 2016-17. The majority of this funding is used for the National School Lunch Program and the School Breakfast program, which allows schools to provide free or reduced-price meals to low-income students. The state also provides Proposition 98 funding to offer additional support to schools participating in the federal lunch and breakfast programs. The Governor's 2017-18 proposed budget includes \$161 million for this purpose.

### Federal Child Care Funding

Total funding for child care and preschool is approximately \$3 billion. Of this amount, about \$2 billion is state General Fund and \$1 billion in federal funds. These funds are used to support various child care programs including: CalWORKs child care (Stages 1, 2 and 3), general child care, alternative payment programs and other programs. This funding does not include funding for Head Start and Early Head Start, which is administered by the federal government and awarded directly to providers. The California Head Start Association estimates that California received approximately \$985 million in 2014-15 for Head Start and Early Head Start programs for an estimated enrollment of 108,421.

### 2017-18 Child Care and Preschool Funding by Source (in Millions)

	General Fund	Federal Funds	Total
<b>CalWORKs Child Care</b>			
Stage 1	\$70	\$316	\$386
Stage 2	\$375	\$130	\$505
Stage 3	\$113	\$189	\$303
<b>Subtotals</b>	<b>\$558</b>	<b>\$635</b>	<b>\$1,193</b>
<b>Non-CalWORKs Child Care</b>			
General Child Care <sup>a</sup>	\$188	\$131	\$319
Alternative Payment Program	\$108	\$170	\$279
Migrant Child Care	\$25	\$5	\$31
Care for Children With Severe Disabilities	\$2	\$0	\$2
<b>Subtotals</b>	<b>\$323</b>	<b>\$307</b>	<b>\$630</b>
<b>Preschool Programs</b>			
State Preschool	\$1,040	\$53	\$1,093
<b>Subtotals</b>	<b>\$1,040</b>	<b>\$53</b>	<b>\$1,093</b>
<b>Support Programs</b>	<b>\$75</b>	<b>\$57</b>	<b>\$132</b>
<b>Totals</b>	<b>\$1,996</b>	<b>\$1,052</b>	<b>\$3,048</b>

<sup>a</sup> General Child Care funding for State Preschool wraparound care shown in State Preschool. Assumes same amount of federal CCDF used for wraparound care as in 2016-17. Source: Legislative Analyst's Office

**STAFF COMMENTS/QUESTIONS**

It is too early to know what the impact of the new Trump Administration will be on education funding. However, it is unlikely that any changes will impact the 2017-18 budget. Some of the issues to watch for at the federal level include vouchers for private schools, changes to Title I funding for low-income students, funding for charter schools and potential cuts to federal child care programs. Additionally, if the Affordable Care Act is repealed, Lawmakers will be faced with difficult budget decisions on how to address the significant loss in federal health care funding, which would impact all areas of the state budget.

If Congress overturns the ESSA accountability regulations, this could cause confusion for states due to ambiguities in the law. However, it could also provide states with more flexibility in developing their state accountability plans. The CDE is moving ahead in developing its state plan based on the statute and plans to submit it to the federal government in September.

**Suggested Questions:**

- Has the CDE heard from the U.S. Department of Education on any potential federal funding changes? What is expected from the new Secretary of Education?
- If Congress overturns the ESSA regulations, what will be the impact on California's accountability system?

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**Staff Recommendation: Information Only.**

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