



January 10, 2019

**MEMORANDUM**

**TO:** Scott Day, Associate Executive Director  
Lori Easterling, Manager, Legislative Relations

**FROM:** Jennifer Baker,  Legislative Advocate

**RE:** *Governor's Proposed 2019-20 Budget*

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The following is a summary of the major components of the Governor's Proposed 2019-20 TK-12, higher education, and retirement budgets. Further details will be forthcoming as budget discussions and deliberations begin.

**Governor's Macro Goals**

Governor Newsom's overall budget goals are to moderate growth expectations, create resiliency for California, and to prepare for uncertain times. With these themes in mind his goals are to increase and improve California's public education system as well as its health and human services system. A combined 81 percent of California's budget is centered around these two areas (53 percent education and 28 percent health and human services).

**K-12 Funding**

The Proposition 98 (Prop. 98) funding level for the 2019-20 budget is projected to be \$80.7 billion, equating to a \$2.8 billion increase from the adjusted 2018-19 level. The proposed Cost-of-Living-Adjustment (COLA) is 3.46 percent for 2019-20. Prop. 98 levels declined from the enacted budget levels for the 2017-18 and 2018-19 fiscal years due to lower Average Daily Attendance (ADA) as well as a year-over-year decline in General Fund revenue growth from 2017-18 to 2018-19. Funding is maintained for these two fiscal years through a \$44 million so-called "over-appropriation" to the Prop. 98 Minimum Guarantee in 2017-18 (reflecting a new commitment by the administration not to retroactively adjust Prop. 98 levels for years prior to current year) and by settle-up payments to offset unfunded 2018-19 obligations.

Per pupil spending expenditures from all funds are projected to be \$17,160 in 2019-20, an increase from \$16,857 in 2018-19. Ongoing K-12 Prop. 98 per pupil expenditures are \$12,003 in 2019-20, an increase of \$435 per pupil over 2018-19 levels.

The Prop. 98 Test 1 is projected to be operative for fiscal years 2017-18 and 2019-20 while Test 3 is projected to be operative for fiscal year 2018-19. Due to Test 3 being operative for 2018-19, statutory Test 3(b), which was amended in 2017-18, is now suspended for 2018-19, resulting in a decline of \$271 million.

The Prop. 98 split is proposed to be 10.93 percent for community colleges and 89.07 percent for K-12 for 2019-20.

**K-12 Spending and Attendance** - ADA in 2018-19 is estimated to decrease by 0.33 percent, costing \$388 million in Prop. 98 General Fund dollars. It is further projected to decrease by 0.12 percent in 2019-20, costing \$187 million Prop. 98 General Fund dollars.

**Certification** – The budget proposes to amend statute to specify the state may not adjust Prop. 98 funding levels for any non-certified year outside of the fiscal years referred to as current or budget year (meaning, e.g., in this Governor’s Budget only fiscal years 2018-19 and 2019-20 can be adjusted); this ensures that funding levels for prior years will not be retroactively changed due to unanticipated or late-discovered revenue or ADA drops in previous fiscal years.

- This will be tied to a proposed amendment to the certification and continuous appropriation statute enacted last session, to eliminate the cost allocation schedule, and prohibit the state from retroactively adjusting Prop. 98 funding levels by up to 1 percent for a prior fiscal year. In addition, the proposed statute will enact a limitation on the continuous appropriation of the Local Control Funding Formula (LCFF) COLA so that the LCFF does not inadvertently crowd out other Prop. 98 programs. Continuous appropriation of the underlying LCFF will continue.

**Local Control Funding Formula** - The budget commits its support to the LCFF and to increase its overall funding levels.

- \$2 billion Prop. 98 General Fund increase to the LCFF, reflecting a 3.46 percent COLA, bringing the total LCFF funding to \$63 billion.

**Special Education** – The Governor plans on pursuing policy changes to improve the coordination between general education and special education programs, the transparency around local planning for regional special education services, and transitions between regional centers and Local Education Agencies (LEAs) for three-year-old children with exceptional needs.

- \$576 million Prop. 98 General Fund dollars (\$186 million is one-time) for expanding special education services and school readiness support at LEAs with high percentages of both students with disabilities and unduplicated students who are low-income, foster youth, and English language learners.

**Fiscal Stability/Pensions** – The budget recognizes 29 school districts are in danger of not meeting financial obligations over the next few years, down from a high of 188 school districts in 2011-12. The budget also notes districts face numerous increases to the cost of services that include pension costs, salary increases, special education, as well as other issues.

- \$3 billion one-time, non-Prop. 98 General Fund dollars for a payment to the California State Teachers' Retirement System (CalSTRS) to reduce long-term employer liabilities. \$700 million of this amount is to buy down the employer contribution rates in 2019-20 and 2020-21, decreasing the projected increases from 18.13 percent to 17.1 percent in 2019-20 and from 19.1 percent to 18.1 percent in 2020-21. The final \$2.3 billion would go toward the employers' long-term unfunded liability, saving employers \$6.9 billion over the next three decades.
- \$1.1 billion 2018-19 Prop. 2 dollars with an additional \$1.8 billion over the forecast period to pay down the state share of the CalSTRS unfunded liability, resulting in a state cumulative savings of \$7.4 billion over thirty years.

**Local Property Tax Adjustments** – Decrease of \$283 million Prop. 98 General Fund dollars for school districts and county offices of education in 2018-19 resulting from higher offsetting property tax revenues and a \$1.25 billion Prop. 98 General Fund decrease in 2019-20 from increased offsetting property taxes.

**COLA** - The proposed COLA is 3.46 percent for 2019-20, resulting in a \$187 million Prop. 98 General Fund increase for categoricals outside of the LCFF, including special education, child nutrition, State Preschool, youth in foster care, the mandate block grant, American Indian education centers, and the American Indian early childhood education program.

**Wildfires** – The property tax revenue losses incurred by K-14 schools are generally backfilled through Prop. 98. The budget assumes schools will incur \$19 million in 2019-20 property tax revenue losses due to the November wildfires. Mechanisms are in place to hold districts harmless for three years. The Governor's office will be reassessing the financial needs of districts in the spring regarding property taxes.

**Student Outcomes** – The Governor has prioritized adopting statewide policies and supporting local efforts to: improve school district and charter school accountability; parent, teacher, administrator, and policymaker access to data; community empowerment to partner with local school boards to prioritize and allocate resources; create fiscal stability for LEAs with resources targeted to student populations most in need of support; and ensure the adoption by state and LEAs of early education and school readiness priorities.

**Accountability** – The budget expresses its support for the new California School Dashboard and commitment to work with state and local partners to implement policies and strategies to address low student achievement and intends to implement statewide policies to hold all school districts, charter schools, and county offices of education accountable for operational transparency and community engagement.

- \$20.2 million Prop. 98 General Fund dollars for county offices of education to provide school district assistance for the implementation of a statewide system of support to approve school district's Local Control Accountability Plan (LCAP).
- \$350,000 one-time Prop. 98 General Fund dollars to merge the California School Dashboard, the LCAP electronic template, and other school site and school district reporting tools into a single web-based application.

**Charter Schools** - The Governor noted in his summary that he “intends to implement statewide policies that hold all school district, charter schools, and county offices of education accountable for operational transparency and community engagement.” When accountability was discussed under previous administrations, charter schools were not separated out from school districts. The Governor has committed to eliminating waste, fraud, and abuse in privately managed charter schools that has adversely impacted California’s students.

**Longitudinal Education Data** – The administration intends to develop supplementary K-12 accountability measures, improve collaboration between schools and health and human services agencies, and to collect more relevant data on the impact of public education programs on the state workforce.

- \$10 million one-time, non-Prop. 98 General Fund dollars to plan for and develop a longitudinal data system to connect student information from early education providers, K-12 schools, higher education institutions, employers, other workforce entities, and health and human services agencies.

**Facilities and Bond Funds** – Release \$1.5 billion Prop. 51 bond funds (an increase of \$906 million over the prior year) to support school construction projects.

- Additional \$1.2 million ongoing Prop. 51 bond funds and State School Site Utilization Funds, as well as 10 positions for the Office of Public School Construction to support the increased processing of applications and program workload.

**CalWORKs Child Care** - \$119.4 million net increase of non-Prop. 98 General Fund dollars in 2019-20 for Stages 2 and 3 child care to reflect increases in the number of child care cases.

**State Preschool Slots** - \$26.8 million increase in Prop. 98 General Fund dollars for the full-year implementation of prior year State Preschool slots to reflect full-year costs of 2,959 full-day State Preschool slots implemented through 2018-19.

**County Offices of Education** - \$9 million Prop. 98 General Fund increase reflecting a 3.46 percent COLA and ADA adjustment.

**Instructional Quality Commission** - \$279,000 one-time General Fund increase for the Instructional Quality Commission to continue working on the development of model curriculum and frameworks.

**Proposition 56** - In 2016, voters approved the measure, which increased the tobacco tax by \$2.00 per pack of cigarettes, requiring that 2 percent of the remaining revenue be used for school programs that prevent and reduce the use of tobacco and nicotine products by young people. The budget provides \$24.2 million to support tobacco and nicotine prevention programs by K-12 schools.

## Early Childhood

Increasing the foundation of support for California's youngest residents is a major priority. Governor Newsom is proposing to expand investments in preschool, kindergarten, and child care while improving access to health care services for these children. Additional support is being proposed for parents by expanding paid family leave, increasing home-visiting assistance, medical screenings, and student-parent scholarship awards. Additionally, Governor Newsom is proposing to increase CalWORKs grants for low-income parents, as well as access to child savings accounts for kindergartners.

**Universal Full-Day Kindergarten** - \$750 million one-time, non-Prop. 98 General Fund dollars to expand upon the \$100 million General Fund dollars provided in the 2018 budget for eligible school districts to construct new, or retrofit existing facilities for full-day kindergarten programs.

In his comments to the press, Governor Newsom stressed the importance of expanding access to facilities and the important attention that needs to be given to quality staff that will provide services to these children.

**Universal Preschool** – Future investments will be provided to increase capacity and access, as well as funding, for a long-term plan for providing universal preschool. The first step in this goal is to increase access to the existing State Preschool program for all low-income four-year-olds.

- \$124.9 million non-Prop. 98 General Fund dollars for all eligible low-income four-year-olds (future funding is proposed for the next two fiscal years) to provide a total of 200,000 additional slots by 2021-22. It is noted that, due to capacity issues, slots will also be provided by not-for-profit providers.
- The proposed budget eliminates the requirement that families with four-year-olds provide proof of parent employment or enrollment in higher education to access the full-day program.
- \$297.1 million Prop. 98 General Fund dollars for part-day State Preschool programs at non-LEAs are shifted to the non-Prop. 98 General Fund. The guarantee is rebenchmarked downward to account for the shift.
- A long-term plan will be provided during the budget year to outline steps for providing universal preschool, including strategies to address facility capacity, ensure a trained workforce is available, as well as to identify revenue options to support access. This plan may propose changes to transitional kindergarten.

**Subsidized Child Care** - \$500 million one-time, non-Prop. 98 General Fund dollars to expand subsidized child care facilities and make a significant investment in the education of the child care workforce to improve the quality of care and move child care professionals along the early educational/child care professional continuum.

- Additional \$247 million in one-time funds to the California State University (CSU) for child care infrastructure for students on college campuses.

- The budget proposes funding to develop a long-term strategic plan to provide a framework to generate needed revenues to implement a comprehensive child care system, outline ways to simplify the subsidized child care system, and reflect the principle of shared responsibility and the appropriate role for government, business and parents in meeting child care needs.
- \$10 million General Fund dollars for the State Board of Education, in consultation with the Department of Finance and the Department of Social Services, to contract with a research firm to develop a road map for providing a path toward achieving these goals, in consultation with stakeholders and experts.

**Child Poverty** – The budget proposes ways of addressing the inter-generational cycles of poverty by focusing on food and housing stability as well as additional support for low-income parents.

- \$347.6 million General Fund dollars in 2019-20 (\$455.4 million General Fund dollars annually in the future) to increase CalWORKs grant levels by 13.1 percent on October 1, 2019, bringing monthly grant payments to 50 percent of the projected 2019 federal poverty level.
- \$56 million (\$36.9 million federal and \$19.1 million General Fund) for Local Child Support Agency administrative costs representing the first of a three-year, phased-in implementation of a new budget method to create more equitable funding across local agencies to provide support for child support case management.
- \$121.6 million General Fund dollars to increase or provide new access awards for students with dependent children attending the University of California, the California State University, or the California Community Colleges. New or renewal CalGrant A students will receive up to \$6,000, CalGrant B students will receive \$6,000, up from \$1,648, and CalGrant C students will receive \$4,000, up from \$1,094.

**Paid Family Leave** – California’s current Paid Family Leave program allows workers to take up to six weeks of paid family leave to care for a seriously ill family member or bond with a newborn or newly adopted child with a wage replacement of 70 percent. (A birth mother may take an additional six weeks of paid leave to recover from childbirth.) The Governor has an overall goal of increasing this program to expand the time a parent or close family member can be with a newborn or newly adopted baby for the first six months.

- The budget adjusts the reserve requirement to the fund that supports the Paid Family Leave program to enable the state to make a down payment in expanding this program in the upcoming budget year while maintaining an adequate reserve.
- A task force will be convened over the year to consider options to phase-in and expand this program.

**Child Savings Accounts** - \$50 million one-time General Fund dollars to support pilot projects with First 5 California, local First 5 Commissions, local governments and philanthropies to support development or strengthening of cost-effective models to replicate or expand access to Child Savings Accounts for incoming kindergartners.

**Higher Education** – The budget proposes a total of \$36.4 billion in funding for higher education, reflecting growth of \$1.43 billion.

**California Community Colleges** – The budget proposes a 7 percent increase in Prop. 98 funding reflecting an increase of \$246 million.

- \$40 million increase in Prop. 98 General Fund dollars to support a second year of free tuition for students, extending the California College Promise to waive enrollment fees for first-time students for a second academic year, impacting approximately 28,000 students.
- \$248.3 million increase in Prop. 98 General Fund dollars for a 3.46 percent COLA.
- \$26 million increase in Prop. 98 General Fund dollars for enrollment growth.
- \$211.4 million decrease in Prop. 98 General Fund dollars resulting from an increase of offsetting property tax revenues.
- 3.46 percent COLA for various categorical programs.
- \$10 million increase in Prop. 98 General Fund dollars to provide legal services to undocumented and immigrant students, faculty, and staff.
- \$358.7 million increase in general obligation bond funding for 12 new and 15 continuing projects.
- \$5 million one-time General Fund dollars for the Chancellor’s Office to expand outreach regarding the California College Promise.
- Student Centered Funding Formula – The Chancellor is tasked with reviewing the accuracy of data districts have submitted for the new supplemental and student success allocations and has created a workgroup to make recommendations on other implementation issues.
  - The budget proposes to maintain the current rates for the Student Success Allocation Factor for 2019-20, adjusting inflation, pending further review.
  - The budget proposes to fund reasonable growth within the Student Success Allocation while establishing limits on the year-over-year increases a district can receive to 10 percent.
  - The budget clarifies the definition of transfer students to reflect an unduplicated student count.
- \$435,000 one-time, non-Prop. 98 General Fund dollars for the Chancellor’s Office to contract out the Student Centered Funding Formula Oversight Committee.
- \$135,000 increase in ongoing non-Prop. 98 General Fund dollars and one new position for an Information Security Officer at the Chancellor’s Office for increased security.
- \$3 billion one-time payment to CalSTRS (see Fiscal Stability/Pensions).

**California State University** – The budget includes an overall increase of 8 percent. These funds are provided with the expectation that tuition will remain flat, access will increase, and time to degree will improve.

- \$300 million ongoing General Fund increase, which includes \$193 million for operational costs, \$62 million for enrollment growth of 2 percent, and \$45 million to continue the Graduation Initiative 2025.
- \$247 million is proposed for one-time General Fund dollars to address deferred maintenance backlog and to improve and expand on-campus child care centers (discussed under the Early Childhood section).

- \$15 million one-time General Fund dollars to support the Basic Needs Initiative, which help address student food insecurity and homelessness.
- \$62 million ongoing General Fund dollars to expand enrollment by 2 percent, or more than 7,000 students. The budget specifically notes the importance of developing an educated workforce as a key aspect needed for a modern economy and stresses the need to expand access to the CSU to include more California resident students.
- \$2 million one-time General Fund dollars to the Chancellor’s Office to review a potential CSU campus in San Joaquin County, likely in Stockton.
- \$7 million ongoing General Fund dollars to provide legal services to undocumented students, faculty, and staff.

**University of California** – The budget includes 6.9 percent increase in ongoing funds, reflecting \$240 million in ongoing General Fund dollars, and \$153 million in one-time funds.

*Please note these are only highlights and further details will be forthcoming.* As always, please keep in mind, this is only a “proposal” and must be negotiated through the Legislative process.

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JB:tc

<https://calta.sharepoint.com/sites/gr/Cloud Storage/Legislative Relations/Jennifer Baker/2019-20 Budget/Updated Governor's Proposed Budget 1-12-19.docx>