



January 10, 2018

MEMORANDUM

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

FROM: Jennifer Baker, ^{JB}Legislative Advocate

RE: *Governor's Proposed 2018-19 Budget*

The following is a summary of the major components of the Governor's Proposed 2018-19 K-14, higher education, and retirement budgets, as well as related Propositions. Further details will be forthcoming as the budget discussions and deliberations begin.

External Influences

It should be noted that the Governor's proposed budget does not reflect the recent federal tax bill and the fiscal implications it will have on California's long-term fiscal health. Additionally, while the economy continues to remain relatively healthy, economists remain concerned that a decline in California's economic outlook may be on the horizon.

Proposition 98 Guarantee

Proposition 98 funding is projected to increase by \$4.6 billion in the Governor's proposed budget, reflecting a six percent increase in funding for K-14 education from the level in the 2017 Budget Act. The proposed funding level for K-14 Education in 2018-19 is \$78.3 billion. The proposed budget reflects a current year increase in the 2017-18 by \$700 million, bringing the new 2017-18 total to \$75.2 billion. Per pupil spending expenditures are projected to be \$16,085 in 2018-19, an increase from the projected increase to \$15,654 in 2017-18. These totals reflect non-Prop. 98 dollars reflecting the inclusion of settle-up payments for prior years. Proposition 98 funding per student in 2018-19 is projected to be \$11,614, reflecting an increase of \$465 per pupil, up 66 percent from the \$7,008 provided in 2011-12 before the passage of Proposition 30.

The Budget increases propose to fully-funding of the Local Control Funding Formula (LCFF).

The Prop. 98 Test 3 (based upon a low revenue year) is projected to be operative for fiscal years 2016-17 and 2018-19. Test 2 is projected to be operative for fiscal year 2017-18.

The Proposition 98 split is proposed to be 10.93 percent for community college and 89.07 percent for K-12.

K-12 Spending and Attendance

While attendance declined from 2014-15, ADA in 2017-18 is estimated to be 5,961,253, an increase of 1,216 from 2016-17. The budget is anticipating ADA to drop for 2018-19 by 17,163 to 5,944,090.

K-12 Budget Adjustments

- **Local Control Funding Formula:**
 - Increase of \$3 billion in Prop. 98 General Fund to fully implement the LCFF.
- **Fiscal Transparency:**
 - The Governor proposes an increase in fiscal transparency by requiring local education agencies (LEA) to illustrate how their budget expenditures align with their LCAP and by reporting in a single website the total amount of supplemental and concentration funding provided to each LEA.
- **Accountability:**
 - An increase in the existing accountability system is proposed to provide progressive tiers of targeted assistance facilitated by county offices of education in coordination with school districts to address student performance.
 - **State System of Support:**
 - Increase of \$59.2 million Prop. 98 General Fund for county offices of education and lead county offices of education to provide technical assistance to LEAs to increase student outcomes.
 - **California School Dashboard:**
 - Increase of \$300,000 Prop. 98 General Fund to improve their user interface of the CA School Dashboard;
 - The State BOE will facilitate stakeholder meetings to solicit feedback.
 - **CA Collaborative for Education Excellence:**
 - Increase of \$6.5 million Prop 98 General Fund for the California Collaborative for Education Excellence to build county office capacity to provide technical assistance and improve student outcomes.
- **Special Education:**
 - Proposes to strengthen the relationship between special education and general education to requiring Special Education Local Plan Areas (SELPA) to complete local plan templates that align services and resources with goals identified within local districts LCAPs as well as increasing budget transparency by summarizing how SELPA's planned expenditures and services align with student outcome strategies identified in their local SELPA.

- Increase of \$125 million Prop 98 General Fund and \$42.2 million federal Temporary Assistance for Needy Families (TANF) funds on a one-time basis for competitive grants to expand inclusive care and education settings for 0 to 5-year-olds and improve school readiness and long-term academic outcomes for low-income children and children with exceptional needs.
 - Increase of \$10 million Prop. 98 General Fund for special education local plan areas to support county offices of education by providing technical assistance to local education agencies statewide.
 - Decrease of \$10.2 million Prop 98 General Fund reflecting a decrease in special education ADA.
- **COLA (Cost-of-Living Adjustment):**
 - Increase of \$133.5 million Prop. 98 General Fund to support a 2.51 percent COLA, which includes Special Education, Child Nutrition, Foster Youth, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- **Teacher Workforce:**
 - Proposes an additional \$100 million investment to increase and retain special education teachers:
 - \$50 million one-time Prop. 98 General Fund to support locally sponsored, one-year intensive, mentored, clinical teacher preparation programs to prepare and retain special education teachers, and;
 - \$50 million one-time Prop. 98 General Fund to provide one-time competitive grants to local education agencies for the development and implementation of new or expanded local solutions that address local needs for special education teachers.
- **Mandates:**
 - Proposes an additional \$1.8 billion for school districts, charter schools, and county offices of education to further support local priorities, along with previous discretionary funding, will allow the state to eliminate more than \$5 billion in outstanding K-12 mandate debt.
- **Facilities:**
 - Proposes approximately \$640 million in Proposition 39 bond funds for 2018-19 to support new construction, modernization, career technical education, and charter facility projects.
 - **Charter School Facilities:**
 - Increases \$1.8 billion in one-time Prop. 98 General Fund for school districts, charter schools, and county offices of education to use at local discretion (this is the same \$1.8 billion in one-time funding references in the mandates section).

▪ **Career Technical Education Funding:**

- Proposes an increase of \$200 million Prop. 98 General Fund to establish a K-12 specific component of the existing Strong Workforce Program administered by the Community College Chancellor's office to align with industry skills. Proposes an ongoing increase of \$12 million Prop. 98 General Fund to fund local industry experts to provide technical support and training. The program would be exclusively for K-12 students with coordination between the Department of Education and the Chancellor's office.

▪ **County Offices of Education:**

- Increase of \$6.2 million Prop. 98 General Fund to reflect a 2.51 percent COLA and ADA changes applicable to the LCFF.

▪ **Instruction Quality Commission:**

- Increase of \$938,000 General Fund on a one-time basis for the Instructional Quality Commission to continue developing state content standards and frameworks, as well as model curriculum.

▪ **Local Property Tax Adjustments:**

- Decrease of \$514 million Prop. 98 General Fund for school districts and county offices of education in 2017-18 to offset higher property tax revenues.
- Decrease of \$1.1 billion Prop. 98 General Fund for school districts and county offices of education in 2018-19 resulting from increased offsetting property taxes.

▪ **School District Average Daily Attendance:**

- Decrease of \$183.1 million in 2017-18 for school districts from a decrease in projected ADA from the 2017 Budget Act.
- Decrease of \$135.5 million in 2018-19 for school districts from further projected ADA declines for 2018-19.

Proposition 56

In 2016, voters approved Prop. 56, which increased the tobacco tax by \$2.00 per pack of cigarettes, requiring that two 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 proposed budget provides \$22.2 million to support tobacco and nicotine prevention programs by K-12 schools.

Child Care

- Increases the reimbursement rate for providers that contract directly with the DOE by approximately 2.8 percent and makes permanent a temporary hold harmless to the 2016 Regional Market Reimbursement Rate Survey for providers accepting vouchers.

- Increase of \$31.6 million Prop. 98 General Fund and \$16.1 million non-Prop. 98 General Fund to increase the Standard Reimbursement Rate.
- The budget reflects an ongoing increase of \$34.2 million beginning in 2019-20 to make permanent the existing limited-term Regional Market Reimbursement Rate hold harmless provision.
- Provides the final of three scheduled 2,959 full-day slot increases to the State Preschool program, totaling 8,877 slots over three years.
 - **Full Year Implementation of 2017 Budget Act Investments** – Increase of \$32.3 million non-Prop 98 General Fund and \$28.4 million Prop. 98 General Fund to reflect full-year costs of new policies implemented part-way through the 2017-18 fiscal year.
- Creates the Inclusive Early Education Expansion Program, providing \$125 million one-time General Fund and \$42.2 million one-time TANF through a competitive grant program.
- The Administration supports providing counties with flexibility to serve more families in subsidized child care programs and has been working with stakeholders to streamline and alleviate requirements in pilot counties.
- **CalWORKs Stage 2 and State 3 Child Care** – net increase of \$5.2 million non-Prop. 98 General Fund in 2018-19 to reflect increases in the number of CalWORKs child care cases and decreases in the estimated cost of care.
- **Federal Child Care and Development and TANF Funds** – decrease of federal TANF from \$120.1 million in 2017-18 to \$70.6 million in 2018-19. Total TANF and federal Child Care and Development Fund is \$707 million.

Retirement

- **CalSTRS:**
 - The Budget proposal includes \$3.1 billion General Fund for state contributions to CalSTRS which acknowledges the lowered investment rate of return adopted by the Teachers Retirement Board as well as a 0.5 percent increase in state contributions to CalSTRS consistent with the funding strategy signed into law in 2014. This funding positions CalSTRS to be on a sustainable path forward, eliminating the unfunded liability in about 30 years. These funds are from the General Fund and not from Proposition 98.
- **CalPERS:**
 - The Budget proposal includes \$6.2 billion (\$3.6 billion General Fund) for state contributions to CalPERS for state pension costs. This includes \$685.7 million General Fund for California State University retirement costs.

Higher Education

The Governor recognizes the economic constraints that California students face while trying to attain their higher educational goals. Reflecting this recognition is a focus on financial aid to reflect the tuition increases of the CSU and UC, cost increases at private universities, and the external cost pressures community college students face.

Community Colleges

▪ Student Success:

- The Governor continues to push for the Student Success initiative, from guided pathways to improving basic skills and advocates for better use of transfer pathways to both public and private universities.

▪ Student-Focused Funding Formula:

- Proposes a new funding formula for general purpose apportionments which encourages access for underrepresented students by providing additional funding and support for low-income students and the use of improving student success metrics. The initial formula would not reduce current funding levels that districts receive, which will contain the following components:
 - **Base Grant** – Each district would receive a base grant based upon enrollment which would be applied across all districts;
 - **Supplemental Grant** – Each district would receive a supplemental grant based upon the number of low-income students enrolled. The following factors would be reflected:
 - Enrollment of students who receive a College Promise Grant fee waiver, and;
 - Enrollment of students who receive a Pell Grant.
 - **Student Success Initiative Grant** – Each district would receive additional funding based upon the number of students who meet the following metrics:
 - The number of degrees and certificates granted, and;
 - The number of students who complete a degree or certificate in three years or less.
 - **Hold Harmless Provision** – During the first year of implementation, each district would be held harmless to their 2017-18 levels of funding. During following years, this provision would be calculated each year using the 2017-18 per-FTES rate multiplied by the district's new FTES.

- The funding formula proposal assumes that approximately 50 percent of funding is distributed as the base grant; 25 percent as part of the supplemental grant, and 25 percent distributed as part of the student success initiative grant.
- The governor proposes that community college incorporate the goals of the *Vision for Success* created by the Chancellor's office.
- The proposal retains the requirement that colleges spend 50 percent of their unrestricted revenues funding on classroom instruction and the goal that 75 percent faculty are full-time.
- **Consolidation of Categoricals:**
 - The Governor expects the Chancellor's office to consult with stakeholders to develop a proposal for consideration with the May Revision that would consolidate categorical programs creating additional flexibility.
- **Expanded Access – Online College:**
 - The Governor proposes to create a completely online California community college that offers accessible, flexible, and high-quality online courses and programs that additionally provides students with support to succeed in their programs.
 - Initial focus of content will be in vocational training, career advancement opportunities, and credentialing for careers in child development, the service sector, advanced manufacturing, healthcare, and in-home supportive services, among other areas.
- **Aligning Financial Aid and Student Success:**
 - Proposes funding to support the implementation of the California College Promise (AB 19 of 2017) while additionally proposing ways to consolidate this grant program with the Full-Time Student Success Grant and the Completion Grant.
- **Workforce Education Investments (including Adult Ed.):**
 - These new investments propose to build on the workforce reforms in K-12 and higher education:
 - \$212 million for K-12 CTA programs, administered through the Community College Chancellor's office, to improve and expand their career technical education programs aligned with the goals of the Strong Workforce Program;
 - \$20.5 million for a COLA for the Adult Education Block Grant program with \$5 million for investments in a data collection and accountability system to ensure comprehensive and shared data reporting by regional consortia members, and;

- \$17.8 million ongoing funding for increased reimbursements to K-12 and community college-sponsored apprenticeship programs for instruction hours provided in 2018-19.
 - \$30.6 one-time increase to backfill shortfalls in reimbursements provided from 2013-14 to 2017-18.

Community College Budget Adjustments

- **Apportionments** - \$322.5 million increase in Prop. 98 General Fund, including:
 - \$175 million increase to support districts' transition to a student-focused funding formula;
 - \$161.2 million increase for a 2.51 percent COLA;
 - \$60 million increase for enrollment growth, and;
 - \$73.7 million decrease reflecting unused 2016-17 growth funds.
- **Deferred Maintenance and Instructional Equipment** - \$264.3 million one-time increase in Prop. 98 General Fund and \$10.9 million Prop. 98 settle-up for deferred maintenance, instructional equipment, and specified water conservation projects.
- **California Online College** - \$120 million increase in Prop. 98 General Fund (\$20 million ongoing) to establish a fully online community college (discussed above).
- **California College Promise** - \$46 million increase in Prop. 98 General Fund to support the implementation of the California College Promise (AB 19 of 2017)
- **Student Success Completion Grant** - \$32.9 million increase in Prop. 98 General Fund to support a streamlined student-focused financial aid program.
- **Innovation Awards** - \$20 million one-time Prop. 98 General Fund to provide grants supporting innovation in higher education.
- **Chancellor's Office State Operations** - \$2 million increase in General Fund to fill 15 vacant positions in the Chancellor's office.
- **Student Enrollment Fee Adjustment** - \$5.4 million increase in Prop. 98 General Fund to offset decreased student enrollment fee revenues.
- **Local Property Tax Adjustment** - \$230.2 million decrease in Prop. 98 General Fund resulting from increased offsetting of local property tax revenues.
- **Community College Facilities (Prop. 51)** - \$44.9 million in general obligation bond funding to address critical fire and life-safety issues at campuses statewide.

Proposition 39

- \$576 million for 21 community college capital outlay projects to address critical fire and life-safety issues.

California State University

- **Base Growth** - \$92.1 million increase to match the funding increase provided to the UC, with the expectation that these funds will be used to make progress on the 2016 Graduation Initiative.

University of California

- **Base Growth** - \$92.1 million increase, representing an increase of three percent of base resources.
 - The Governor is expecting the Regents to provide evidence by May that the UC has met expectations set out by the Governor and the UC President.

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:lc
<https://calta.sharepoint.com/sites/gr/Cloud Storage/Legislative Relations/Jennifer Baker/Budget/Budget Memo/Gov. Proposed Budget Highlights - FINAL.docx>