

K-12 EDUCATION

California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,000 charter schools provides instruction in English, mathematics, history, science, and other core competencies to provide students with the skills they will need upon graduation for either entry into the workforce or higher education.

MAINTAINING CORE INVESTMENTS

Changes to workload factors (average daily attendance, population and per capita personal income)—combined with declining General Fund tax revenues—that drive the calculation of the Proposition 98 guarantee yield natural increases of \$55.5 million to the 2015-16 guarantee, \$113.5 million to the 2016-17 guarantee and a reduction of \$322.1 million to the 2017-18 guarantee. General Fund tax revenues available to fund the Proposition 98 guarantee have declined by almost \$5.4 billion over this three-year period, relative to the 2016 Budget Act levels. As a result, the Budget proposes a combination of adjustments designed to fund the minimum guarantee amount—but not overappropriate the guarantee—for all three years. The combination of the natural changes and the proposed actions lower Proposition 98 guarantee levels for the three-year period by more than \$1.8 billion, including reductions of \$506 million to the 2016-17 guarantee and \$953 million to the 2017-18 guarantee, relative to 2016 Budget Act levels. Despite the reductions in these years from the levels assumed in the 2016 Budget Act, there is still

more than \$2.1 billion in year-to-year growth from the revised 2016-17 guarantee to the projected 2017-18 guarantee, as displayed in Figure K12-01. And despite slowed growth in General Fund tax revenues, Proposition 98 funding continues its upward trend from the levels experienced during the Great Recession, as displayed in Figure K12-02.

Figure K12-01
Changes to Proposition 98 Guarantee Levels

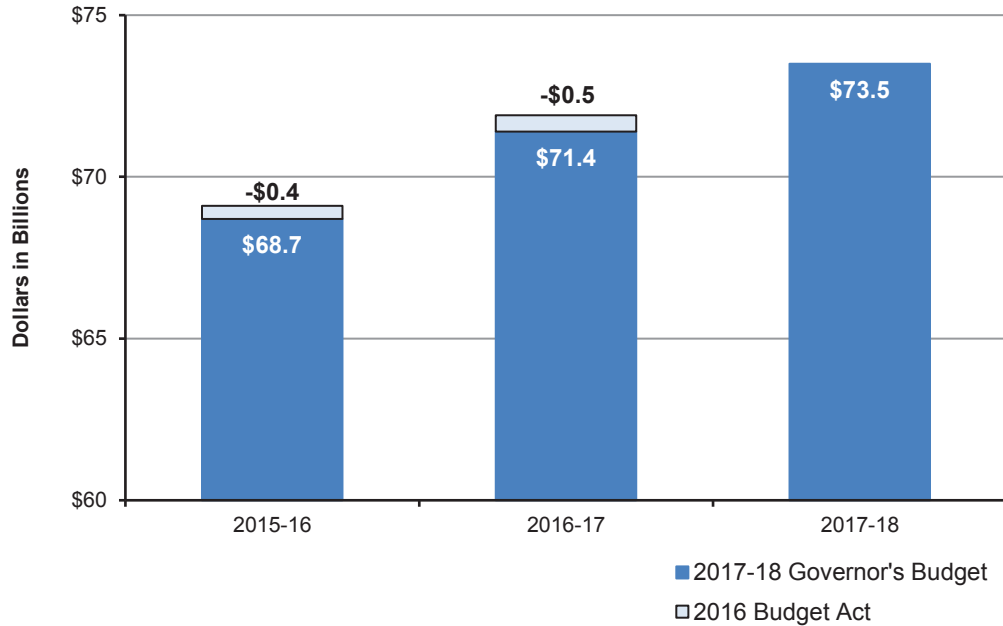
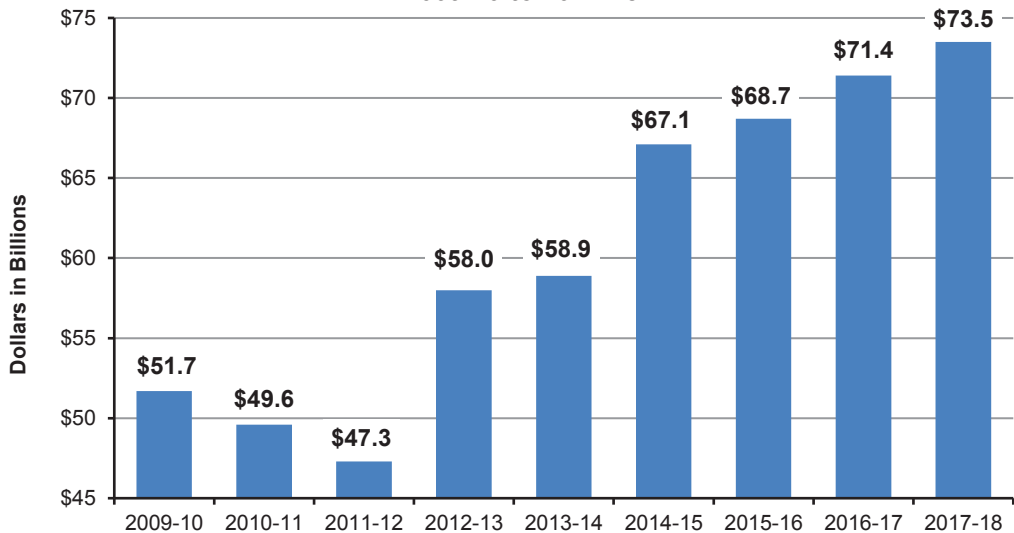


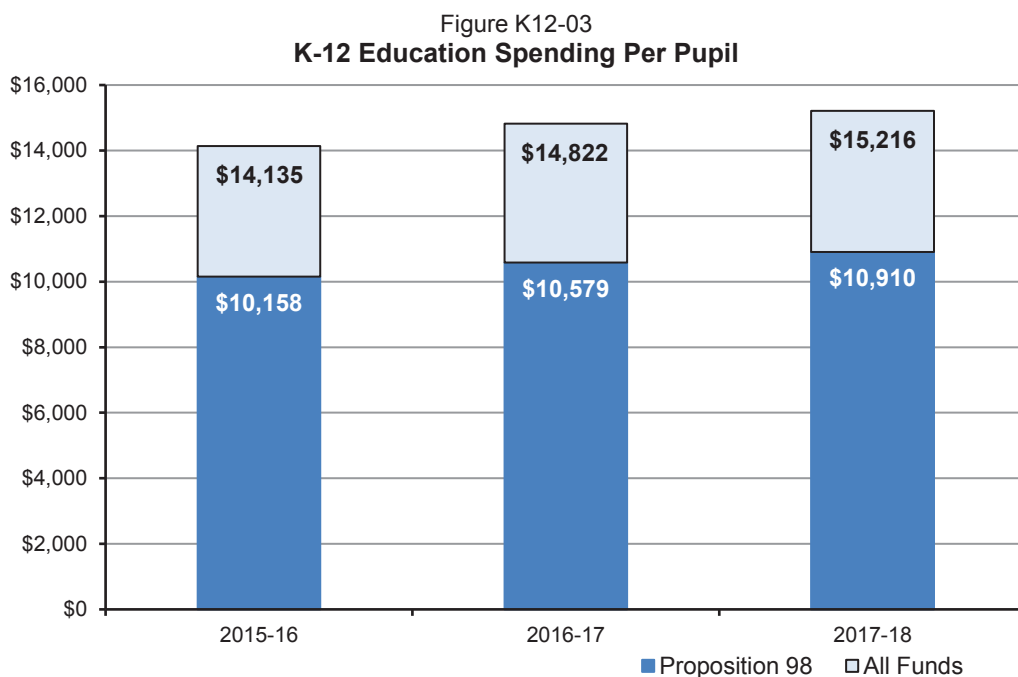
Figure K12-02
**Proposition 98 Funding
 2009-10 to 2017-18**



To maintain core investments and existing programmatic spending levels, the Budget proposes one-time cost adjustments in the 2015-16 and 2016-17 fiscal years, as discussed in more detail in the K-12 Major Budget Adjustments section. The fiscal effect of these one-time adjustments is that expenses originally scheduled for 2015-16 and 2016-17 will instead be paid at the beginning of 2017-18. For the 2017-18 fiscal year, the Budget provides sufficient resources to fully fund the workload budget for Proposition 98. This workload budget includes a cost-of-living adjustment for the Local Control Funding Formula and other categorical programs that remain outside of the formula, funding necessary to support average daily attendance costs within school districts and charter schools, and the final investment in the Career Technical Education Incentive Grant program. For community colleges, resources will also support a cost-of-living adjustment for apportionments and selected categorical programs, enrollment growth of 1.3 percent, and new investments in student success programs. A proposed Proposition 98 settle-up payment of \$400 million in 2017-18 will provide significant additional one-time resources to schools and community colleges to support other local investments and priorities.

K-12 PER-PUPIL SPENDING

Reflecting the changes to Proposition 98 funding noted above, total per-pupil expenditures from all sources are projected to be \$14,822 in 2016-17 and \$15,216 in 2017-18, including funds provided for prior year settle-up obligations, as displayed below in Figure K12-03. Ongoing K-12 Proposition 98 per-pupil expenditures in the Budget are



\$10,910 in 2017-18, an increase of \$331 per-pupil over the level provided in 2016-17, and up significantly from the \$7,011 per pupil provided in 2011-12.

LOCAL CONTROL FUNDING FORMULA

In recognition of the fiscal challenges that many local educational agencies face, and to address the many inequities in the pre-existing system of school finance, 2013 legislation established the Local Control Funding Formula. The Local Control Funding Formula includes the following major components:

- A base grant for each local educational agency per unit of average daily attendance, including an adjustment of 10.4 percent to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6 percent to reflect the cost of operating career technical education programs in high schools.
- A 20-percent supplemental grant for English learners, students from low-income families, and youth in foster care to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5 percent of a local educational agency's base grant, based on the number of English learners, students from low-income families, and youth in foster care served by the local educational agency that comprise more than 55 percent of enrollment.
- An Economic Recovery Target to ensure that almost every local educational agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the Local Control Funding Formula.

The Budget provides a fifth-year investment of more than \$744 million in the Local Control Funding Formula, building upon almost \$15.7 billion provided over the last four years. In total, this level of funding exceeds the original 2013 projection of formula funding provided through the 2017-18 year by more than \$4 billion. The proposed funding level supports a cost-of-living-adjustment for the funding targets under the formula in 2017-18, which maintains formula implementation at the current-year level of 96 percent.

CALIFORNIA'S NEW ACCOUNTABILITY SYSTEM

In addition to increasing funding and fundamentally restructuring the distribution of funds to school districts, the Local Control Funding Formula substantially changed the system of

school accountability. The new system shifted from a state-controlled system focused on compliance to a locally controlled system emphasizing local accountability and improved student outcomes. In the new system, each school district, county office of education, and charter school develops and adopts a Local Control and Accountability Plan and Annual Update. These plans identify local goals for all students in eight state priorities and describe planned actions, services and expenditures to achieve those goals.

The new school accountability system—using multiple measures of student success—provides a more complete picture of how schools are meeting the needs of California’s diverse student population than a single test score. The initial phase of the new accountability tool recently adopted by the State Board of Education includes a concise set of state and local performance measures that address the state priorities under the Local Control Funding Formula. The new accountability tool promotes equity by highlighting any disparities among student groups, furthering the state’s commitment to the highest need students and closing achievement gaps.

An important part of the new accountability system is a web-based tool developed by the California State Board of Education that will help identify strengths and areas in need of improvement. County offices of education, the state Department of Education and the California Collaborative for Educational Excellence will provide technical assistance and intervention for school districts, county offices of education, and charter schools identified as needing additional support. County offices of education will continue to play a critical role within California’s emerging system of support for schools, often serving as the first line of assistance within this new structure.

The State Board will further refine the accountability tool and develop a new state plan for use of federal funds in the coming months. The State Board will also continue to refine and develop the system of continuous improvement that provides assistance for struggling districts and schools.

SPECIAL EDUCATION

Funding for California’s system of special education finance is complex, state-driven, and administratively costly. The funding for special education has become a patchwork of more than 20 programs, each with its own allocation formula and spending restrictions. In total, special education is funded with approximately \$3.2 billion in dedicated Proposition 98 General Fund and \$1.2 billion federal Individuals with Disabilities Education Act funds. Any additional costs are covered by districts through funding provided by

the Local Control Funding Formula. California is the only state in the nation that uses an intermediary, known as Special Education Local Planning Areas, to distribute special education funding to districts.

Recently, there have been two comprehensive efforts to evaluate special education in California, both resulting in a call for more seamless integration of special and general education in California. The California Statewide Special Education Task Force was formed in 2013 to examine the state of special education in California, analyze and consider best practices within the state and nation, and ultimately propose recommendations for improving the system. The task force was composed of parents, advocates, teachers, administrators, and experts in the field. In response to the recommendations of the task force, the 2015 Budget included over \$60 million Proposition 98 General Fund to implement select program changes and make targeted investments to improve service delivery and outcomes for all students with disabilities. In November 2016, the Public Policy Institute of California released its report on Special Education Finance in California. The report includes the following recommendations to better align special education finance with the principles of the Local Control Funding Formula:

- Provide special education funding directly to school districts as part of a district's Local Control Funding Formula allocation.
- Preserve the current census-count methodology for distributing funding, and develop ways to distribute funding more equitably throughout the state.
- Eliminate the current requirement for local educational agencies to join Special Education Local Planning Areas, and develop new ways to encourage regionalized services and cost pooling arrangements, particularly for small districts and charter schools.
- Ensure the early education needs of children with disabilities are met.

In response to these recommendations, the Administration will engage stakeholders throughout the spring budget process for feedback on the current special education finance system and the recommendations included in these recent evaluations. Central to these discussions will be the following principles, which are consistent with the Local Control Funding Formula and apply to all students, including students with disabilities:

- School funding mechanisms should be equitable, transparent, easy to understand, and focused on the needs of students.

- General purpose funding should cover the full range of costs to educate all students.
- School districts should be provided the flexibility to establish goals and design innovative ways of delivering services to all students.
- School districts are responsible for planning and implementing programs that lead to continuous improvement, measured by academic outcomes.

K-12 SCHOOL FACILITIES

The recently approved Kindergarten through Community College Public Education Facilities Bond Act of 2016 (Proposition 51) authorizes \$7 billion in state general obligation bonds for K-12 schools to be allocated through the current School Facilities Program in place as of January 1, 2015. As the State Allocation Board and the Office of Public School Construction begin to consider allocation of Proposition 51 resources, it is important to address some of the shortcomings within the existing program that were recently documented in the audit findings issued by the Office of State Audits and Evaluations in a 2016 audit of Proposition 1D School Facilities Program expenditures. In that audit, it was determined that 1,533 projects representing over \$3 billion in Proposition 1D funds have been completed without ensuring the bond funds were appropriately expended. The audit found instances in which school districts inappropriately used school facilities bond funding to purchase vehicles, tractors, tablets, golf carts, mascot uniforms, and custodial/cleaning supplies. To ensure appropriate usage of all School Facilities Program bond funds and effective program accountability and oversight, the Administration will work with the State Allocation Board and the Office of Public School Construction to revise policies and regulations to implement front-end grant agreements that define basic terms, conditions, and accountability measures for participants that request funding through the School Facilities Program.

To complement this front-end accountability, the Administration will introduce legislation requiring facility bond expenditures to be included in the annual K-12 Audit Guide. Independent auditors will verify that local educational agencies participating in the School Facilities Program have appropriately expended state resources.

Once these measures are in place to verify that taxpayers' dollars are appropriately used, the Administration will support the expenditure of Proposition 51 funds.

TEACHER WORKFORCE

The California Commission on Teacher Credentialing is the state's licensing board for public school teachers. The Commission's core mission includes the licensing and credentialing of the state's K-12 public school educators, the enforcement of professional practices of educators, and the discipline of credential holders.

In the 2016-17 fiscal year, the Commission is implementing several investments aimed at increasing teacher recruitment. The Integrated Teacher Preparation Program supports the creation of pathways that allow university students to graduate with a bachelor's degree and a preliminary teaching credential within four years. These programs will increase the number of teacher candidates graduating annually and could save each teacher candidate approximately \$20,000 by eliminating the cost of an additional year of school. The Classified School Employee Teacher Training grants, awarded to 25 local educational agencies, will support 1,000 classified school employees earning a teaching credential. The California Center on Teaching Careers will recruit individuals into the teaching profession by providing outreach and referral services, both online and at six regional centers across the state.

Additionally, the Commission is engaged in a variety of initiatives to align educator preparation with new K-12 content standards, improve the availability of statewide teacher workforce data, and increase the state's supply of credentialed teachers. Specific activities include:

- Updating teacher and administrator standards to reflect adoption of Common Core and the Next Generation Science Standards.
- Creating an online dashboard of information on teacher supply and demand and educator preparation.
- Extending the validity period for teacher licensing exams.
- Establishing the Teaching Permit for Statutory Leave to authorize long-term substitutes for teachers on extended leave.

WORKFORCE DEVELOPMENT

The Administration is continuing its commitment to workforce development and job creation through a variety of investments in K-12 and community college programs. These

investments are discussed in detail in the Investing in California’s Workforce Chapter of this publication.

MAJOR K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

- **School District Local Control Funding Formula**—Additional growth of more than \$744 million in Proposition 98 General Fund for school districts and charter schools in 2017-18 to continue their transition to full implementation of the Local Control Funding Formula.
- **One-Time Discretionary Funding**—An increase of \$287 million in one-time Proposition 98 General Fund for school districts, charter schools and county offices of education to use at local discretion. This allocation builds on the more than \$4.9 billion in combined one-time funding provided over the last three budgets, providing substantial resources to local schools to support critical investments such as content standards implementation, technology, professional development, induction programs for beginning teachers and deferred maintenance. All of the funds provided will offset any applicable mandate reimbursement claims for these entities.
- **Career Technical Education Funding**—The Budget provides \$200 million for the Career Technical Education Incentive Grant Program, the final installment of funding for this three-year program initiated in the 2015 Budget Act. Commencing with 2018-19, schools will support the full cost of these programs within their Local Control Funding Formula allocations.
- **One-Time Local Control Funding Formula Cost Shift**—The Budget proposes to shift \$859.1 million in Local Control Funding Formula expenditures from June 2017 to July 2017. This deferral is necessary to maintain 2016-17 programmatic expenditure levels in light of the reduction to Proposition 98 funding for 2016-17 compared to the 2016 Budget Act. The Budget proposes to immediately repay this deferral in 2017-18.
- **Shift One-Time Discretionary Funding**—The Budget proposes to shift \$310 million of one-time discretionary funding expenditures attributable to the 2015-16 fiscal year to 2016-17 as a result of the reduction to the Proposition 98 guarantee in 2015-16.

K-12 EDUCATION

- **Instructional Quality Commission**—To prioritize funding for other purposes, the Budget delays the current deadlines for the Commission to revise the content standards for visual and performing arts and world language, develop standards for computer science, and create a model curriculum in ethnic studies. Further, the Budget delays the current deadline for the Superintendent of Public Instruction to convene a computer science strategic implementation advisory panel.
- **County Offices of Education Local Control Funding Formula**—An increase of \$2.4 million Proposition 98 General Fund to support a cost-of-living adjustment and average daily attendance changes for county offices of education.
- **Charter School Growth**—An increase of \$93 million Proposition 98 General Fund to support projected charter school average daily attendance growth.
- **Special Education**—A decrease of \$4.9 million Proposition 98 General Fund to reflect a projected decrease in special education average daily attendance.
- **Local Property Tax Adjustments**—A decrease of \$149.2 million Proposition 98 General Fund for school districts and county offices of education in 2016-17 as a result of higher offsetting property tax revenues. A decrease of \$922.7 million in Proposition 98 General Fund for school districts and county offices of education in 2017-18 as a result of increased offsetting local property tax revenues.
- **School District Average Daily Attendance**—A decrease of \$168.9 million in 2016-17 for school districts as a result of a decrease in projected average daily attendance 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 average daily attendance for 2017-18.
- **Cost-of-Living Adjustments**—An increase of \$58.1 million Proposition 98 General Fund to support a 1.48-percent cost-of-living adjustment for categorical programs that remain outside of the Local Control Funding Formula, including Special Education, Child Nutrition, Foster Youth, American Indian Education Centers, and the American Indian Early Childhood Education Program. Cost-of-living adjustments for school districts and charter schools are provided within the increases for school district Local Control Funding Formula implementation noted above.
- **Proposition 39**—Proposition 39 was approved in 2012 and increases state corporate tax revenues. For 2013-14 through 2017-18, the measure requires half of the increased revenues, up to \$550 million per year, to be used to support

energy efficiency. The Budget proposes \$422.9 million to support school district and charter school energy efficiency projects in 2017-18.

- Proposition 47—Proposition 47 was approved in 2014 and reduced the penalties for certain non-serious and non-violent property and drug offenses. It also requires a portion of any resulting state savings to be invested into K-12 truancy and dropout prevention, victim services, and mental health and drug treatment. The Budget provides \$10.1 million to support investments aimed at improving outcomes for public school pupils in K-12 by reducing truancy and supporting pupils who are at risk of dropping out of school or are victims of crime, consistent with the provisions of Proposition 47.
- Proposition 56—Proposition 56 was approved in 2016 and increases the cigarette tax by \$2.00 per pack of cigarettes and an equivalent increase on other tobacco products. After making specified allocations, Proposition 56 requires 2 percent of the remaining revenue to be used for school programs that prevent and reduce the use of tobacco and nicotine products by young people. The Budget provides \$29.9 million to support tobacco and nicotine prevention and reduction programs at K-12 schools.
- Mandate Block Grant—An increase of \$8.5 million Proposition 98 General Fund to reflect the addition of the Training for School Employee Mandated Reporters program.

K-12 SCHOOL SPENDING AND ATTENDANCE

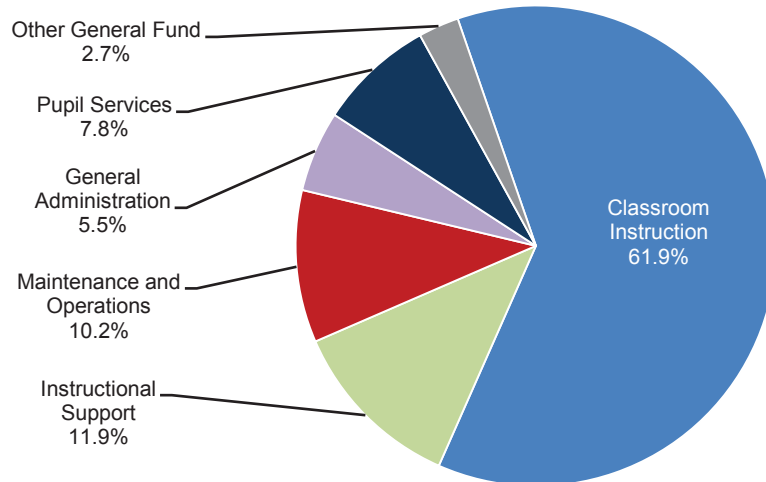
HOW SCHOOL DISTRICTS SPEND THEIR MONEY

Figure K12-04 displays 2014-15 expenditures reported by school districts from their general funds, the various categories of expenditure and the share of total funding for each category. Figure K12-05 displays the revenue sources for school districts.

ATTENDANCE

Public school attendance grew in 2013-14 and declined in 2014-15. Attendance grew in 2015-16 but is projected to decline in 2016-17 and again slightly in 2017-18. For 2015-16, K-12 average daily attendance is reported to be 5,971,343, an increase of 11,458 from 2014-15. 2016-17 K-12 average daily attendance is estimated to be 5,958,933, a decrease of 12,410 from 2015-16. For 2017-18, the Budget estimates that K-12 average daily attendance will drop by 645 from the 2016-17 level, to 5,958,288.

Figure K12-04
Where School Districts Spend Their Money^{1/}

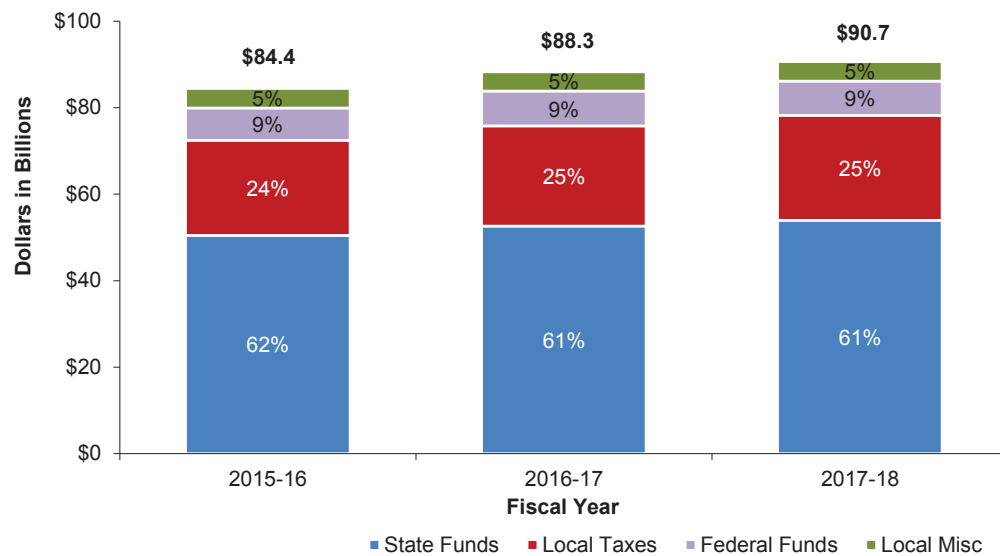


Classroom Instruction includes general education, special education, teacher compensation, and special projects. General Administration includes superintendent and board, district and other administration and centralized electronic data processing. Instructional Support includes research, curriculum development and staff development that benefits and supports student instruction.

Maintenance and Operations includes utilities, janitorial and groundskeeping staff, and routine repair and maintenance. Pupil Services includes counselors, school psychologists, nurses, child welfare, and attendance staff. Other General Fund includes spending for ancillary services, contracts with other agencies, and transfers to and from other district funds.

^{1/} Based on 2014-15 expenditure data reported by school districts for their general purpose funding. This and other school expenditure information may be found at www.ed-data.org.

Figure K12-05
Sources of Revenue for California's K-12 Schools
 (As a Percent of Total)



PROPOSITION 98 GUARANTEE

Proposition 98 guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculation levels, or tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA 1) was adopted to allow for a third funding test (Test 3) in low revenue years. As a result, three tests determine funding for school districts and community colleges (K-14). The test that is used depends on how the economy and General Fund revenues grow from year to year.

Test 3 is projected to be operative for fiscal years 2015-16 through 2017-18.

CHILD CARE

The state funds nine child care and early education programs and dozens of other programs that support services provided within these settings, including quality of care, family resource and referral agencies, and local child care planning councils. These programs are administered by the Department of Education and the Department of Social Services. Families can access child care and early education subsidies through centers that contract directly with the Department of Education, local educational agencies, or through vouchers from county welfare departments or alternative payment program providers.

From 2013 through 2016, the state implemented policies that added \$447.5 million General Fund and \$388.1 million Proposition 98 General Fund in child care and early learning programs. The 2016 Budget Act increased provider reimbursement rates and added an additional 2,959 State Preschool slots. The 2017 Governor's Budget includes augmentations of \$87.9 million General Fund and \$23.5 million Proposition 98 General Fund to reflect full-year costs of 2016 Budget Act adjustments and increased costs of care in the CalWORKs Stage 2 and Stage 3 child care programs. Further increases were intended in 2017-18. However, in recognition of lower-than-expected General Fund revenue growth and a more constrained budget environment, the Budget proposes pausing additional augmentations until 2018-19. In essence, this proposal changes what was intended to be a three-year augmentation plan to one that is implemented over four years, beginning in 2016-17 and ending in 2019-20. Statewide

provider reimbursement rate increases provided in the 2016 Budget Act are consistent with the cost of state minimum wage increases through 2017-18.

Most subsidized child care and early education providers participate in multiple programs. Each program has distinct administrative requirements that can impact providers' overall ability to serve families efficiently. Programs have varying eligibility rules that make it difficult for families to navigate access to care and may create inequities in the services available to similarly aged children. To address some of these issues, the Budget proposes policies that foster administrative efficiencies and better align child care and early education programs to create a more rational system for both providers and the families they serve:

- Authorize the use of electronic applications for child care subsidies, making it less burdensome for eligible families to access care and more efficient for providers to process applications.
- Allow children with exceptional needs whose families exceed income eligibility guidelines access to part-day state preschool if all other eligible children have been served. This allows part-day state preschool providers the flexibility to fill unused slots with other students who would benefit from early intervention or education.
- Align the state's definition of homelessness with the federal McKinney-Vento Act for purposes of child care eligibility. Many providers receive both federal and state funds and different definitions of homelessness can be confusing.
- 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.
- Simplify the process by which school districts can align program minutes for state preschool and transitional kindergarten students.

Significant Adjustments:

- Full-Year Implementation of 2016 Budget Act Investments—An increase of \$50.5 million non-Proposition 98 General Fund and \$23.5 million Proposition 98

General Fund to reflect full-year costs of new policies implemented part-way through the 2016-17 fiscal year. These costs are associated with an update of the Regional Market Reimbursement Rate to the 75th percentile of the 2014 regional market rate survey (beginning January 1, 2017), and an increase of 2,959 slots for full-day State Preschool (beginning April 1, 2017).

- **Pause Child Care Funding Increases in 2017-18**—Maintain reimbursement rates for child care providers at 2016-17 levels, pausing rate increases in 2017-18. This includes maintaining the Regional Market Reimbursement Rate at the 75th percentile of the 2014 regional market rate survey, maintaining the Standard Reimbursement Rate at the full-year equivalent rate provided in 2016-17 (a 5-percent increase over the prior year), and forgoing 2017-18 cost-of-living adjustments for child care providers. Additionally, pause the addition of 2,959 full-day State Preschool slots planned to begin on April 1, 2018. In total, these proposals save \$121.4 million non-Proposition 98 General Fund and \$105.4 million Proposition 98 General Fund.
- **Stage 2**—An increase of \$35.8 million non-Proposition 98 General Fund in 2017-18 to reflect increases in both the number of CalWORKs Stage 2 cases and the cost per case. Total cost for Stage 2 is \$505 million.
- **Stage 3**—An increase of \$1.6 million non-Proposition 98 General Fund in 2017-18 to reflect an increase in the cost per case, despite a decline in the number of CalWORKs Stage 3 cases. Total cost for Stage 3 is \$302.5 million.
- **Federal Child Care and Development and TANF Funds**—A net increase of \$4.8 million federal Child Care and Development and \$120.1 million federal TANF funds in 2017-18. Total federal funding is \$736.6 million.