

K-12 EDUCATION

California provides academic instruction and support services to nearly 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, approximately 1,000 local school districts, and more than 1,200 charter schools provides instruction in English, mathematics, history, science, and other core competencies to provide students with the skills they will need upon graduation to either enter the workforce or pursue higher education.

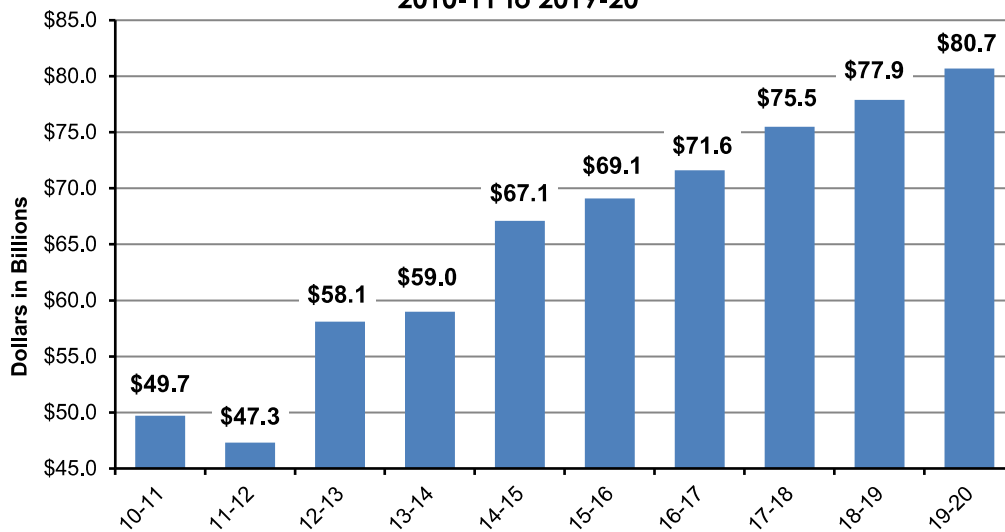
INVESTING IN EDUCATION

The Proposition 98 funding for K-12 schools and community colleges for 2019-20 is \$80.7 billion, a new all-time high (Figure K12-01). When combined with more than \$686 million in settle-up payments for prior fiscal years, the Budget proposes an increased investment of \$2.9 billion in schools and community colleges.

The Budget proposes strategic investments to improve student achievement by significantly increasing special education resources, ensuring that every low-income four-year-old has access to high-quality preschool, improving school district and charter school accountability and transparency, and maximizing funding for local educational agencies. To this end, the Budget proposes a \$2 billion augmentation to the Local Control Funding Formula (LCFF), and more than \$576 million for special education. Additionally, the Budget proposes using \$3 billion one-time non-Proposition 98 General Fund to reduce pension costs for K-12 schools and community colleges, and

\$125 million non-Proposition 98 General Fund to expand State Preschool, with a plan to serve all low-income four-year-olds by 2021-22. The Budget also proposes funding to develop a comprehensive longitudinal, cradle to career data system.

Figure K12-01
Proposition 98 Funding
2010-11 to 2019-20



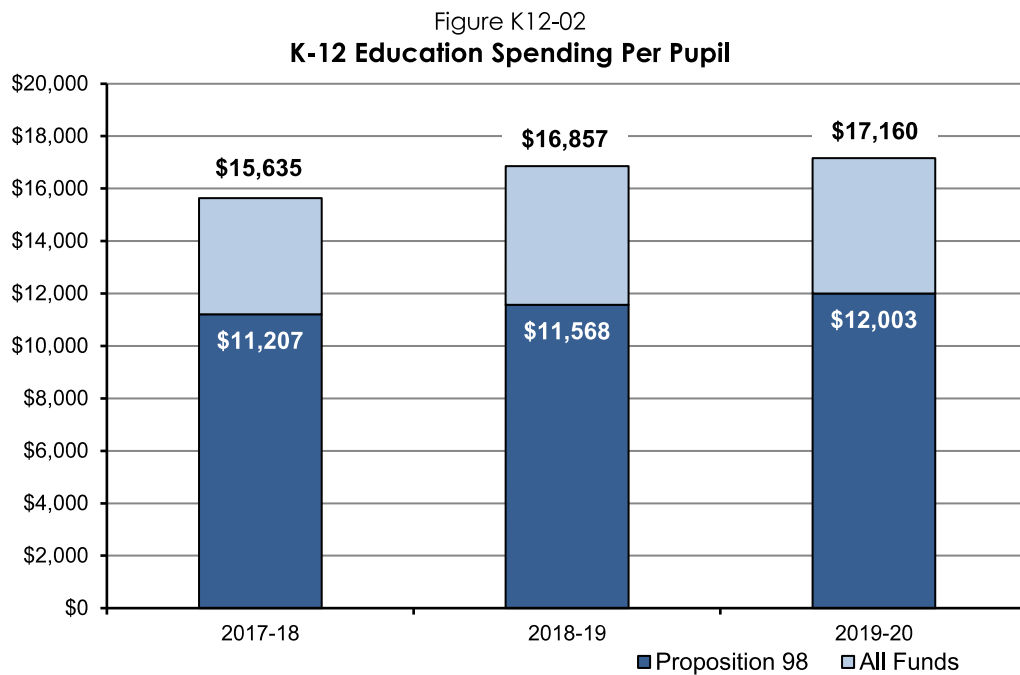
PROPOSITION 98

The annual funding level for K-12 schools and community colleges is determined by the Proposition 98 formula, a constitutional initiative approved by California voters in 1988 that guarantees K-12 schools and community colleges a minimum level of funding from state and local property taxes. Proposition 98 is designed to increase education funding each year by either: (1) funding K-14 education at its 1986-87 proportion of General Fund (known as Test 1), (2) applying growth in average daily attendance (ADA) and growth in per capita personal income to the prior year Proposition 98 funding level (known as Test 2), or (3) applying growth in ADA and growth in per capita General Fund to the prior year Proposition 98 funding level (known as Test 3). Test 1 is projected to be operative for fiscal years 2017-18 and 2019-20 and Test 3 is projected to be operative for fiscal year 2018-19.

The Proposition 98 funding level for 2019-20 represents an increase of \$2.8 billion over 2018-19. The Proposition 98 funding levels for the 2017-18 and 2018-19 fiscal years declined from 2018 Budget Act levels by \$120.1 million and \$525.7 million, respectively, due largely to lower-than-anticipated ADA and a year-over-year decline in General Fund revenue growth from 2017-18 to 2018-19. The Budget maintains level funding

for K-14 education despite the decline in the Proposition 98 minimum guarantee by: (1) maintaining a \$44 million over-appropriation to the Proposition 98 minimum guarantee in 2017-18, and (2) using settle-up payments to offset otherwise unfunded 2018-19 obligations.

Reflecting the changes to Proposition 98 funding levels noted above, total K-12 per-pupil expenditures from all sources are projected to be \$16,857 in 2018-19 and \$17,160 in 2019-20—the highest level ever (Figure K12-02). Ongoing K-12 per-pupil expenditures of Proposition 98 funds are \$12,003 in 2019-20, an increase of \$435 per pupil over the level provided in 2018-19.

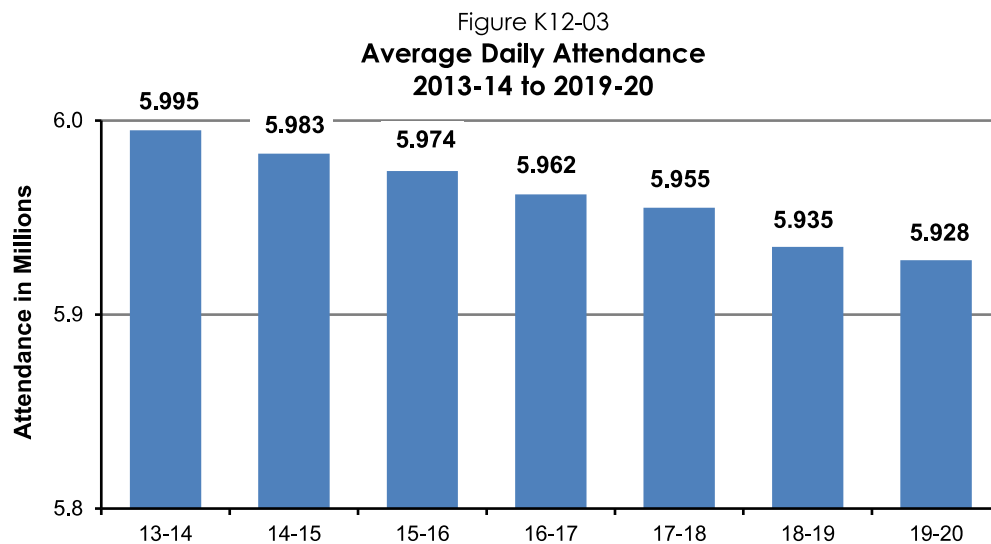


IMPROVING LONG-TERM FISCAL STABILITY FOR SCHOOLS

According to the Fiscal Crisis Management and Assistance Team, in 2017-18 only 29 school districts had been identified by their county offices of education as being in danger of not meeting their financial obligations in either the current or two subsequent fiscal years, down from a high of 188 school districts in 2011-12. While this level of stability reflects the relative fiscal health of the state's public K-12 education system, significant fiscal challenges lie ahead for many local educational agencies.

Statewide K-12 enrollment continues to decline (Figure K12-03), which has the effect of reducing Proposition 98 funding growth and making it much more sensitive to changes

in General Fund revenue and property taxes. Enrollment changes are not consistent throughout the state and some local educational agencies are experiencing significant year-over-year declines in ADA. In some urban districts the declines are more significant because of decades of suburban flight and increased charter school enrollment.



Additionally, the cost of services for many local educational agencies is increasing. Recent policy changes to address unfunded liabilities in the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) have increased employer contribution rates, which are scheduled to grow through 2020-21. Salary increases and rising health care costs are also expected to generate cost pressures for many local educational agencies. Further, special education expenditures are growing in many areas of the state, due both to increases in the cost of the services and, for some local educational agencies, a greater concentration of students with exceptional needs.

Local school district boards and county offices of education are responsible for ensuring the long-term fiscal viability of local educational agencies. To support this work at the local level, the Budget includes several statewide investments to help local educational agencies better balance revenues and costs.

CALSTRS EMPLOYER CONTRIBUTION RATE

In response to a large unfunded liability in the system, Chapter 47, Statutes of 2014 (AB 1469) was enacted to put CalSTRS on the path to full funding over a 32-year period. Based on a model of shared responsibility, employers (local educational agencies and community colleges), employees (teachers), and the state are each required to pay

their respective share of the costs of CalSTRS member pensions, and AB 1469 increased the proportional payments for all parties. Specifically, contribution rates for employers are scheduled to increase incrementally each year from 8.25 percent in 2013-14 to 19.1 percent in 2020-21 (the 2018-19 rate for schools is 16.28 percent).

To provide relief to local educational agencies and community colleges for the rising costs of CalSTRS pensions now and in the future, the Budget proposes a \$3 billion one-time non-Proposition 98 General Fund payment to CalSTRS to reduce long-term liabilities for employers. Of this amount, a total of \$700 million would be provided to buy down the employer contribution rates in 2019-20 and 2020-21. Based on current assumptions, employer contributions would decrease from 18.13 percent to 17.1 percent in 2019-20 and from 19.1 percent to 18.1 percent in 2020-21. The remaining \$2.3 billion would be paid toward the employers' long-term unfunded liability. Overall, the payment is expected to save employers \$6.9 billion over the next three decades, with an estimated reduction in the out-year contribution rate of approximately half a percentage point. This investment will free up local dollars for investment in education, or to match the state's commitment to pay down pension liabilities.

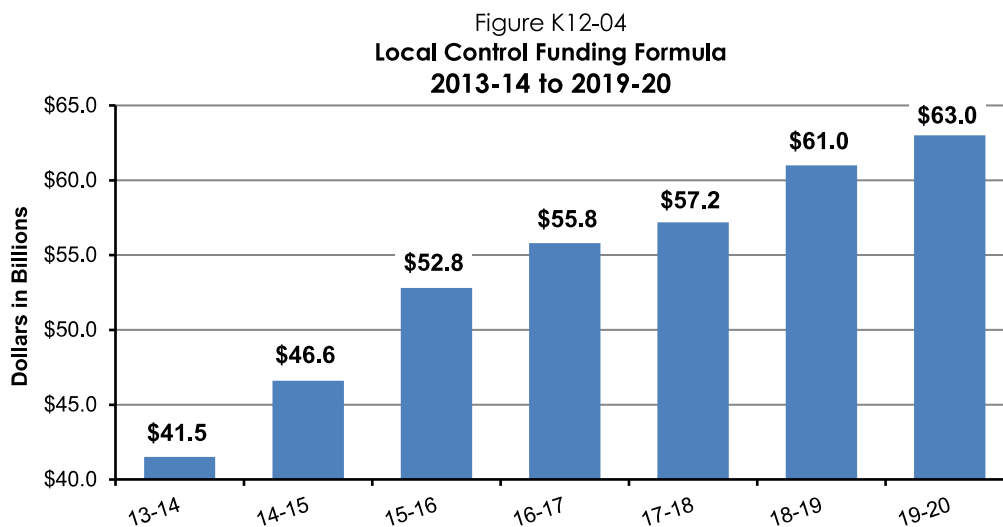
LOCAL CONTROL FUNDING FORMULA (LCFF)

The Administration is committed to funding public schools through the LCFF to support all students, with greater support for students from low-income families, English language learners, and youth in foster care. The formula responds to research and practical experience that indicates that these students often require supplemental services and support to be successful in school. The 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.

The county office of education formula includes: (1) a base grant for each county office of education per unit of average daily attendance to support instruction of students who attend community schools and juvenile court schools, and (2) unrestricted funding, inclusive of the resources necessary for administrative and technical support of local educational agencies in developing and approving local accountability plans based on the average daily attendance of all students in the county.

The Budget proposes a \$2 billion Proposition 98 General Fund increase for the LCFF, which reflects a 3.46-percent cost-of-living adjustment (COLA), and brings total LCFF funding to \$63 billion. Since the enactment of LCFF in 2013, the state has allocated over \$23 billion in additional ongoing resources to school districts and charter schools through the formula (Figure K12-04).



IMPROVING STUDENT OUTCOMES

It is a priority of the Administration to adopt statewide policies and support local efforts to improve the quality of public education in the state. These policies and supports will better ensure that:

- School districts and charter schools are held accountable for the success of all students.
- Parents, teachers, administrators, and policymakers have access to the data needed to make informed decisions.

- Communities are empowered to effectively partner with local school boards to prioritize the allocation of resources.
- Local educational agencies are fiscally stable and resources are targeted to student populations most in need of support.
- State and local educational agencies adopt early education and school readiness as priorities, providing significant investments to yield exponential returns for students and schools.

K-12 ACCOUNTABILITY SYSTEM

In 2013, California adopted a new accountability system, creating a model built upon state, regional, and local partnerships and driven by a more comprehensive set of student performance measures. The foundation for the new system is the local control and accountability plan (LCAP), a multi-year strategic plan created by local educational agencies in collaboration with their communities, to support improved student outcomes. Prior to 2013, K-12 accountability was heavily state and federally controlled, based mostly on standardized test scores, focused on compliance over innovation, and punitive for under-performing schools.

In 2016, the State Board of Education adopted new, multi-dimensional student performance indicators to compare student achievement across the state. The California School Dashboard brings the new measures together in one place, enabling communities to have discussions about targeting services to improve student educational experiences and outcomes. Currently, statewide measures include state test scores, English language acquisition for students with a home language other than English, chronic absenteeism, graduation rates, suspension rates, and a college/career readiness indicator. The Dashboard displays statewide measures for all traditional and alternative public schools, charter schools, school districts, and county offices of education and breaks out data for more than a dozen student subgroups, including youth in foster care, homeless youth, students with disabilities, socioeconomically disadvantaged students, and English language learners, as well as by student race/ethnicity.

The 2018 Dashboard data highlights that work remains to address persistent low achievement for students with disabilities, youth in foster care, homeless youth, English language learners, and students of color. These students are generally less likely to

graduate or score well on state standardized tests, and more likely to be suspended or chronically absent.

The Administration is committed to working with state and local partners to implement policies and strategies to address low student achievement in California. As a reflection of this commitment, the Budget makes several strategic investments, detailed in the sections below. Additionally, the Administration intends to implement statewide policies that hold all school districts, charter schools, and county offices of education accountable for operational transparency and community engagement.

STATEWIDE SYSTEM OF SUPPORT

California has a new structure in place, called the statewide system of support, to address root causes that contribute to persistent low achievement in some student groups and to continuously improve the quality of public education in the state. The system builds upon the community-based LCAP process by tasking county offices of education, which approve school district LCAPs, with providing tailored support to school districts with underperforming student subgroups. County offices of education are responsible for facilitating analyses of the causes of under-performance in collaboration with school districts and connecting those districts with resources and best practices to address the issues identified.

Based on recent Dashboard data, 374 school districts are required to receive targeted county office of education support in 2018-19. The Budget supports county offices of education in this work by providing them with an increase of \$20.2 million Proposition 98 General Fund for school district assistance, consistent with the formula adopted in the 2018 Budget Act.

Additionally, to increase the meaningful engagement between communities and local educational agencies, the Budget proposes \$350,000 one-time Proposition 98 General Fund to merge the Dashboard, the LCAP electronic template, and other school site and school district reporting tools (including the School Accountability Report Card) into a single web-based application to: (1) allow the public to access a single platform for this information, (2) streamline these systems, and (3) eliminate duplicative and outdated information.

SPECIAL EDUCATION

Local educational agencies are required by federal law to provide appropriate and comprehensive educational programs for students with disabilities. However, most struggle to improve academic outcomes for those students. This problem has persisted over time, and in 2017 and 2018 school districts were most likely to be identified as needing support from county offices of education because of poor performance on student outcome indicators for students with disabilities.

Special education finance in California is complex, state-driven, and administratively costly. The funding for special education is a patchwork, each with its own allocation formula and spending restrictions. School funding mechanisms should be equitable, transparent, easy to understand, and focused on the needs of students. However, it has been challenging for the state to align special education financing with these priorities. To address these issues and strengthen accountability for the outcomes of students with disabilities, the Administration intends to pursue statewide policies to improve all of the following:

- Coordination between general education and special education programs.
- Transparency around local planning for regional special education services.
- Transitions between regional centers and local educational agencies for three-year-old children with exceptional needs.

The rising cost of special education services, especially for school districts with high proportions of students with disabilities, can impact school districts' ability to provide a comprehensive program beyond what is required by a student's individualized education program. In 2004, Congress set a goal of 40 percent for the federal share of costs of special education services. In the last several years, however, the federal share of special education costs in California is estimated to have averaged only about 10 percent. Additionally, early intervention services can be cost prohibitive, with the federal government providing only a fraction of the funding necessary to support mandated services for preschool-age children with disabilities. Finally, many school districts cite a lack of resources as a barrier to providing supports for pre-kindergarten and early elementary students who may benefit from services in addition to those identified in an individualized education program, or who may not otherwise qualify for special education services.

In response to these needs, the Budget proposes \$576 million Proposition 98 General Fund (of which \$186 million is one-time) to support expanded special education services and school readiness supports at local educational agencies with high percentages of both students with disabilities and unduplicated students who are low-income, youth in foster care, and English language learners. Eligible local educational agencies may use these grants to fund special education and school readiness services not currently included in an individualized education program. This funding is intended to supplement services for students currently receiving special education services and for preventative services that may reduce the need for additional services in future years. This funding can also be used to adopt strategies to improve special education student outcomes identified through the statewide system of support and/or other activities to build upon or expand local multi-tiered systems of support efforts. Further, the Administration intends to pursue statewide policy changes to improve coordination between the Department of Health Care Services and school districts regarding Medi-Cal billing to better leverage available federal funding for medically related special education costs.

STATE PRESCHOOL

Students who enter school developmentally unprepared can face significant challenges catching up to their peers academically, socially, and emotionally. To address this gap, the Budget proposes \$125 million non-Proposition 98 General Fund to increase access to subsidized full-day, full-year State Preschool for four-year-old children in 2019-20 (for a total of approximately 180,000 State Preschool slots), with additional increases proposed in the succeeding fiscal years to provide access for all low-income four-year-olds by 2021-22. This proposal is discussed in more detail in the Early Childhood chapter.

UNIVERSAL FULL-DAY KINDERGARTEN

Kindergarten is not compulsory for children in California, but attendance is beneficial to a child's long-term academic attainment. State law requires school districts to provide access to kindergarten for all children for a minimum of three hours per day. Kindergarten programs that are at or around this three-hour minimum are generally referred to as part-day programs; longer day programs are generally referred to as full-day programs. Living in a school district that does not offer full-day kindergarten can be a barrier to attendance for children with working parents or a lack of access to transportation. A recent Department of Education survey found that 22 percent of

school districts, representing more than 1,600 school sites, offered only part-day kindergarten programs. School districts cited a lack of facilities as the main impediment to offering full-day kindergarten.

Research suggests that students attending full-day, high-quality early primary education programs are more school-ready and have better literacy acquisition than students in part-day programs. In California, low-income children are less likely to attend kindergarten than their peers, in part because of the difficulty of accessing a full-day of school, putting them at an academic disadvantage. It is the intent of the Administration to increase participation in kindergarten by addressing barriers to access. Building upon the \$100 million General Fund provided in the 2018 Budget Act to eligible school districts to construct new or retrofit existing facilities for full-day kindergarten programs, the Budget proposes an additional \$750 million one-time non-Proposition 98 General Fund for a similar purpose. In addition to constructing new or retrofitting existing facilities to support full-day kindergarten programs, participating school districts will have the ability to use project savings to fund other activities that reduce barriers to providing full-day kindergarten.

LONGITUDINAL EDUCATION DATA

Although local educational agencies and the public segments of higher education both collect a significant amount of student level data, the systems that house this data are not aligned to provide a clear picture of how students advance from early education programs through K-12 schools to postsecondary education and into the workforce. This is due, in part, to the fact that California's existing educational databases operate under different legal and regulatory requirements, using different data definitions, and with varying levels of user-friendliness.

To improve coordination across educational data systems and better track the impacts of state investments on achieving educational goals, the Budget provides \$10 million one-time non-Proposition 98 General Fund to plan for and develop a longitudinal data system. This system will connect student information from early education providers, K-12 schools, higher education institutions, employers, other workforce entities, and health and human services agencies. A portion of this funding will be used for initial planning purposes. The bulk of the funding will be available for the initial stages of system implementation, once an implementation plan is adopted by the Administration and the Legislature.

Any effort to link public educational data systems must also include steps to improve the quality of the data reported. In addition to developing options for the new data system, the Budget also requires the stakeholder committee to consider data reliability and ways to improve data quality at each education segment.

Finally, in alignment with the new data system, it is the intent of the Administration to develop supplementary K-12 accountability measures (including metrics for conditions of learning and an expanded college and career readiness indicator), improved collaboration between schools and health and human services agencies, and collection of more relevant data on the impact of public education programs on the state's workforce capacity.

PRIOR YEAR PROPOSITION 98 FUNDING LEVELS AND CERTIFICATION CHANGES

To increase predictability, the Budget proposes changes in statute to specify that the state may not adjust Proposition 98 funding levels for any non-certified year outside of the fiscal years commonly referred to as “current year” and “budget year” (for the 2019-20 Governor's Budget), this refers to fiscal years 2018-19 and 2019-20). The result of this revised process is that prior year Proposition 98 levels will not change, protecting local educational agencies from unanticipated revenue drops in past fiscal years.

The 2018 Budget Act amended the process for finalizing the Proposition 98 funding level for a given fiscal year, commonly referred to as the Proposition 98 certification process. Specifically, these changes: (1) provided a new mechanism for annual certifications, (2) increased certainty around the payment of future certification settlements, (3) provided the state with additional budgeting flexibility through a new cost allocation schedule, (4) provided a continuous appropriation of LCFF COLA, and (5) certified the guarantee for the prior years of 2009-10 through 2016-17. All these changes may be repealed if recently-filed litigation is ultimately successful.

To provide more certainty, the Budget also includes changes to the Proposition 98 certification process to:

- Eliminate the cost allocation schedule.
- Prohibit the state from adjusting Proposition 98 funding levels for a prior fiscal year.

- Create a cap on increases to LCFF related to the continuous appropriation of LCFF COLA.

SCHOOL FACILITIES BOND FUNDS

Proposition 51, approved by voters in November 2016, authorized a total of \$7 billion in state general obligation bonds for K-12 schools to be allocated through the School Facilities Program in place as of January 1, 2015. Approximately \$600 million in Proposition 51 bond funds have been expended in each of fiscal years 2017-18 and 2018-19. The Budget proposes to release of \$1.5 billion Proposition 51 bond funds, an increase of \$906 million over the prior year, to support school construction projects. These funds will support new construction, modernization, retrofitting, career technical education, and charter school facility projects.

The Budget also includes an additional \$1.2 million ongoing Proposition 51 bond funds and State School Site Utilization Funds, and 10 positions for the Office of Public School Construction to support the increased processing of applications and program workload.

OTHER K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

- School District Average Daily Attendance—A decrease of \$388 million Proposition 98 General Fund in 2018-19 for school districts resulting from a decrease in projected average daily attendance from the 2018 Budget Act, and a decrease of \$187 million Proposition 98 General Fund in 2019-20 for school districts resulting from a further projected decline in average daily attendance for 2019-20.
- Local Property Tax Adjustments—A decrease of \$283 million Proposition 98 General Fund for school districts and county offices of education in 2018-19 as a result of higher offsetting property tax revenues, and a decrease of \$1.25 billion Proposition 98 General Fund for school districts and county offices of education in 2019-20 as a result of increased offsetting property taxes.
- Cost-of-Living Adjustments—An increase of \$187 million Proposition 98 General Fund to support a 3.46 percent cost-of-living adjustment for categorical programs that remain outside of the LCFF, including Special Education, Child Nutrition, State

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Preschool, Youth in Foster Care, the Mandates Block Grant, American Indian Education Centers, and the American Indian Early Childhood Education Program.

- CalWORKs Stages 2 and 3 Child Care—A net increase of \$119.4 million non-Proposition 98 General Fund in 2019-20 to reflect increases in the number of CalWORKs child care cases. Total costs for Stage 2 and 3 are \$597 million and \$482.2 million, respectively.
- Full-Year Implementation of Prior Year State Preschool Slots—An increase of \$26.8 million Proposition 98 General Fund to reflect full-year costs of 2,959 full-day State Preschool slots implemented part-way through the 2018-19 fiscal year.
- County Offices of Education—An increase of \$9 million Proposition 98 General Fund to reflect a 3.46-percent cost-of-living adjustment and average daily attendance changes applicable to the LCFF.
- Instructional Quality Commission—An increase of \$279,000 General Fund on a one-time basis for the Instructional Quality Commission to continue its work on the development of model curriculum and frameworks.