

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, 1,000 local school districts, and more than 1,200 charter schools provides instruction in English, mathematics, history, science, and other core competencies.

The May Revision includes total funding of \$99.7 billion (\$47.7 billion General Fund and \$52 billion other funds) for all K-12 education programs.

PROPOSITION 98—AVOIDING PERMANENT DECLINE

Proposition 98 is a voter-approved constitutional amendment that 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. The Local Control Funding Formula is the primary mechanism for distributing these funds to support all students attending K-12 public schools in California.

The COVID-19 Recession is having a massive impact on the economy and the state's General Fund revenues. This is having an equally significant negative impact on the state's K-14 Proposition 98 Guarantee. The May Revision estimates that the Guarantee will decline by \$19 billion from the Governor's Budget. This decline in funding is

approximately 23 percent of the 2019 Budget Act Proposition 98 funding level. Even more troubling, is that declining average daily attendance and declining per capita income numbers cause the Guarantee to stay at a depressed level for the entire forecast period.

To mitigate the deleterious impacts of the state's revenue decline impacts on funding for K-14 schools immediately, the May Revision proposes the following:

- **Temporary Revenue Increases.** The May Revision proposes the temporary three-year suspension of net operating losses and limitation on business incentive tax credits to offset no more than \$5 million of tax liability per year. These measures along with other more minor tax changes will generate \$4.5 billion in General Fund revenues and approximately \$1.8 billion in benefit to the Proposition 98 Guarantee.
- **Federal Funds.** The May Revision proposes a one-time investment of \$4.4 billion (\$4 billion federal Coronavirus Relief Fund and \$355 million federal Governor's Emergency Education Relief Fund) to local educational agencies to address learning loss related to COVID-19 school closures, especially for students most heavily impacted by those closures, including supporting an earlier start date for the next school year.
- **Revising CalPERS/CalSTRS Contributions.** The 2019 Budget Act included \$850 million to buy down local educational agency employer contribution rates for CalSTRS and CalPERS in 2019-20 and 2020-21, as well as \$2.3 billion towards the employer long-term unfunded liability. To provide local educational agencies with increased fiscal relief, the May Revision proposes redirecting the \$2.3 billion paid to CalSTRS and CalPERS towards long-term unfunded liabilities to further reduce employer contribution rates in 2020-21 and 2021-22. This reallocation will reduce the CalSTRS employer rate from 18.41 percent to approximately 16.15 percent in 2020-21 and from 18.2 percent to 16.02 percent in 2021-22. The CalPERS Schools Pool employer contribution rate will be reduced from 22.67 percent to 20.7 percent in 2020-21 and from 25 percent to 22.84 percent in 2021-22.

The May Revision also proposes a significant new obligation for schools to avoid a permanently depressed level of funding for K-14 schools. In 2019-20 and 2020-21, the Proposition 98 funding level drops below the target funding level (Test 2), by a total of approximately \$13 billion. To accelerate the recovery from this funding reduction, the May Revision proposes to provide supplemental appropriations above the constitutionally required Proposition 98 funding level, beginning in 2021-22, and in each of the next several fiscal years, in an amount equal to 1.5 percent of General Fund

revenues per year, up to a cumulative total of \$13 billion. This will accelerate growth in the Guarantee, which the Administration proposes to increase as a share of the General Fund. Currently, Proposition 98 guarantees that K-14 schools receive approximately 38 percent of the General Fund in Test 1 years. The May Revision proposes to increase this share of funding to 40 percent by 2023-24.

The May Revision also reflects the withdrawal of all of the funding in the Public School System Stabilization Account, which was projected at the Governor's Budget to be approximately \$524 in 2019-20. The May Revision projects that no additional deposits will be required and the entire amount is available to offset the decline in the Guarantee.

IMPACTS OF COVID-19 ON K-12 EDUCATION

Since the beginning of the COVID-19 pandemic in early March, local educational agencies across the state have closed for classroom instruction, transitioning students and teachers to distance learning models. The loss of classroom-based instruction has had unprecedented impacts on students and families, with significant learning loss for low-income students and students with disabilities.

To provide local educational agencies with flexibility to meet the challenges of serving students in this new environment, the Administration and the Legislature have authorized resources and waivers over the last two months designed to support distance learning. These actions include:

- Passing SB 117, which provided \$100 million to local educational agencies for cleaning and protective equipment, held local educational agencies harmless for Average Daily Attendance (ADA) loss, waived instructional time requirements to prevent funding loss, made it easier for charter schools to convert to a distance learning model, protected funding for after school programs, and extended timelines for assessments, uniform complaint procedures, and special education requirements.
- Issuing Executive Orders N-26-20, N-30-20, N-45-20, and N-56-20. These orders defined expectations for local educational agencies for service delivery during COVID-19 school closures, suspended state academic assessments for the 2019-20 school year, provided additional time for local educational agencies and communities to complete their local control and accountability plans, increased programmatic flexibility for after school programs, and required local educational agencies to be

transparent with their communities about actions taken to ensure continuity of student learning during the COVID-19 pandemic.

Additionally, the Superintendent of Public Instruction and the California Collaborative for Educational Excellence have provided guidance and instructional resources to help local educational agencies navigate distance learning and delivery of nutrition and other student services during the COVID-19 pandemic.

The Administration will engage with stakeholders and the Legislature through the spring and summer to determine an appropriate process for the development and adoption of local control and accountability plans and budget overviews for parents that are due December 15, 2020, pursuant to Executive Order N-56-20.

The Administration's priorities for education will include a strong focus on equity for vulnerable students, stability for core instructional programs, learning loss mitigation, and support for helping schools through the current economic downturn. The following May Revision proposals reflect these priorities and provide a roadmap for academic and fiscal recovery.

LEARNING LOSS MITIGATION

The May Revision proposes a one-time investment of \$4.4 billion (\$4 billion federal Coronavirus Relief Fund and \$355 million federal Governor's Emergency Education Relief Fund) to local educational agencies to address learning loss related to COVID-19 school closures, especially for students most heavily impacted by those closures. Specifically, funds may be used for:

- Learning supports that begin prior to the start of the school year, and the continuing intensive instruction and supports into the school year.
- Extending the instructional school year, including an earlier start date, by increasing the number of instructional minutes or days.
- Providing additional academic services for pupils, including diagnostic assessments of student learning needs, intensive instruction for addressing gaps in core academic skills, additional instructional materials or supports, or devices and connectivity for the provision of in-classroom and distance learning.
- Providing integrated student supports to address other barriers to learning, such as the provision of health, counseling or mental health services; professional

development opportunities to help teachers and parents support pupils in distance-learning contexts; access to school breakfast and lunch programs; or programs to address student trauma and social-emotional learning.

Funds will be allocated to local educational agencies offering classroom-based instruction based on a formula that takes into account the share of students most heavily impacted by school closures, including students with disabilities, low-income students, English learners, youth in foster care, and homeless youth.

Additionally, California received \$1.6 billion in federal Elementary and Secondary School Emergency Relief funds. Of this amount, 90 percent (\$1.5 billion) will be allocated to local educational agencies in proportion to the amount of Title I-A funding they receive for COVID-19 related costs. The remaining 10 percent (\$164.7 million) is available for COVID-19 related state-level activities. The May Revision proposes to allocate these funds in the following manner:

- \$100 million for grants to county offices of education for the purpose of developing networks of community schools and coordinating health, mental health, and social service supports for high-needs students. The COVID-19 pandemic has exacerbated conditions associated with poverty, including food insecurity, housing and employment instability, and inadequate health care, which has led to additional barriers to learning.
- \$63.2 million for training and professional development for teachers, administrators, and other school personnel, focused on mitigating opportunity gaps and providing enhanced equity in learning opportunities, addressing trauma-related health and mental health barriers to learning, and developing strategies to support necessary changes in the educational program, such as implementing distance learning and social distancing.
- \$1.5 million for the Department of Education for state operations costs associated with COVID-19 pandemic.

ALIGNING K-12 APPROPRIATIONS WITH AVAILABLE RESOURCES

The reduction in the Proposition 98 minimum guarantee, when combined with statutory technical adjustments, creates a shortfall of \$15.1 billion (\$14.8 billion General Fund) for K-12 schools over 2018-19, 2019-20, and 2020-21. Addressing this gap requires a balance

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of solutions, including the withdrawal of new proposals, deferrals, and absent additional federal funds, base reductions.

The state is not in a fiscal position to increase rates or expand programs given the drastic budget impacts of the COVID-19 Recession. The following proposals are withdrawn from the Governor's Budget:

- Educator Workforce Investment Grants: \$350 million
- Opportunity Grants: \$300.3 million
- Community Schools Grants: \$300 million
- Special Education Preschool Grant: \$250 million
- Workforce Development Grants: \$193 million
- Teacher Residency Program: \$175 million
- Credential Award Program: \$100 million
- Child Nutrition Programs: \$70 million
- Classified Teacher Credential Program: \$64.1 million
- Local Services Coordination (CCEE): \$18 million
- Computer Science Supplementary Authorization Incentive: \$15 million
- Online Resource Subscriptions for Schools: \$2.5 million
- California College Guidance Initiative: \$2.5 million
- Computer Science Resource Lead: \$2.5 million
- School Climate Workgroup: \$150,000

Additionally, the May Revision suspends the statutory cost-of-living adjustment of 2.31 percent in 2020-21 for all eligible programs.

LOCAL CONTROL FUNDING FORMULA

Absent additional federal funds, the COVID-19 Recession requires a 10 percent (\$6.5 billion) reduction to LCFF. This reduction includes the elimination of a 2.31 percent cost-of-living adjustment. This reduction will be triggered off if the federal government provides sufficient funding to backfill this cut.

The May Revision also proposes apportionment deferrals to align Proposition 98 expenditures and resources with the need of local educational agencies to maintain a level of fiscal stability. In 2019-20, the Budget proposes to defer \$1.9 billion of LCFF apportionments to 2020-21. An additional \$3.4 billion is added to the 2019-20 deferral in 2020-21, for a total of \$5.3 billion in LCFF deferrals scheduled for payment in 2021-22.

SPECIAL EDUCATION

The May Revision maintains the Administration's commitment to increasing special education resources and improving special education financing, programs, and student outcomes. Specifically, the May Revision sustains the Governor's Budget proposal to increase special education base rates, updated at May Revision to \$645 per pupil (reflecting the suspension of the 2.31 percent cost-of-living adjustment), apportioned on a three-year rolling average of local educational agency ADA (allocated to Special Education Local Plan Areas). This new base rate represents a 15 percent increase in the Proposition 98 General Fund contribution to the base formula funding over the amount provided in the 2019 Budget Act.

As in the Governor's Budget, the May Revision proposes that all other existing AB 602 special education categorical funding sources remain as in current law until a finalized formula is adopted.

Further, the May Revision includes \$15 million federal Individuals with Disabilities Education Act (IDEA) funds for the Golden State Teacher Scholarship Program to increase the special education teacher pipeline, and \$7 million federal IDEA funds to assist local educational agencies with developing regional alternative dispute resolution services and statewide mediation services for cases arising from the COVID-19 pandemic special education distance learning service delivery models.

Finally, the May Revision maintains funding for a study of the current special education governance and accountability structure, and two workgroups to study improved accountability for special education service delivery and student outcomes. The \$1.1 million Proposition 98 General Fund used to fund these proposals is replaced with federal IDEA funds. An additional \$600,000 federal IDEA funds is proposed for: (1) a workgroup to study the costs of out-of-home care, and how these services can be funded in a way that better aligns with the existing provision of these services, and (2) the development of an individualized education program addendum for distance learning.

K-12 CATEGORICAL PROGRAMS

Absent additional federal funds, to limit base reductions to the LCFF, the May Revision includes the following Proposition 98 reductions to K-12 categorical programs, totaling \$352.9 million:

- After School Education and Safety: \$100 million
- K-12 Strong Workforce Program: \$79.4 million
- Career Technical Education Incentive Grant Program: \$77.4 million
- Adult Education Block Grant: \$66.7 million
- California Partnership Academies: \$9.4 million
- Career Technical Education Initiative: \$7.7 million
- Exploratorium: \$3.5 million
- Online Resource Subscriptions for Schools: \$3 million
- Specialized Secondary Program: \$2.4 million
- Agricultural Career Technical Education Incentive Grant: \$2.1 million
- Clean Technology Partnership: \$1.3 million

OTHER K-12 BUDGET ISSUES

Significant Adjustments:

- Local Property Tax Adjustments—An increase of \$84.5 million Proposition 98 General Fund in 2019-20 and \$727 million Proposition 98 General Fund in 2020-21 for school districts, special education local plan areas, and county offices of education as a result of lower offsetting property tax revenues in both years.
- Full-Day Kindergarten Facilities—A decrease of \$300 million one-time non-Proposition 98 General Fund for construction of new, or retrofit of existing, facilities for full-day kindergarten programs. This is roughly the amount that is unexpended from \$400 million provided for this purpose in the 2018 and 2019 Budget Acts. The May Revision proposes sweeping these unexpended program funds to facilitate budgetary resiliency.

- AB 1840 Adjustments—An increase of \$5.8 million one-time Proposition 98 General Fund for Inglewood Unified School District and \$16 million one-time Proposition 98 General Fund for Oakland Unified School District, amounting to 50 percent of the operating deficit of these districts, pursuant to Chapter 426, Statutes of 2018 (AB 1840).
- Categorical Program Growth—A decrease of \$10.9 million Proposition 98 General Fund for selected categorical programs, based on updated estimates of average daily attendance.

FLEXIBILITIES FOR LOCAL EDUCATIONAL AGENCIES

The COVID-19 Recession is going to create tremendous challenges at the local level. The Administration is committed to working with local educational agencies, labor organizations and other stakeholders during this difficult time to offer flexibilities that will minimize impacts to students and allow local educational agencies to continue to make progress on closing the achievement gap for students with disabilities, low-income students, English learners, youth in foster care, and homeless youth. The May Revision includes the following fiscal and programmatic flexibilities:

- Exemptions for local educational agencies if apportionment deferrals create a documented hardship.
- Authority for local educational agencies to exclude state pension payments on behalf of local educational agencies from the calculation of required contributions to routine restricted maintenance.
- Subject to public hearing, increases on local educational agency internal inter-fund borrowing limits to help mitigate the impacts of apportionment deferrals.
- Authority to use proceeds from the sale of surplus property for one-time general fund purposes.
- Options for specified special education staff to utilize technology-based options to serve students.
- Extension of the deadline for transitional kindergarten teachers to obtain 24 college units of early childhood education, from August 1, 2020 to August 1, 2021.

The Administration intends to work with the Legislature and education stakeholders on other options, including expanded flexibility, to protect core services and minimize impacts on students in the context of reduced funding.

K-12 AND EARLY CHILDHOOD EDUCATION

To address the impacts of the COVID-19 pandemic on child care providers, the state took immediate action to protect providers and families and expand access to care for vulnerable, at-risk children and children of essential workers. Specifically, the Administration and the Legislature authorized SB 117 and Executive Orders N-45-20 and N-47-20 that accomplish the following:

- Provide 30 days of payment protection to providers who experienced closures or reduced attendance due to the COVID-19 pandemic.
- Suspend family fees for 60 days.
- Allow children of essential workers and additional populations of vulnerable children to be eligible for subsidized care, regardless of income.
- Direct the Department of Social Services and the Department of Education to publish guidance on health and safety practices to keep families accessing child care safe during the COVID-19 pandemic.

The Administration also provided \$100 million General Fund, pursuant to SB 89, to clean and sanitize child care facilities, provide protective supplies for child care workers, and increase access to subsidized child care for at-risk children and children of essential workers.

To assist with the child care needs of families outside of the subsidized system, the Department of Social Services worked with employers of essential workers to set up pop-up child care programs. To date, there are close to 500 temporary pop-up child care programs throughout California. The state also released a web portal to help parents locate open child care providers near their home or work.

CARES ACT FUNDING FOR CHILD CARE

California received \$350.3 million through the federal CARES Act for COVID-19 related child care activities. To maximize the benefits of these funds to providers and families, the May Revision proposes the following expenditure plan:

- \$144.3 million for state costs associated with SB 89 expenditures, family fee waivers, and provider payment protection.
- \$125 million for one-time stipends for state-subsidized child care providers offering care during the COVID-19 pandemic.
- \$73 million for increased access to care for at-risk children and children of essential workers.
- \$8 million to extend family fee waivers until June 30, 2020.

DEPARTMENT OF EARLY CHILDHOOD DEVELOPMENT

The Governor's Budget proposed to establish the Department of Early Childhood Development under the California Health and Human Services Agency effective July 1, 2021, to promote a high-quality, affordable, and unified early childhood system. The Governor's Budget included \$6.8 million General Fund in 2020-21 and \$10.4 million ongoing General Fund to transition the existing early learning and child care programs from the Department of Education and the Department of Social Services to the new department.

To achieve General Fund savings while maintaining the goal of consolidating the state's early learning and child care programs under one agency, the May Revision proposes to modify this proposal by transferring the child care programs to the Department of Social Services. This will align all child care programs within a single department in state government and will ease the administration of collective bargaining commencing later this year. The May Revision maintains \$2 million General Fund in 2020-21 to support this transition.

STATE PRESCHOOL

The May Revision protects access to the State Preschool program for income-eligible children. While the current fiscal situation requires a pause in the state's planned early education investments, the Administration's priority to work toward universal preschool access for all children in unchanged.

Absent additional federal funds, the COVID-19 Recession makes the following reductions necessary to balance the state budget. These reductions will be triggered off if the federal government provides sufficient funding to restore them:

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- \$159.4 million General Fund to eliminate 10,000 slots scheduled to begin April 1, 2020 and 10,000 additional slots scheduled to begin April 1, 2021.
- \$130 million Proposition 98 General Fund to align State Preschool funding with demand.
- \$94.6 million Proposition 98 General Fund and \$67.3 million General Fund to reflect a 10 percent decrease in the State Preschool daily reimbursement rate.
- \$20.5 million Proposition 98 General Fund and \$11.6 million General Fund to reflect suspension of a 2.31 percent cost-of-living adjustment.
- \$3.3 million Proposition 98 General Fund and \$3 million General Fund to eliminate a 1 percent add-on to the full-day State Preschool reimbursement rate.

CHILD CARE

When considering the availability of state General Fund and federal resources at May Revision, the Administration prioritizes access to subsidized child care for income-eligible families. State subsidized child care is critical to keeping low-income women in the workforce, which is more important than ever given the COVID-19 Recession. California received an increase of \$53.3 million federal Child Care and Development Block Grant funds for federal fiscal year 2020, which the May Revision proposes to increase access for approximately 5,600 children in the Alternative Payment Program. Absent additional federal funds, the COVID-19 Recession makes the following reductions necessary to balance the state budget. These reductions will be triggered off if the federal government provides sufficient funding to restore them:

- \$363 million one-time General Fund and \$45 million one-time federal Child Care and Development Block Grant funds from the 2019 Budget Act for child care workforce and infrastructure.
- \$223.8 million General Fund to reflect a 10 percent decrease in the Standard Reimbursement Rate and the Regional Market Rate.
- \$35.9 million General Fund to reflect to reflect lower caseload estimates in CalWORKs Stage 2 and Stage 3 child care.
- \$25.3 General Fund to reflect suspension of a 2.31 percent cost-of-living adjustment.
- \$10 million one-time General Fund from the 2019 Budget Act for child care data systems

- \$4.4 million one-time General Fund to reduce resources available for the Early Childhood Policy Council, leaving \$2.2 million available for both 2020-21 and 2021-22.

Additionally, the May Revision appropriates \$13.4 million federal funds through the Health and Human Services Agency to reflect the state's 2020 Preschool Development Grant award.