

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.

The May Revision includes total funding of \$92.3 billion (\$54.2 billion General Fund and \$38.1 billion other funds) for all K-12 education programs.

PROPOSITION 98

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 funding to support all students attending K-12 public schools in California.

Last June, the 2016 Budget Act set Proposition 98 funding for 2015-16 at the minimum level allowed under the Constitution. Since then, due to lower revenues, that funding

level overappropriates the Guarantee by \$432 million, which also creates a higher funding base for Proposition 98 going forward.

In January, the Governor's Budget proposed to eliminate this overappropriation based on actual revenues received in 2015-16, which also reduced the Guarantee in the 2016-17 and 2017-18 fiscal years. Additionally, the Governor's Budget proposed an \$859 million expenditure shift from 2016-17 to 2017-18. The school community expressed concerns about reducing funding provided in a prior year and the expenditure shift.

Relative to the Governor's Budget, General Fund revenues that drive the calculation of the Guarantee are up by \$326 million in 2015-16, down by \$489 million in 2016-17, and are up by more than \$2.5 billion in 2017-18. With this modest increase in revenues, the May Revision proposes an approach that does not reduce funding for 2015-16, while generating savings similar to the January proposal over the long term.

To achieve this balance, the Administration proposes to suspend the statutory Proposition 98 Test 3B supplemental appropriation in 2016-17, as well as the 2018-19 through 2020-21 fiscal years. Test 3B is a mechanism designed so that school funding grows at the same rate as the rest of the budget in years when economic growth is slower. Any funding reduced through this mechanism will be automatically added to the maintenance factor obligation, ensuring that school funding is restored in the long term.

The additional resources now available in both 2015-16 and 2016-17, combined with a proposed settle-up payment of \$603 million, are sufficient to eliminate the \$859 million expenditure shift from 2016-17 to 2017-18 proposed in the Governor's Budget.

The adjustments noted above, combined with the increase in 2017-18 revenues of more than \$2.5 billion, result in increased Proposition 98 funding for the budget year of almost \$1.1 billion, providing a significant boost to both the Local Control Funding Formula and one-time discretionary grants as discussed in greater detail below.

The Proposition 98 maintenance factor—an indicator of past reductions made to schools and community colleges—totaled nearly \$11 billion as recently as 2011-12. At the Governor's Budget, the outstanding maintenance factor was over \$1.6 billion. Primarily as a result of the increase in revenues attributable to 2017-18, Proposition 98 triggers a maintenance factor repayment of \$614 million in 2017-18, reducing the outstanding maintenance factor balance to \$823 million.

K-12 FUNDING PRIORITIES

The May Revision proposes to use the combination of increased one-time and ongoing resources to further advance the core priorities of the Administration—paying down debts owed to schools and investing significantly in the Local Control Funding Formula. The formula provides local flexibility on spending decisions and additional funding for students most in need of these resources in an effort to narrow the achievement gap and improve outcomes for low-achieving students. The May Revision increases funding for the formula by an additional \$661 million—building upon the almost \$770 million provided in the Governor’s Budget. In total, the more than \$1.4 billion investment will bring the formula to 97 percent of full implementation. Added investments will continue to reverse the inequities that characterized the prior school finance system, while providing the resources necessary to support core programs and services, as well as other key local investments and priorities. Funding is also provided for various workload adjustments under the new formula, as detailed in the K-12 Budget Adjustments section.

The Governor’s Budget proposed almost \$290 million in discretionary one-time Proposition 98 funding for school districts, charter schools, and county offices of education. The May Revision proposes almost \$750 million in additional funds, providing more than \$1 billion in one-time discretionary funding to schools in 2017-18. This funding will be available to further the implementation of the state-adopted academic standards, make necessary investments in professional development, provide teacher induction to beginning teachers, address infrastructure and deferred maintenance needs, and purchase instructional materials and technology to prepare both students and teachers for success. All of the funds provided will offset any applicable mandate reimbursement claims for these entities. These resources, coupled with more than \$4.8 billion in one-time Proposition 98 funding provided to schools over the last three budgets for the same purposes, will reduce the outstanding mandate debt owed to local educational agencies to \$1.3 billion, consistent with the Administration’s goal to pay down debt.

EDUCATOR WORKFORCE

The 2016 Budget provided funding for several programs at the Commission on Teacher Credentialing to increase teacher recruitment. To date, the Commission has accomplished the following:

- Forty-one grants have been awarded to 33 public and private postsecondary institutions to create or improve four-year programs that integrate a baccalaureate degree and a teacher preparation program. These grants will save new teachers approximately \$20,000 by eliminating an additional year of school.
- A total of 24 grants have been awarded under the Classified School Employee Teacher Training Program to school districts and county offices of education, enabling 960 classified employees to work toward earning a teaching credential. The first report of program and participant progress is due on January 1, 2018.
- The Tulare County Office of Education has been awarded a five-year grant to create the California Center on Teaching Careers. The Center will recruit individuals into the teaching profession by providing outreach and referral services, both online and at regional centers. The Center will be online in July and open regional centers at County Offices of Education in Los Angeles, Riverside, Shasta, San Diego, and Sonoma, Ventura, and Sacramento counties before the start of the 2017-18 school year.

To further teacher recruitment, the May Revision proposes to leverage federal funds to attract and support the preparation and continued learning of committed teachers, principals, and other school leaders. Using the flexibility provided under the federal Every Student Succeeds Act, the May Revision directs additional federal resources to enhance the state's efforts to address recruitment and retention issues throughout the state, with particular focus on critical shortage areas and high need fields.

SPECIAL EDUCATION

As outlined in the 2017-18 Governor's Budget summary, the Department of Finance held four special education stakeholder discussions during the spring to solicit feedback on the current special education program and reactions to recent reports on special education finance in California. The discussions were open to all interested parties and included parents, as well as representatives from school districts, Special Education Local Plan

Areas, charter schools, community-based organizations and county offices of education. The meetings were held in Sacramento, Los Angeles, San Mateo and Fresno.

Much of the input received centered on the core elements outlined in the Governor's Budget. Given the scope of the feedback and the complexity of this program area, the Administration will spend additional time in the coming months examining these issues to chart a path forward that will maximize resources to serve students while increasing transparency and accountability.

K-12 SCHOOL FACILITIES

A 2016 audit of Proposition 1D School Facilities Program expenditures issued by the Office of State Audits and Evaluations 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 the appropriate use of all School Facilities Program bond funds and effective program accountability and oversight, the Administration proposed the following two-fold approach in the Governor's Budget:

- Design grant agreements that define basic terms, conditions, and accountability measures for participants that request funding through the School Facilities Program.
- Enact legislation requiring facility bond expenditures to be included in the annual K-12 Audit Guide, where independent auditors verify that local educational agencies participating in the School Facilities Program have appropriately expended state resources.

The Office of Public School Construction has presented a comprehensive grant agreement to the State Allocation Board for approval, and the Administration has proposed legislation to require independent audits of school facilities expenditures. It is anticipated that the State Allocation Board will take action on a final grant agreement at its next meeting. As stated in the Governor's Budget, the Administration will support the expenditure of Proposition 51 funds when both the grant agreement and audit requirement are in place to ensure that taxpayers' dollars are spent appropriately.

K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

- Local Property Tax Adjustments—An increase of \$188.7 million Proposition 98 General Fund in 2016-17 and \$327.9 million in 2017-18 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.
- Average Daily Attendance (ADA)—An increase of \$26.2 million in 2016-17 and \$74.1 million in 2017-18 for school districts, charter schools, and county offices of education under the Local Control Funding Formula as a result of a smaller drop in ADA growth overall between those two years.
- Proposition 39—The California Clean Energy Jobs Act was approved by voters 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, be used to support energy efficiency projects. The May Revision decreases the amount of energy efficiency funds available to K-12 schools in 2017-18 by \$46.7 million to \$376.2 million to reflect reduced revenue estimates.
- Categorical Program Growth—An increase of \$2.4 million Proposition 98 General Fund for selected categorical programs, based on updated estimates of ADA.
- Cost-of-Living Adjustments—An increase of \$3.2 million Proposition 98 General Fund to selected categorical programs for 2017-18 to reflect a change in the cost-of-living factor from 1.48 percent at the Governor’s Budget to 1.56 percent at the May Revision.

CHILD CARE AND STATE PRESCHOOL

The state funds nine child care and early education programs and dozens of other programs that support services 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.

The 2016 Budget Act increased provider reimbursement rates and added an additional 2,959 full-day State Preschool slots. The Governor’s Budget proposed pausing these additional augmentations until 2018-19, due to lower-than-expected General Fund revenue growth projected at that time. However, with modest General Fund revenue improvement, the May Revision proposes fully restoring this funding.

Significant Adjustments:

- Standard Reimbursement Rate—An increase of \$67.6 million General Fund (\$43.7 million Proposition 98, \$23.9 million non-Proposition 98) to increase the reimbursement rate to reflect the full 10 percent increase made at the 2016 Budget Act. An additional increase of \$92.7 million General Fund (\$60.7 million Proposition 98, \$32 million non-Proposition 98) to provide a six-percent increase to the reimbursement rate for State Preschool and other direct-contracted child care and development providers, beginning July 1, 2017.
- Regional Market Reimbursement Rate—An increase of \$42.2 million General Fund to increase the maximum reimbursement ceiling for voucher-based child care providers to the 75th percentile of the 2016 survey, beginning January 1, 2018.
- Full-Day State Preschool—An increase of \$7.9 million Proposition 98 for an additional 2,959 slots.
- Cal WORKs Stage 2—A decrease of \$18.1 million non-Proposition 98 General Fund in 2017-18 to reflect revised estimates for CalWORKs Stage 2 caseload and the cost per case.
- CalWORKs Stage 3—A decrease of \$12.8 million non-Proposition 98 General Fund in 2017-18 to reflect revised estimates for CalWORKs Stage 3 caseload and cost per case.

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