

# Governor's May Revision Summary Highlights

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#### Introduction

The May Revision document is dedicated to Nancy McFadden, the Governor's chief of staff who passed away earlier this year.

In his opening remarks, Governor Brown noted that the state continues to be in a period of revenue growth that cannot last and that a recession will come. Citing Isaac Newton: "What goes up, must come down" he emphasized that he's trying to leave the next governor with a balanced budget.

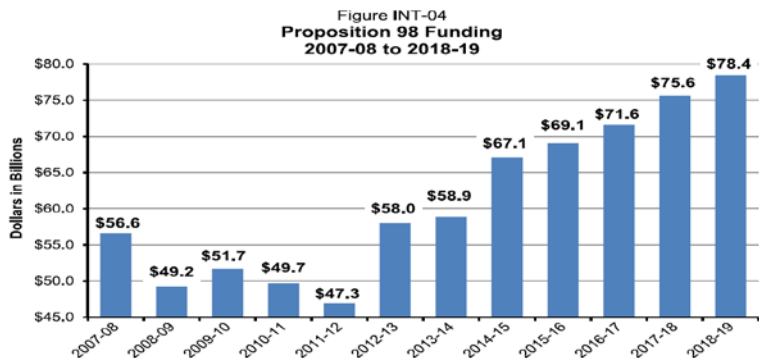
State revenues have seen a large increase of \$8 billion more in revenues through 2018-19 over January projections. The 2018-19 budget is projected at \$199 billion in total spending and \$137.6 billion in state general fund spending.

The Governor uses most of this increase in three priority areas. And, maintaining his stance on limiting new on-going commitments, the Governor's May Revision proposes to use close to \$4 billion in one-time General Fund spending, focused on three areas:

- Infrastructure -- \$2 billion for deferred maintenance at universities, courts, state facilities and flood control. Investments are also proposed for high-priority capital expenditures.
- Homelessness -- \$359 million to focus on the state's most vulnerable populations and assist local governments in their immediate efforts to address homelessness, including \$50 million for individuals with mental illness.
- Mental Health -- \$312 million for enhanced early detection of mental health problems and the education of mental health professionals. The proposals include the repayment of \$254 million plus interest in mandate claims to give counties additional resources for youth with mental illness.
  - Will place a bond on November 2018 ballot for \$2 billion to accelerate the delivery of housing projects to serve the mentally ill.

#### K-12 Education Funding

Proposition 98 is now projected at \$78.4 billion, up from \$78.2 billion in the January budget.



The May Revision maintains the Administration's priority to fully fund the Local Control Funding Formula targets and adds \$320 million to LCFF for the projected 2.71% COLA and a formula increase.

Most of the additional funding from prior and current years and the projected increase in funding in the budget year are proposed for one-time purposes, and the large majority is proposed to go out on an ADA basis. This is consistent with the January Budget Proposal to use \$1.8 billion in one-time funds to go out on an ADA basis. The May Revision brings this to just over \$2 billion to go out as discretionary dollars that the state will count as mandate repayments. The legislature has already put forward multiple proposals that would tap into this funding. We discuss these at the conclusion of this memo.

*The May Revision includes several proposals related to calculation of the Proposition 98 Guarantee:*

- ✓ One: A new process for certification of the Proposition 98 Guarantee. While current law calls for certification of a final calculation of the guarantee for each prior fiscal year, in most years, certification has not been done. The May Revision proposes a new more transparent process that would provide opportunity for stakeholders to review and submit comments or challenge the proposed guarantee.
- ✓ As part of this new process, the Proposition 98 Guarantee will be rebenchmarked to reflect the inclusion of the additional child care services that were funded in the Guarantee beginning in 2015-16 fiscal year. This is an issue that the Education Coalition has raised and should result in an increase to the Guarantee level.
- ✓ Finally, as part of this process, the May Revision proposes to continuously appropriate funding for the Local Control Funding Formula. While Revenue Limits were continuously appropriated, the enactment of LCFF did not contain this provision.

This proposal seems in keeping with the priority placed by the administration on Transparency.

### **Pre-K through 12 Components**

*Two new proposals for one-time funds and expanded fiscal transparency:*

- **Community Engagement Initiative**—The Administration proposes \$13.3 million one-time Proposition 98 General Fund to create the Community Engagement Initiative. This program will utilize the statewide system of support to build the capacity of school districts to engage more effectively with local communities, specifically in the development of the Local Control and Accountability Plan (LCAP), with a focus on improving student outcomes.
- **Fiscal Transparency**—The Administration proposes to expand upon the Governor's Budget proposal for a budget summary aligning school district expenditures to LCAP strategies to specify that it be parent-friendly, include specific information on how supplemental grants are used to increase and improve services for high-need students, and include graphical representation of information, when possible. These amendments,

paired with the Community Engagement Initiative and the Governor’s Budget proposal to make the Dashboard more user-friendly, will improve the ability of parents and community members to be partners in the LCAP decision-making process.

- **Improving School Climate**—The Administration proposes \$15 million one-time Proposition 98 General Fund to expand the state’s Multi-Tiered Systems of Support (MTSS) framework to foster positive school climate in both academic and behavioral areas, including, but not limited to, positive behavior interventions and support, restorative justice, bullying prevention, social and emotional learning, trauma-informed practice, and cultural competency. Utilizing the MTSS structure leverages work done by many school districts across the state to disseminate best practices and integrate this work within the statewide system of support.

**Career Technical Education** - The Governor's Budget proposed \$200 million in ongoing Proposition 98 General Fund to establish a K-12 component within the Strong Workforce Program to encourage local educational agencies to offer Career Technical Education (CTE) programs that are aligned with needed industry skills and regional workforce development efforts. This proposal complements the 2.6-percent base grant adjustment that is included in the Local Control Funding Formula for grades 9-12 to account for the higher cost of providing CTE programs at the high school level. The May Revision continues to utilize the Strong Workforce Program as proposed in January, but amends the proposal to clarify important elements of this K-12 program, including:

- Clarifying that grant decisions for the K-12 component will be made exclusively by the K-12 Selection Committee.
- Clarifying the requirements that apply to the new K-12 component of the Strong Workforce
- Building in a role for the Technical Assistance Providers established under the California Career Pathways Trust Program, and further clarifying roles and responsibilities of the Workforce Pathway Coordinators.
- Providing additional resources to consortia for administering the regional grant process, including resources to support the K-12 Selection Committee duties

While most education organizations are supportive of the Governor’s extension of the existing CTE program and the fact that he intends to make the program on-going, there remains strong concern about the delivery model being via the Strong Workforce Program that is within the community college system. This is likely to remain one of the more contentious elements of the final budget negotiations.

*Key Budget Adjustments from the January Budget include:*

**English Language Proficiency Assessments**—An increase of \$27.3 million one-time Proposition 98 General Fund to convert the English Language Proficiency Assessment for California (ELPAC) from a paper-based to a computer-based assessment, and to develop a computer-based alternative ELPAC for children with exceptional needs.

Charter School Facility Grant Program—An increase of \$21.1 million one-time Proposition 98 General Fund in 2017-18 and a decrease of \$3.6 million Proposition 98 General Fund in 2018-19 to align available funding with estimated program participation.

Federal Restart Grant—An increase of \$13.9 million one-time federal funds to assist local educational agencies with expenses related to reopening schools impacted by the Northern California and Southern California wildfires of October and December 2017.

Early Math Initiative—An increase of \$11.8 million one-time federal funds to support additional early math resources, including professional learning and coaching for educators, as well as additional math learning opportunities for pre-K through grade 3 children.

California Collaborative for Educational Excellence—An increase of \$5 million Proposition 98 General Fund to align resources with updated estimated costs of services to be provided by the Collaborative in 2018-19.

Fiscal Crisis and Management Assistance Team (FCMAT) Support—An increase of \$972,000 Proposition 98 General Fund, which will allow FCMAT to coordinate with county offices of education to offer more proactive and preventive services to fiscally distressed school districts, specifically those with a qualified interim budget status (school districts that may not meet their financial obligations in the current year or subsequent two years).

Local Property Tax Adjustments—An increase of \$137.2 million Proposition 98 General Fund in 2017-18 and \$278.1 million Proposition 98 General Fund in 2018-19 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.

Fire-Related Property Tax Backfill—An increase of \$12.3 million Proposition 98 General Fund in 2017-18 and \$17.8 million Proposition 98 General Fund in 2018-19 to backfill lost property tax revenue for K-12 schools impacted by last fall's wildfires.

Average Daily Attendance—An increase of \$46.8 million Proposition 98 General Fund in 2017-18 and \$42.6 million Proposition 98 General Fund in 2018-19 for school districts, charter schools, and county offices of education under the Local Control Funding Formula as a result of increased caseload costs in the 2016-17 fiscal year.

Categorical Program Cost-of-Living Adjustments—An increase of \$10.6 million Proposition 98 General Fund to selected categorical programs for 2018-19 to reflect a change in the cost-of-living factor from 2.51 percent at the Governor's Budget to 2.71 percent at the May Revision.

Categorical Program Growth—An increase of \$357,000 Proposition 98 General Fund for selected categorical programs, based on updated estimates of average daily attendance.

## **Child Care & Preschool**

The state funds nine child care and early education programs as well as dozens of other programs that support child care quality and access, including 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 providers that contract directly with the Department of Education, local educational agencies, or through vouchers from county welfare departments or alternative payment program agencies.

*CalWORKs Stage 2 and Stage 3 Child Care*—A net increase of \$104 million non-Proposition 98 General Fund in 2018-19 to reflect increases in the number of CalWORKs child care cases and cost of care. Total costs for Stages 2 and 3 are \$559.1 million and \$398 million, respectively.

*Cost-of-Living Adjustment*—An increase of \$2.2 million Proposition 98 General Fund and \$1.8 million non-Proposition 98 General Fund to reflect a change in the cost-of-living factor from 2.51 percent at the Governor's Budget to 2.71 percent at the May Revision.

*Inclusive Early Education Expansion Program*—A decrease of \$42.2 million federal TANF to remove one-time funds that are no longer available for this program. A corresponding increase of \$42.2 million one-time Proposition 98 General Fund is provided to backfill the reduced TANF funding.

## **What Happens Now**

As we have been saying for some time, the language of the Proposition 98 Guarantee giveth...and it taketh away, depending upon which Proposition 98 Test schools are in and whether there is a maintenance factor to be repaid. The May Revision includes almost \$8 billion in new revenue but as noted earlier, the Prop 98 Guarantee in the budget year is increased a modest \$252 million; most of this will go to fund a needed COLA. But there is little additional funding for K-14 education. The vast majority of the new and projected revenue will go to fund critical non-Proposition needs as outlined in the Introduction.

This will place a great deal of scrutiny on the priorities set out by the Governor. While there is a proposed \$15 million for multi-tiered intervention and supports (MTSS) funding and \$13 million for a Community Engagement Initiative on LCAPs in proposed in the May Revision, the bulk of the funding discretionary spending is in the expansion of the Local Control Accountability gap closure and the \$2 billion for the one-time discretionary funding pot. Members of the Administration have already indicated that it is this pot of one-time funds that will serve as the balancer in the budget and will be the foundation of negotiations between the Governor and legislative leaders that are seeking funding for their own education priorities.

As the budget subcommittee hearings have commenced, there have been a number of priorities that have surfaced. These items have included one-time funding for community-based grants (AB 2820), supplemental grants for the lowest performing student group (AB 2635) and increased base grant funding (AB 2808). In the Senate, the Budget Subcommittee hearing on the day before release of the May Revision, included a “members’ request” at which current Senators and a former Senate pro Tem urged support for a wide variety of programs including visual and performing arts programs, after school programs, early childhood nutrition, reestablishing the Healthy Start Program and dozens of other requests. This was all on top of the Senate’s earlier proposal from Budget Subcommittee Chair Portantino which would request \$1.2

billion in LCFF funding for increased base funding and to provide additional supplemental and concentration grant funding. Some of these requests could find their way into the final budget agreement.

However, it is very unlikely that there will be any change to the Governor's top priority which is to fully fund the LCFF targets. This has long been the Governor's top education priority and it is strongly supported by legislators and the education community.

Over the next two weeks the budget committees will close out their budgets and allow a two-house conference committee to work out details and compromises. This will also be the time when legislative leaders and the Governor will negotiate the final compromises. The budget needs to be approved by both houses by June 15. We will closely monitor these actions and keep you informed.

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