

UPDATE ON GOVERNOR'S BUDGET PROPOSAL

BACKGROUND INFORMATION

On Wednesday, January 10, 2018, Governor Jerry Brown unveiled his final proposed State Budget for the upcoming 2018-19 fiscal year. During his tenure, aided by improving national and state economic conditions, California's recovery has allowed the Governor to reshape major state institutions, including restructuring of the entire public education delivery model. Ahead of schedule, the Governor caps off his legacy by proposing to fully fund the Local Control Funding Formula (LCFF).

Proposition 98

Over the last several years, Proposition 98 has provided significant gains to schools as funding cuts endured through the Great Recession have been restored. For the current year, the Proposition 98 guarantee is now estimated at \$75.2 billion, up approximately \$700 million from the enacted level.

For 2018-19, the Governor's State Budget proposes a Proposition 98 guarantee of \$78.3 billion, an increase of \$3.1 billion year over year. The guarantee is based on Test 3, the change in per-capita General Fund revenues, plus 0.5%, and the change in K-12 average daily attendance (ADA). The Governor's State Budget proposal notes that an additional \$92 million in Maintenance Factor will be created, due to it being a Test 3 year, totaling just over \$320 million at the end of 2018-19.

Cost-of-Living Adjustments

The estimated statutory cost-of-living adjustment (COLA) for K-12 education programs in 2018-19 is 2.51%, and is applied to the LCFF base grant targets, as well as other education programs that are funded outside of the LCFF. Those programs include Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers, and American Indian Early Childhood Education, all of which are proposed to receive the statutory COLA.

Statewide, ADA is expected to decrease in 2018-19 by 17,163 ADA from 2017-18 levels to an estimated ADA of 5,944,090.

Local Control Funding Formula

The Governor's 2018-19 State Budget proposal fully implements the LCFF two years earlier than originally projected with an infusion of nearly \$3 billion. The LCFF provides funding to transition all local educational agencies (LEAs) to target funding levels, and provides supplemental revenues through percentage weighting factors to increase or improve services for students who are not English language proficient, who are eligible for free or reduced-price meals, or who are in foster care.

LCFF Target Base Grant for School Districts and Charter Schools

The target base grants by grade span for 2018-19 are increased over 2017-18 by 2.51% to reflect the estimated statutory COLA:

Grade Span	2017-18 Target Base Grant per ADA	2.51% COLA	2018-19 Target Base Grant per ADA
TK-3	\$7,193	\$181	\$7,374
4-6	\$7,301	\$183	\$7,484
7-8	\$7,518	\$189	\$7,707
9-12	\$8,712	\$219	\$8,931

In addition, the 2018-19 Transitional Kindergarten (TK)-3 grade span adjustment (GSA) is \$767 per ADA, and the grades 9-12 GSA per ADA is increased to \$232 in recognition of the need for Career Technical Education (CTE) courses provided to students in the secondary grades.

LCFF Gap Closure

The difference between an LEA's current funding and its target entitlement is called the LCFF gap, and it is this gap that is funded with the additional dollars dedicated each year for implementation of the LCFF.

For 2018-19, the Governor's Budget proposes to spend almost \$3 billion to fully close the LCFF funding gap. The following table shows the Department of Finance's (DOF's) LCFF gap percentages over the past three years:

District and Charter School LCFF Funding and Gap closure (Dollars in Millions)			
	2016-17	2017-18	2018-19
LCFF Funding	\$2,942	\$1,362	\$2,883
Gap Closure %	56.08%	44.97%	100%

COLA	0.00%	1.56%	2.51%
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Pupil Transportation and Targeted Instructional Improvement Grants continue as separate add-ons to the LCFF allocations and do not receive a COLA.

Fiscal Transparency

Citing concerns about the direct services being provided to the students who generate LCFF dollars, the Governor's Budget proposes requiring LEAs to show how their budget expenditures align with the strategies detailed in their Local Control and Accountability Plans (LCAPs) for serving students who generate supplemental and Concentration grants. The Governor also proposes calculating and reporting on a single website the total amount of supplemental and concentration funding provided to each LEA under the LCFF.

Discretionary Funding

The Governor's Budget proposes \$1.8 billion in one-time Proposition 98 funds for school districts, charter schools, and county offices of education (COEs) to use at the discretion of local governing boards, estimated at \$295 per ADA. These funds, like prior years, would be counted by the state as offsetting prior-year mandate reimbursement claims on a dollar-for-dollar basis.

Special Education

In addition to providing a 2.51% COLA for special education programs, the Governor proposes \$100 million in one-time funding for programs to increase and retain special education teachers and \$10 million in ongoing funding for Special Education Local Plan Areas (SELPAs) to work with COEs to provide technical assistance to LEAs to improve student outcomes as part of the statewide system of support.

The Governor also proposes \$167 million, of which \$125 million is ongoing, to establish an "Inclusive Education Expansion Program" to increase availability of school readiness programs for children age 0 to 5, to improve long-term academic outcomes for low-income children and children with exceptional needs. The Governor also proposes revisions to special education budget transparency and accountability.

Career Technical Education

The Governor proposes \$200 million ongoing to establish a K-12 specific component of the community college-administered Strong Work force Program. The funding is aimed at encouraging "the establishment and support of K-12 CTE programs that are aligned with needed industry skills." The Governor proposes an ongoing increase of \$12 million to fund local industry experts who will provide

technical support to LEAs operating, or proposing to operate, CTE programs.

Preschool and Child Care

The Governor maintains the three-year agreement to increase funding for childcare and preschool by providing increased funding for reimbursement rates and increased state preschool slots.

Specifically, his proposal includes:

- Increasing the Standard Reimbursement Rate by 2.8%, for a total General Fund and Proposition 98 investment of \$47.7 million, \$16.1million and \$31.6 million, respectively
- Providing an ongoing \$34.2 million to convert the temporary Regional Market Rate (RMR) “hold harmless” provision to a permanent provision, beginning in 2019-20

The Budget proposal also provides an additional 2,959 full-day State Preschool slots, beginning in April 2018; fulfills the fiscal year 2017-18 increase to the RMR to the 75th percentile of the 2016 RMR survey, beginning January 1, 2018; and makes a modest adjustment to California Work Opportunity and Responsibility to Kids Stage 2 and Stage 3 to reflect caseload and estimated costs of care.

What to Expect Next

The release of the budget is only the first leg of a six-month marathon. The budget is revised in May, and the final budget is adopted in June.

Staff will provide a power-point presentation of the fiscal impact of the Governor’s January proposed budget at the board meeting.