<u>An Overview of the 2018-19 Governor's May Revision</u>

- The Governor paints a bright but cautious fiscal picture
- May Revision proposes flat funding in 2018-19 with a small increase to LCFF Base
- The statutory COLA is 2.71%, and the augmented COLA for LCFF is 3%
- One time funding now $344 per ADA, up from $295 per ADA from the January budget – represents an increase of $400K for BUSD

May Revise from School Services

Preface

The May Revision represents Governor Jerry Brown's final State Budget proposal of his four terms as Governor of California. Also, it is the final statutory opportunity for the Governor to update his economic projections prior to enactment of the State Budget in June. Factors such as tax revenues, population growth, and competing state priorities are all detailed in the Governor's May Revision.

This year, there was positive news in January when the Governor announced his proposal to fully fund the Local Control Funding Formula (LCFF) in 2018-19, two years earlier than originally planned. He also proposed significant one-time discretionary funds scored against outstanding mandate claims, once again. And the Governor proposed to continue funding Career Technical Education (CTE) grants outside of the LCFF.

In the meantime, current-year state revenue collections through April are approximately $4 billion higher than the January forecast, causing speculation on the impact on K-14 education funding, for both this year and next. Given the Proposition 98 tests that are in play, although the May Revision revenue forecast through 2018-19 is increased by $8 billion, as we expected, the impact to the Proposition 98 minimum guarantee is minor. And, in keeping with the Governor's funding priorities, the ongoing revenues from the increase are largely used to provide a slight uptick in funding for the LCFF.

Additional one-time revenues generated from an increase in the Proposition 98 minimum guarantee for the current year are used to fund some additional one-time programs, but the most significant is an additional $286 million to the January proposal to provide $1.8 billion in one-time discretionary funds for 2018-19. CTE and Special Education are policy areas that have received more focus in this legislative session than usual; however, the Governor does not make any significant ongoing proposal for Special Education and leaves his January CTE proposal mostly intact.

In this article, we focus on how significant K-12 proposals have changed since January.

Overview of the Governor's Budget Proposals

Governor Brown's May Revision paints a bright, but cautious, fiscal picture, noting that the January 2018 State Budget proposal included a healthy reserve and that revenues have continued to grow since. Throughout the current fiscal year, state revenues have outpaced forecasts both before and during the important tax month of April. With this solid revenue base, Governor Brown is proposing a final May Revision that combines both long-term and one-time investments while setting aside funds for a rainy day.

Significant proposals outside of Proposition 98 include:

- Expanding the state's Earned Income Tax Credit program to workers between the ages of 18-25 and above 64, and adjusting income limits to reflect the minimum wage increase to $12 per hour in 2019
- Fully funding the Rainy Day fund to $13.8 billion by the end of 2018-19 and an extra $3.2 billion into the state's traditional Budget reserve fund
- Placing the $2 billion "No Place Like Home" bond on the November ballot, which would expand housing opportunities for Californians with mental illness

Finally, the Governor's May Revision highlights a number of initiatives to combat homelessness, invest in infrastructure, and fight climate change.

The Economy and Revenues

Economic Outlook

Themes from the January Budget that include both good news and recession warnings continue with the Governor's May Revision. While acknowledging the increased revenues and the economy's overall strong fiscal health, in his press conference, Governor Brown once again brought out the now familiar charts—one showing that all periods of surplus are followed by years of deficits and the other illustrating that, by the end of 2018-19, the U.S. will have matched the longest recovery in modern history—to emphasize that another recession is just around the corner. While the May Revision assumes the continued expansion of the economy, it is founded on prudent fiscal policies—building the state's reserves and avoiding substantial new ongoing obligations.

The full implications of the new federal tax law are still unknown and actions by the federal government could have an outsized effect on California's economy. While the federal tax changes are providing a temporary boost to the national and California economies, there are long-term consequences that could affect future economic growth. In addition, even a moderate recession could severely impact the state's revenues for several years to come as capital gains—the state's most volatile revenue source—make up the largest share of personal income tax receipts.

The national unemployment rate as of March 2018 held steady at 4.1% while California's unemployment rate held at 4.3%—tying the record low set in February 2018. However, stock market volatility appears to be back in play after record breaking increases.

State Revenues

While revenue projections are once again up as part of the May Revision compared to the Governor's January Budget, unlike in previous years, this is not translating into a windfall for education. Personal income tax revenues have been revised up almost $4.4 billion due to the strong stock market, higher wages, and stronger concentration of income among high-income earners. Sales tax receipts and corporation tax revenues have also been revised up by $744 million and $2.5 billion, respectively. Total General Fund revenues are up $1.3 billion in 2016-17, $3.5 billion in 2017-18, and $3.1 billion in 2018-19 compared to the January estimates. The average year-over-year growth from 2016-17 through 2021-22 is projected to be 4.1%, with total General Fund revenues increasing from $128.6 billion in the current year to $145.9 billion in 2021-22.

As noted, the May Revision does not anticipate a recession, but acknowledges and plans for economic risks. The U.S. real gross domestic product growth is projected at 3% in 2018 and 2019, but falling to 1.9% starting in 2020.

Proposition 98

As expected, the Proposition 98 minimum guarantee remains relatively flat from the Governor's Budget despite the significant infusion of state General Fund revenues. The May Revision increases the minimum guarantee by a total of $727 million for fiscal years 2016-17 through 2018-19 ($252 million in 2016-17, $407 million in 2017-18, and $68 million in 2018-19), attributing the growth largely to increases to General Fund revenues and projected per capita personal income for 2018-19. The 2018-19 minimum guarantee is increased to $78.4 billion from $78.3 billion proposed in the January Budget. The May Revision changes the operative test for 2018-19 from Test 3—funding based on per capita General Fund revenue growth, plus 0.5%—to Test 2—funding based on changes in per capita personal income, which precludes the creation of a maintenance factor.

Of note, the Governor proposes a new Proposition 98 minimum guarantee certification process. The minimum guarantee is currently required to be jointly certified by the State Superintendent of Public Instruction, the Community College Chancellor, and the Department of Finance (DOF) nine months after the close of the fiscal year. However, according to the Administration, the last time the minimum guarantee was certified was for fiscal year 2008-09. Instead, the May Revision proposes an alternative process whereby the DOF will publish a final calculation of the prior-year minimum guarantee, inclusive of its factors, with the May Revision, triggering a public comment period. If there are no challenges, the certification becomes final by October 1. Any funding provided above the minimum guarantee may be used as credit toward future minimum guarantee obligations and any amount owed would be paid over a specified period.

Cost-of-Living Adjustment and Average Daily Attendance

The May Revision includes a cost-of-living adjustment (COLA) for many K-12 education programs, including the LCFF. The statutory COLA for K-12 education is based on the annual average percentage change in value of the federally maintained Implicit Price Deflator for state and local governments and is calculated to be 2.71% for the 2018-19 fiscal year, a slight increase from the 2.51% estimated in January. For the LCFF, the Governor proposes a modest augmentation above the statutory COLA, bringing the total to a 3.00% increase to the LCFF base grant target rates. Those programs outside of the LCFF will receive the statutory 2.71% COLA.

With full funding of the LCFF targets proposed to be reached with the 2018-19 Budget, the COLA will have a more direct impact on the LCFF funding received by most local educational agencies (LEAs) compared to during the implementation phase when COLAs were applied to the LCFF target.

Programs outside the LCFF, including Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers, and American Indian Early Childhood Education, will receive the statutory COLA of 2.71%.

Average daily attendance (ADA) for the upcoming fiscal year is expected to remain flat. However, as a result of an increased ADA in 2016-17, LCFF funding for school districts, county offices of education (COEs), and charter schools under the LCFF will increase by $46.8 million in 2017-18 and by $42.6 million in 2018-19.

Local Control Funding Formula

The Governor's 2018-19 May Revision continues the Governor's intent of fully funding the LCFF in the budget year with an increase of approximately $3.2 billion, up almost $300 million from the January State Budget proposal. The additional funding includes the increased COLA as well as provides a modest augmentation to the formula.

LCFF Target Entitlements for School Districts and Charter Schools

The LCFF provides funding to transition all school districts and charter schools toward target funding levels and provides supplemental and concentration grants to increase or improve services for students who are not English language proficient, who are from low-income families, or who are in foster care.

The target base grants by grade span for 2018-19 increase by the combined statutory COLA of 2.71% and additional LCFF funding for a total increase of 3.00%, an upward adjustment from January's 2.51% COLA estimate.

Grade Span	2017-18 Target Base Grant Per ADA	3.00% Increase*	2018-19 Target Base Grant Per ADA
TK-3	$7,193	$216	$7,409
4-6	$7,301	$219	$7,520
7-8	$7,518	$226	$7,744
9-12	$8,712	$261	$8,973
*Combined statutory COLA of 2.71% and additional LCFF funding			

The 2018-19 Transitional Kindergarten (TK)-3 grade span adjustment (GSA) for class-size reduction (CSR) is also 3.00% higher from 2017-18 at $771 per ADA, as well as the grade 9-12

GSA at $233 per ADA, in recognition of the need for CTE courses provided to students in the secondary grades.

In addition to the base grants, school districts and charter schools are entitled to supplemental increases equal to 20% of the adjusted base grant (which includes CSR and CTE funding) for the percentage of enrolled students who are English learners, eligible for the free and reduced-price meals program, or in foster care (the unduplicated pupil percentage). An additional 50% per-pupil increase is provided as a concentration grant for the percentage of eligible students enrolled beyond 55% of total enrollment.

LCFF Transition Entitlements and Gap Funding

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 to implementation of the LCFF. For 2018-19, the Governor's Budget proposes to move from 97% implemented to fully close the LCFF funding gap—two years ahead of the intended 2020-21 implementation date.

The table below shows the DOF's LCFF gap percentages through 2018-19:

District and Charter School LCFF Funding and Gap Closure (Dollars in Millions)					
	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**
LCFF Funding	$4,722	$5,994	$2,942	$1,362	$3,160
Gap Closure %	30.16%	52.56%	56.08%	45.17%	100.00%
COLA	0.85%	1.02%	0.00%	1.56%	3.00%*
*Statutory COLA plus proposed augmentation					

Pupil transportation and Targeted Instructional Improvement Grants continue as separate add-ons to the LCFF allocations and do not receive a COLA.

The Administration also proposes to continuously appropriate funding for LCFF and the annual COLA.

Fiscal Transparency

The Governor's Budget cited expressed concerns about the direct services being provided to the students that generate LCFF dollars. The Governor's May Revision expands the January Budget proposal by requiring LEAs to show how supplemental grants increase and improve services for high-need students and including parent-friendly, graphical representations of information, when possible.

County Offices of Education

COEs receive funding under a similar funding formula, with funding provided in recognition of direct instructional services for pupils in juvenile court schools and community schools and an allocation for countywide services based on the number of school districts and total ADA within the county. As of 2014-15, the LCFF for COEs is fully implemented and, therefore, LCFF increases for COEs in 2018-19 are provided through the estimated COLA only, with COEs that are at their LCFF target receiving a 2.71% increase. COEs that are more than 2.71% above their LCFF target will receive no additional funding through the formula in the budget year.

Special Education

The Governor's May Revision continues to provide only modest funding for Special Education programs. In addition to increasing the statutory COLA to 2.71%, the Governor continues to propose $100 million in one-time funding for programs to increase and retain Special Education teachers.

The May Revision sustains $10 million in ongoing funding for Special Education Local Plan Areas (SELPAs) to work with COEs in providing technical assistance to LEAs focused on improving the academic outcomes of students with disabilities as part of the statewide system of support, and continues to propose $167 million to establish an "Inclusive Education Expansion Program" for children ages 0 to 5, to improve school readiness and long-term academic outcomes for low-income children and children with exceptional needs.

The May Revision continues to include proposals that revise Special Education budget transparency and accountability by requiring SELPAs to complete a SELPA local plan template that aligns the services and resources noted in the local plan with the goals identified in their member districts' Local Control and Accountability Plans (LCAPs) and to summarize how a SELPA's planned expenditures and services align with the improved student outcome strategies noted in the SELPA's plan.

In January, the Governor proposed $100 million in one-time funding for Teacher Workforce Development targeted to Special Education teacher preparation, $50 million to support locally sponsored Special Education teacher preparation programs, and $50 million in competitive grants to develop or expand locally identified solutions to the Special Education teacher shortage. There are no changes to the Special Education teacher workforce development proposals in the May Revision.

Child Care and State Preschool

The May Revision proposes modest, largely technical, adjustments to Governor Jerry Brown's January Budget proposals for Child Care and the State Preschool program. It retains the Governor's proposals to increase provider reimbursement rates and full-day state preschool slots for LEAs, fulfilling a three-year agreement he made with the Legislature. New with the release of the May Revision is a one-time $11.8 million proposal to increase federal funds to support an Early Math Initiative to provide early math resources, such as professional development and coaching opportunities for teachers, as well as provide early math learning opportunities for preschool and kindergarten children.

The May Revision increases California Work Opportunity and Responsibility to Kids investments by $104 million to reflect changes in the caseload and the cost of care. Finally, as a result of the slight increase in COLA estimated in January, child care and preschool investments increase by $4 million.

Discretionary Funds

The Governor's May Revision proposes more than $2 billion in one-time discretionary funds for LEAs, which equates to approximately $344 per ADA. This is an increase of $286 million to the $1.8 billion proposed in January. Like prior years, these funds would be available for expenditure at the discretion of LEAs and would be used to offset LEAs' outstanding mandate reimbursement claims on a dollar-for-dollar basis. The 2018-19 State Budget Summary notes that this infusion, coupled with past years' payments, reduces the outstanding amount owed to LEAs for mandates to $972 million.

School Facilities and Proposition 39

Despite calls to sell more school bonds to address the backlog of school construction projects that are waiting for state matching grants, the May Revision makes no significant changes to the Governor's Budget proposal to issue $640 million in Proposition 51 bonds in fiscal year 2018-19.

The 2017-18 Budget Act included provisions to expend unencumbered Proposition 39 (2012) funds to support school bus retrofit or replacements, low- or no-cost energy loans, and a competitive grant program to fund energy efficiency or generation projects. The California Energy Commission has initiated public input on these programs.

Federal Programs

At the May Revision, the Governor reiterates that California's relationship with the federal government has never been more uncertain, noting actions of the federal government "could easily overwhelm the state's fiscal capacity." The Governor notes that the increasing federal deficit "caused by the tax bill will also create more pressure for the federal government to cut spending programs through rescissions or some other mechanism."

In March 2018, President Donald Trump signed the fiscal year 2018 spending bill that increased funding for Every Student Succeeds Act (Title I) and Special Education by nearly $300 million nationally for each program.

Career Technical Education

The Governor's May Revision continues to include $200 million in ongoing funding to establish a K-12 specific component of the community college-administered Strong Workforce Program. The May Revision amends the Governor's January proposal to clarify elements of the program, including:

- Clarifies that the grant decisions for the K-12 component will be made exclusively by the K-12 Selection Committee established under the proposal
- Clarifies the requirements that apply to the new K-12 component of the Strong Workforce Program (language is not yet available)
- Builds a new role for the Technical Assistance Providers established under the California Career Pathways Trust Program, and further clarifies roles and responsibilities of the Workforce Pathway Coordinators
- Provides additional resources to consortia for administering the regional grant process, including resources to support the K-12 Selection Committee duties

System of Support

The May Revision retains the Governor’s January Budget investments to build a state infrastructure to support local continuous improvement efforts. Specifically, the Governor’s Budget included a $55.2 million investment for COEs to work with LEAs under their jurisdiction that are identified for differentiated support per the new California School Dashboard. The Governor also proposed $4 million to provide eight competitive grants to COEs to serve as lead agencies to provide resources, training, and support to other COEs in their roles as differentiated support providers. The May Revision retains these proposed investments.

New with the May Revision are proposals to improve community engagement and school climate as LEAs continue to enhance local practices around the LCAP development and adoption. To this end, the Governor proposes a $13.3 million one-time investment, under the system of support, to create the Community Engagement Initiative intended to build the capacity of LEAs to effectively engage their communities with an eye toward improving student outcomes. Additionally, the Administration proposes a one-time $15 million investment to expand the Multi-Tiered Systems of Support to improve school climate through programs such as positive behavioral interventions and support, restorative justice, social and emotional learning, bullying prevention, trauma-informed practice, and cultural competency. These additional investments are part of and compliment the Governor’s January system of support proposals.

Finally, the May Revision includes a $5 million increase for the California Collaborative for Educational Excellence to cover estimated costs of services in 2018-19.

Charter Schools

For charter schools, in addition to the increased COLA (2.71%) applied to the LCFF and additional one-time funding, the Charter School Facility Grant Program is increased in 2017-18 by $21.1 million and then reduced in 2018-19 by $3.6 million to align available funding with program participation.

In Closing

While the Governor notes that we are in the second longest economic recovery on record and we are overdue for a recession, his forecasts do not include any potential effects of the next recession. California is now the fifth largest economy in the world based on gross domestic product. And even though California imposes a relatively high tax burden on its taxpayers, its resources committed to educating our youth still lag behind most states in our country, even states without the high revenue profile that California enjoys. And, even with full funding of the initial targets for the LCFF, the original goal was merely to restore the purchasing power that K-12 education had in 2007-08. This has become a fallacy as much of the restored funding has been absorbed by the increases in pension contributions.

Further, California's reliance on the volatile income tax, made even more so by the continued reliance on capital gains from the top 1% of earners, means that funding for public education is highly sensitive to economic and personal income fluctuations as compared with that of other states. The Governor referred to this volatility in his May Revision remarks: "How do you ride the tiger?" Until something changes, it seems that California is destined to have higher volatility and lower levels of funding than other states for public education.

All in all, the May Revision is slightly better for public education than the January Budget, but given the automatic cost increases LEAs are facing, it's a significant challenge to merely maintain current programs, let alone augment them. In fact, many LEAs are making budget reductions. We continue to believe that the best plan of action is to maintain a suitable level of local reserves, exercise caution at the bargaining table, and prepare budgets and projections on a reasonably conservative basis. This is especially true as there will be a new person in the Governor's office and in other key state policy positions come next year.

—SSC Staff

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FY 2019-20

Board item

30 –question – do we need to make cuts sense

June 13 what is the amount of the cuts

June 30

What areas will the board consider