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Budget Perspectives Workshop 2019-20 May Revision

May Revision

- Governor updates January budget proposal based upon revised revenue and economic data
- Often refines programs proposed in January, and may add new programs
- Legislature takes it from here, has until June 15 to send budget bill to Governor (could be earlier this year)
- Trailer bills may go later

Initial Thoughts

- April tax receipts drive 2018-19 revenue gains and higher estimates for 2019-20
- Governor Gavin Newsom benefits from budget surplus of about \$21 billion
- Newsom continues to balance progressive ambitions / campaign promises with likelihood of an economic downturn – 89% of new spending is one-time
- Major focus on budget resiliency, but also on working families (The Parents Agenda) through investments and high goals in early learning/child care, paid family leave, education, health care, housing, and social services
- Non-Prop 98 for school employers' CalSTRS contributions is a big win
- Special education funding gets a needed boost, but LCFF only gets a COLA
- First required deposit into Prop 98 rainy day fund

Political and Fiscal Backdrop

- Newsom channeling Jerry Brown's fiscal prudence, but needs to accommodate voters in a very blue state and Democratic super-majorities in both houses
- California officials/voters mobilized by (and largely opposed to) Trump, particularly with regard to immigration
- California strongly represented in House leadership
- In addition to political uncertainty, concern with federal economic and foreign policies and potential impact of a trade war
- A focus on how candidates, politics, policy and fiscal conditions might shape 2020 presidential race
- Potential California 2020 ballot issues and politics, including split roll, school bonds and charter schools

Economic Outlook

National - Continued slow and inequitable growth

- Real GDP growth: 2.9% in 2018, slowing to below 2% in 2019 and lower in 2020
- Unemployment: 3.9% in 2018, falling slightly in 2019 and 2020; higher in 2021
- Inflation: 2.4% in 2018, continuing in the 2%-3% range in the near future
- Inequity: Total wages up by only 4.5% in 2018; corporate profits up by 16.2%

California – Slowing and uneven growth

- Unemployment: 4.1% in July 2018, rising to 4.3% in 2019 and beyond
- Employment growing at 1.6% in 2018, slowing in 2019 and beyond
- Inflation: 3.7% in 2018, continuing into the near future; housing costs up by over 5%
- Total wages up by only 5.3% in 2018
- Many workers saw a decrease in real income in 2018; below 2% growth in total real personal income through 2021

Economic Risks

- When will the recession come?
- Tax reform and federal spending - Federal deficits may lead to even slower growth and impact education spending
- Trade issues (China) and immigration reform – impacts on California are even greater than on the nation
- Dissonance between California interests and federal policy
- Wildfires and other natural disasters
- Housing - prices and mortgage rates falling, but no impact on purchases and housing starts slow
- Structural issues – revenue volatility, aging population, consumer debt

General Fund Spending and Reserves

- \$147 billion GF expenditures
- \$3 billion GF fund balance
 - \$1.6 billion special fund for economic uncertainties (SFEU)
 - \$1.4 billion reserve for liquidation of encumbrances
- \$4.3 billion Prop 2 “Rainy Day” mandatory transfer, half to Budget Stabilization Account (BSA) and half to pay down state debts and liabilities
- Nearly \$19.5 billion total GF reserve
 - \$16.5 billion in BSA
 - \$1.6 billion SFEU
 - \$900 million “Safety Net”
 - \$390 million Prop 98 reserve

Newsom Preparing for Downturn

\$9.3 billion (in addition to \$5.7 billion for reserves) to build budget resiliency and pay down liabilities:

- \$4.8 billion to pay down the state's unfunded retirement liabilities
 - \$3 billion for CalPERS
 - \$1.8 billion for CalSTRS (Prop 2)
- \$4.5 billion to eliminate debts and reverse deferrals
 - \$2.4 billion to pay off special fund loans, etc.
 - \$1 billion to eliminate annual payroll deferral
 - \$700 million to eliminate deferral of 4th quarter CalPERS payment

2019-20 Deposit to the PSSSA

2019-20 budget is the first to require a transfer to the PSSSA

- \$389 million (difference between Test 1 and prior year funding adjusted for growth and inflation)
- Counts toward 2019-20 guarantee, but is not available to be allocated to schools
- PSSSA funds must be allocated to schools in any year in which Prop 98 funding is less than the prior year amount adjusted for growth and inflation
- May also be allocated if Governor declares a budget

Education Proposal – Overview

- \$81.1 billion for Prop 98 (\$71.1 billion for K-12, not including PSSSA transfer and a few specified programs)
- \$3.15 billion (one-time, non-Prop 98) for school employer CalSTRS liabilities
- \$1.9 billion for LCFF to provide 3.26% COLA (total LCFF \$62.9 billion)
- \$696 million for special education
- \$600 million (one-time, non-Prop 98) for new or retrofitted full-day kindergarten facilities
- \$389 million transfer to PSSSA
- \$180 million to provide 3.26% COLA to some categorical programs outside of the LCFF
- \$148.5 million to address teacher/administrator shortage and training
- \$36 million (one-time, Prop 98) for Classified School Employees Summer Assistance Program
- \$20.2 million for county offices to provide technical assistance to school districts
- \$15 million for broadband infrastructure & \$8.5 million (e-rate subsidies, non-Prop 98) to K-12 High-Speed Network
- \$10 million (one-time, non-Prop 98) to plan for and develop P-20 longitudinal education data system
- Significant investments in early childhood

CalSTRS

Fiscal Year	Current (statutory per AB 1469)	Jan. Budget	May Revision
2018-19	16.28	16.28	16.28
2019-20	18.13	17.13 (-1.0)	16.7 (-1.43)
2020-21	19.1	18.1 (-1.0)	18.1 (-1.0)
2021-22	18.3*	17.8* (-0.5)	17.8* (-0.5)
2022-23	18.3*	17.8* (-0.5)	17.8* (-0.5)
2023-24	18.3*	17.8* (-0.5)	17.8* (-0.5)
2024-25	18.3*	17.8* (-0.5)	17.8* (-0.5)
2025-26	18.3*	17.8* (-0.5)	17.8* (-0.5)

*Projected

CalPERS

Fiscal Year	Rates
2018-19	18.062
2019-20	20.733
2020-21	23.6*
2021-22	24.9*
2022-23	25.7*
2023-24	26.4*
2024-25	26.6*
2025-26	26.5*

* Projected as of April 16, 2019

District LCFF Entitlement Targets

- Base Grant per ADA (with 3.26% COLA)
 - K-3 = \$7,702 (+\$243/-**\$15**) 7-8 = \$8,050 (+\$254/-**\$16**)
 - 4-6 = \$7,817 (+\$246/-**\$16**) 9-12 = \$9,329 (+\$295/-**\$18**)
- Grade Span Adjustments: 10.4% = \$801 (+\$25/-**\$2**) per K-3 ADA;
2.6% = \$243 (+\$8/\$0) per 9-12 ADA
- Supplemental Grant = 20% of Adjusted Base Grant
- Concentration Grant = 50% of Adjusted Base Grant
- TIIG and HST Add-ons remain constant

CSBA/ACSA Full & Fair Funding Campaign

- California has largest economy in the nation, 5th largest in the world
- Among states, California ranks 41st in per-pupil funding when adjusted for cost
 - 45th in % of taxable income spent on education
 - 45th in students per teacher
 - 48th in students per staff
- In the 1970s California public schools were funded in the top ten of all states, now we are in the bottom ten

CSBA/ACSA Full & Fair Funding Campaign

- CSBA/ACSA polling shows an opportunity to take action to close the education funding gap (March, 2019 poll indicates 77% of voters believe schools need more funding)
- STEM, College and Career Readiness and Community Colleges are powerful themes voters support as part of a measure to increase funding for schools
- Work continues on a ballot measure to increase K-14 funding
- Continue advocacy with the public, employees, community and political leaders
- Sign the petition: www.fullandfairfunding.org

Special Education

- \$696.2 million for Special Education School Readiness Program
 - \$119 million increase over January budget, total is now ongoing
 - Proposes concentration grants for school readiness and early intervention
 - Targeted at LEAs with high percentages of both students with exceptional needs and unduplicated students
 - Eligible LEAs would receive funding for each student with exceptional needs served above the statewide average, approx. \$10,000 per student
 - Grants may be used to fund special education and school readiness services not currently included in an IEP
- \$123.5 million for 3.26% COLA
- \$500,000 to increase LEAs' ability to access federal funds for medically related special education services and to improve transition of 3-year-olds from regional centers to LEAs

Career Technical Education

- No change proposed in the May Revision
- \$150 million in ongoing funding for the CTE Incentive Grant (CTEIG) program, to be administered by the CDE
- \$150 million ongoing funding to expand Community College Strong Workforce program (SWP) to include K-12
- \$14 million to support regional SWP consortia and technical assistance for both programs
- Assembly proposal moves all funding under CTEIG

Charter Schools

- Governor proposes to build on charter school transparency legislation (SB 126) signed earlier this year:
 - Prohibit charter schools from refusing or discouraging enrollment of students based upon academic performance or student characteristic
 - Prohibit charter schools from requesting academic records for enrollment
 - Create a process for families to report complaints to the charter school authorizer
 - Require the CDE to research charter school enrollment disparities that may require intervention
- Charter school reform bill package in Legislature on charter governance, location, and accountability, as well as to impose a statewide cap or moratorium

California State Preschool Program (CSPP)

- \$27 million Prop 98 to annualize the 2,959 full-day CSPP slots for LEAs included in last year's budget (commence April 1, 2019)
- January proposal included \$125 million (non-Prop 98) for 10,000 additional full-day CSPP slots for non-LEA providers, starting July 2019
 - May Revision reduces this funding to \$31 million by pushing release date from July 2019 to April 2020 (and postpones plan for additional 20,000 slots)
- \$309 million shift (up from \$297 million in January) from Prop 98 to non-Prop 98 for part-day CSPP run by non-LEA providers
- Eliminates family proof of employment or enrollment in higher education as eligibility requirement children to attend full-day CSPP

School Facilities

- Full-Day Kindergarten Facilities Grant Program
 - \$600 million (one-time, GF – down \$150 million from January) allocated over three years for construction or retrofit of facilities to accommodate full-day kindergarten programs
 - First two years limited to schools converting from part- to full-day
 - District's share reduced: state-to-local match changed from 50/50 to 75/25
- Maintains January plan for Proposition 51 (2016) bond sales
 - \$1.5 billion for 2019-20
 - \$1.2 million to fund positions at the Office of Public School Construction to expedite application processing

Key Education Budget Negotiation Issues

- Special Education
- Career Technical Education
- CalSTRS/CalPERS relief for school employers
- LCFF grants
- School mental health
- Charter school reforms
- After school programs

Federal FY 2019 Education Budget

- Signed September 2018, funds education programs through September 2019
 - Did not include Administration's plan to cut discretionary education spending by \$3.6 billion or \$1 billion in school choice Opportunity Grants
 - Also did not include Democrats' proposed prohibition on use of ESSA funds to arm educators
- \$71.4 billion for U.S. Department of Ed (\$581 million increase over FY 2018)
 - \$15.9 billion for Title I Grants (\$100 million increase)
 - \$12.5 billion for IDEA/SPED state grants (\$100 million increase)
 - \$1.27 billion for CTE state grants (\$70 million increase)
 - \$1.21 billion for after school programs (\$10 million increase)
 - \$2.1 billion for professional development and class-size reduction efforts
 - \$440 million for charter school grants (\$40 million increase)
- Two identical bills, H.R. 1878 and S. 866, propose to fully fund the federal government's original 40% commitment under IDEA by 2029