

SUBCOMMITTEE NO. 1

Agenda

Senator Marty Block, Chair
Senator Benjamin Allen
Senator John M. W. Moorlach



Tuesday, May 17, 2016
1:30 p.m.
State Capitol - Room 3191

Consultants: Anita Lee and Elisa Wynne

AGENDA PART A

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6100 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES**Issue 1: Proposition 98 Overview**

Panel: Department of Finance
Legislative Analyst's Office
Department of Education
Community College Chancellor's Office

GOVERNOR MAY REVISION PROPOSALS**Proposition 98 Overall Funding—K-12 and Community Colleges**

California's Proposition 98 guarantees minimum funding levels for K-12 schools and community colleges. The estimated Proposition 98 funding obligations included in the May Revision for the three-year period of 2014-15 to 2016-17, increased by a total of \$626 million from the Governor's budget. More specifically, the revised Proposition 98 minimum guarantee levels for the 2014-15 through 2016-17 fiscal years are \$67.2 billion, \$69.1 billion, and \$71.9 billion, respectively. Compared to January, this reflects the following yearly changes, due to increases in prior year revenues and slower growth in the current and budget year:

- o An increase of \$463 million to the 2014-15 guarantee.
- o A decrease of approximately \$125 million to the 2015-16 guarantee.
- o An increase of approximately \$288 million to the 2016-17 guarantee.

The Proposition 98 minimum guarantee is determined by comparing the results of three "tests" or formulas that are based on specific economic and fiscal data. The factors considered in these tests include growth in personal income of state residents, growth in General Fund revenues, changes in student enrollment, and a calculated share of the General Fund. Very generally, Test 1 is based on a percentage of General Fund; Test 2 on growth in personal income; and Test 3 on General Fund Growth. The May Revision assumes that in 2016-17 Proposition 98 is calculated using Test 3, including the payment of the required Test 3B supplement. The May Revision continues to estimate that 2015-16 is a Test 2 year and in 2014-15 a Test 1 is applicable and virtually all new state revenue goes to K-14 education under Proposition 98.

In addition, these proposed funding levels reflect Proposition 98 Maintenance Factor balances of \$155 million in 2015-16 and \$908 million in 2016-17.

Proposition 98 funding by segment and by General Fund and local property taxes is shown in the table below:

Changes in Proposition 98 Funding <i>(In Millions)</i>			
	January	May	Change
2014-15 Minimum Guarantee	\$66,690	\$67,153	\$463
By Segment:			
Schools	59,330	59,742	412
Community colleges	7,281	7,331	51
Other*	80	80	0
By Fund Source:			
General Fund	49,554	50,029	475
Local property taxes	17,136	17,124	-12
2015-16 Minimum Guarantee	\$61,096	\$69,050	-\$125
By Segment:			
Schools	61,096	60,984	-112
Community colleges	7,997	7,983	-14
Other*	82	82	0
By Fund Source:			
General Fund	49,992	49,773	-218
Local property taxes	19,183	19,276	93
2016-17 Minimum Guarantee	\$71,585	\$71,874	\$288
By Segment:			
Schools	63,244	63,496	252
Community colleges	8,259	8,295	36
Other*	83	83	0
By Fund Source:			
General Fund	50,972	51,105	133
Local property taxes	20,613	20,769	156

*Includes funding for instructional services at the State Special Schools, Department of Corrections and Rehabilitation, and Department of Development Services.

Source: Legislative Analyst's Office

Major Program Changes — K-12 Education

- **Local Control Funding Formula (LCFF).** The May Revision includes approximately \$2.9 billion for implementation of the LCFF formula, which brings the formula to 95.7 percent of full implementation in the 2016-17 fiscal year. This is an increase of \$154 million over the January proposal of \$2.8 billion in ongoing investments in LCFF.
- **Mandates.** The May Revision includes a total of \$1.4 billion in one-time Proposition 98 General Fund to pay down the backlog of the state's obligations attributable to K-12 education mandates. This is an increase of \$134.8 million from the January proposal to pay down approximately \$1.3 billion. Similar to last year's mandates payment, the Administration notes that this is discretionary one-time funding that K-12 schools could use to make investments in academic content standards implementation, technology, professional development, beginning teacher induction programs, and deferred maintenance, among other uses.
- **Early Education Block Grant Proposal.** Building on the Governor's January proposal to create a consolidated \$1.6 billion Early Education Block Grant, which would target pre-kindergarten funding and services for low-income and at-risk preschoolers, the May Revision incorporates feedback from four public comment sessions to include: (1) \$20 million Proposition 98 General Fund (\$10 million ongoing and \$10 million one-time) for county offices of education to work in the budget year for a transition to the new early education program; (2) postpones its start date to 2017-18; (3) development of a regional early learning plan that would align pre-K and K-12 programs; and (4) the use of an existing locally-based quality rating system to define pre-K program quality.
- **Emergency Repair Revolving Loan Program.** The May Revision includes \$100 million in one-time Proposition 98 funds to create a new loan program that will allow schools with immediate health and safety needs to receive loan funds through an expedited process to address immediate facility needs.
- **Proposition 39 Energy Efficiency Programs for K-12 Education.** The May Revision increases the amount of energy efficiency funds available to K-12 schools in 2016-17 by \$33.3 million, to \$398.8 million, to reflect increased revenue estimates.
- **California Center on Teaching Careers.** The May Revision includes \$2.5 million in one-time Proposition 98 funds for a competitive multi-year grant, administered by the Commission on Teacher Credentialing, to be awarded to a local educational agency to administer the California Center on Teaching Careers. This center would support statewide recruitment of individuals into the teaching profession.
- **Other Technical Adjustments.** The May Revision also includes the following adjustments:
 - **Local Property Taxes.** A decrease of \$196.5 million in 2015-16 and a decrease of \$211.3 million in 2016-17 in Proposition 98 General Fund for school districts, special education local plan areas, and county offices of education as a result of higher offsetting property tax revenues. An additional increase of up to \$28.5 million in 2015-16 for special education

local plan areas for an unexpected decrease in property taxes related to the end of the triple flip.

- o **Average Daily Attendance.** An increase of \$11.2 million in 2015-16 and a decrease of \$2 million in 2016-17 for school districts, charter schools, and county offices of education as a result of changes in projected attendance.
- o **Categorical Program Growth.** A decrease of \$5.7 million Proposition 98 General Fund for selected categorical programs based on updated estimates of projected attendance growth.
- o **Cost-of-Living Adjustments.** A decrease of \$22.9 million Proposition 98 General Fund to selected categorical programs, including state preschool, based on a revised cost-of-living factor of zero percent for 2016-17, reduced from the 0.47 percent estimated in January.

Major Program Changes — California Community Colleges

- **Increased Operating Expenses.** Proposes an increase of \$75 million Proposition 98 General Fund to support community college operating expenses.
- **Local Property Tax Adjustment.** Proposes an increase of \$51.2 million Proposition 98 General Fund in 2016-17 as a result of decreased offsetting local property tax revenues. Proposes an increase of up to \$38.6 million Proposition 98 General Fund in 2015-16, provided on a contingency basis, for an anticipated shortfall in property taxes related to the end of the triple flip for community college apportionment. Any funds not needed to support the shortfall would become available for additional mandate payments.
- **Mandate Debt Payment.** Proposes an increase of \$29.2 million one-time Proposition 98 General Fund to pay for outstanding mandate debt on a per full-time equivalent student basis, and provides districts with discretionary one-time funding for investments in local priorities.
- **Online Education Initiative.** Proposes \$20 million one-time Proposition 98 General Fund to expand and expedite the adaptation and development of online courses through the online course exchange.
- **Telecommunications and Technology Infrastructure Program.** Proposes an increase \$5 million ongoing Proposition 98 General Fund and \$7 million one-time Proposition 98 General Fund to support the Telecommunications and Technology Infrastructure Program, which will expand broadband capacity across campuses.
- **Adult Education Technical Assistance.** Includes a \$5 million one-time Proposition 98 General Fund increase to provide consortia with technical assistance, coordination, and capacity building assistance through the 2018-19 fiscal year.
- **Full-Time Student Success Funding.** Includes an increase of \$2.2 million Proposition 98 General Fund to reflect the inclusion of Cal Grant C recipients, and an increased estimate of eligible Cal Grant B students in 2016-17.

- **Academic Senate Funding.** Includes an increase of \$300,000 Proposition 98 General Fund to support the Academic Senate of the Community Colleges.
- **Deferred Maintenance and Instructional Equipment.** A decrease of \$65.8 million in Proposition 98 General Fund to reflect alternative spending priorities. This leaves \$219.4 million in one-time Proposition 98 General Fund for deferred maintenance.
- **Cost-of-Living Adjustments.** Proposes a cost-of-living adjustment from 0.47 percent to 0.00 percent, and corresponding adjustments in various activities. Specifically, a decrease of \$1.3 million Proposition 98 General Fund for the Disabilities Student Programs and Services program, the Extended Opportunities Programs and Services program, the Special Services for CalWORKs Recipients program, and the Child Care Tax Bailout program; a decrease of \$136,000 Proposition 98 General Fund for the hourly non-credit funding rate for the Community College and K-12 apprenticeship programs; and a decrease of \$29.3 million for apportionments.
- **Proposition 39.** Proposes an increase of \$4.1 million for a total of \$49.3 million to reflect increased revenue estimates.