

May 2017

Overview of Proposition 98 and K-12 Conference Issues

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:
Budget Conference Committee
Hon. Holly Mitchell, Chair



All Plans Increase Proposition 98 Funding

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Governor's Plan

- The Governor's plan provides total Proposition 98 funding of \$69.1 billion in 2015-16, \$71.4 billion in 2016-17, and \$74.6 billion in 2017-18. Under the plan, funding grows \$3.2 billion (4.5 percent) from 2016-17 to 2017-18.



Assembly's Plan

- The Assembly's plan provides the same total funding each year as the Governor's plan.



Senate's Plan

- The Senate's plan provides total Proposition 98 funding of \$69.1 billion in 2015-16 (the same as the other plans), \$71.5 billion in 2016-17 (\$87 million more than the other plans), and \$74.1 billion in 2017-18 (\$524 million less than the other plans).
- The Senate's plan is based on LAO revenue estimates.
- Higher LAO General Fund revenue in 2016-17 results in a higher 2016-17 minimum guarantee, whereas slower LAO revenue growth between 2016-17 and 2017-18 results in a lower 2017-18 minimum guarantee. The Senate plan funds at the minimum guarantee in both years.
- LAO property tax estimates are \$265 million above the administration over the 2015-16 through 2017-18 period. Higher property tax revenue reduces Proposition 98 General Fund obligation.

Proposition 98 Funding by Source

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(In Millions)

	Governor	Senate	Assembly	Difference (Senate-Assembly)
2015-16				
General Fund	\$49,424	\$49,425	\$49,424	\$1
Local property tax	19,679	19,678	19,679	-1
Totals	\$69,103	\$69,103	\$69,103	—
2016-17				
General Fund	\$50,602	\$50,593	\$50,602	-\$9
Local property tax	20,787	20,883	20,787	96
Totals	\$71,390	\$71,477	\$71,390	\$87
2017-18				
General Fund	\$52,852	\$52,159	\$52,852	-\$692
Local property tax	21,749	21,918	21,749	169
Totals	\$74,601	\$74,077	\$74,601	-\$524
Settle-Up Payment	\$603	\$516	\$603	-\$87

Major Commonalities and Differences Among the Plans

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Plans Have a Few Key Commonalities

- All three plans fund \$433 million above the minimum guarantee in 2015-16.
- All three plans rescind the Governor's January budget proposals to (1) score \$324 million in spending toward 2016-17 instead of 2015-16 and (2) defer an \$859 million payment from June to July 2017.
- All three plans notwithstanding the Test 3 supplemental appropriation from 2016-17 through 2020-21. (The supplemental appropriation provides funding on top of the Proposition 98 minimum guarantee when Test 3 is operative.)
- All three plans include additional ongoing and one-time increases.



Plans Address Future Uncertainty in Different Ways

- The Governor's plan dedicates \$1.2 billion in 2017-18 funds to one-time activities. It delays release of this funding until May 2019 and has contingency language automatically reducing this funding dollar-for-dollar if the 2017-18 minimum guarantee subsequently falls below the administration's projections.
- The Senate's plan dedicates \$947 million to one-time activities. It allocates all funds in 2017-18 and rejects any automatic reduction. The Senate, however, funds at a lower estimate of the 2017-18 guarantee.
- The Assembly's plan dedicates \$1.1 billion to one-time activities. It allocates all funds in 2017-18 and rejects any automatic reduction.

Largest Ongoing Component of All Plans Is LCFF Funding

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Governor's LCFF Funding

- The Governor's plan includes a \$1.4 billion augmentation for the Local Control Funding Formula (LCFF) for school districts and charter schools, bringing total LCFF funding in 2017-18 to \$57.2 billion.
- The augmentation would close 44 percent of the remaining gap to the LCFF target funding level, with the target level 97 percent funded.



Houses' LCFF Funding

- The Senate's plan provides a \$1.2 billion augmentation—\$235 million less than the Governor and \$190 million less than the Assembly.
- The Assembly's plan provides a \$1.3 billion augmentation—\$45 million less than the Governor.

Largest One-Time Component of All Plans Is Discretionary Funding

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Governor's Plan

- The Governor's plan includes \$1 billion in one-time K-12 discretionary grants, allocated on a per-student basis.
- Funds would be released in May 2019 and automatically reduced if the 2017-18 minimum guarantee drops.



Houses' Plans

- The Senate provides \$770 million—\$242 million less than the Governor and \$85 million less than the Assembly.
- The Assembly provides \$855 million—\$157 million less than the Governor.
- Under both houses' plans, funds would be released immediately and would receive no automatic reduction.

Effect of One-Time Funding on K-12 Mandates Backlog

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All Three Plans Only Slightly Reduce K-12 Mandates Backlog

- Under all three plans, discretionary funds would offset outstanding mandate claims for local educational agencies (LEAs) with such claims.
- As less than half of LEAs have outstanding claims, and the funds would be distributed on a per-student basis, the reduction in the mandates backlog would be small.
- Under all three plans, only about 30 percent of the funding provided would go toward reducing the backlog.

Estimate of K-12 Mandates Backlog

(In Millions)

	Governor	Senate	Assembly	Difference (Senate-Assembly)
2016-17 Backlog	\$1,067	\$1,067	\$1,067	—
Proposed Funding	\$1,012	\$770	\$855	-\$85
Payments toward backlog	298	242	263	-20
Remaining funds	715	528	592	-65
2017-18 Backlog	\$769	\$824	\$804	\$20

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(In Millions)

<i>Reflects One-Time Proposition 98 Spending, Unless Otherwise Specified</i>				
	Governor	Senate	Assembly	Difference (Senate-Assembly)
Increase LCFF funding for schools (ongoing)	\$1,387	\$1,152	\$1,342	-\$190
Provide discretionary funding	1,012	770	855	-85
Pay some 2016-17 LCFF costs with settle-up funds	514	427	514	-87
Augment funding for after school programs ^a	—	34	70	-37
Provide training for new curriculum frameworks	—	16	—	16
Support CTE Pathways Program (ongoing) ^b	—	15	15	—
Support CREEC	—	4	—	4
Provide COLA for Mandates Block Grant (ongoing)	—	4	—	4
Provide grants to students in teacher training programs	—	—	25	-25
Fund teacher residency grants	—	—	25	-25
Support classified staff seeking teaching credentials	—	—	25	-25
Provide professional development to bilingual teachers	—	—	25	-25
Provide funding for COEs to help districts refine their LCAPs	—	—	20	-20
Provide funding to districts serving refugee students	—	—	10	-10
Fund history/social science K-12 curriculum pilot program	—	—	5	-5
Fund program to develop and use labor-related curriculum	—	—	3	-3
Create mobile application for School Dashboard website ^c	—	—	—	—

^a Senate provides ongoing Proposition 98 funding. Assembly provides one-time Proposition 98 funding and adopts intent language to provide ongoing support from Proposition 64 (marijuana tax revenue) beginning in 2018-19.

^b Both houses shift \$15 million from California Community Colleges (CCC) to the California Department of Education for these activities. Assembly provides an additional \$15 million for the CCC Strong Workforce program.

^c Assembly provides \$50,000 for this purpose. Senate and Governor provide no funding.

LCFF = Local Control Funding Formula; CTE = Career Technical Education; CREEC = California Regional Environmental Education Community Network; COLA = cost-of-living adjustment; COE = county office of education; and LCAP = Local Control and Accountability Plan.