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# Overview of Proposition 98 Budget Proposals

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LEGISLATIVE ANALYST'S OFFICE

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Senate Budget Subcommittee No. 1 on Education Finance  
Hon. Anthony Portantino, Chair





# Governor's Estimates of the Proposition 98 Minimum Guarantee

*(In Millions)*

	2017-18			2018-19	Change From 2017-18 Revised
	Enacted	Revised	Change	Estimated	
<b>Minimum Guarantee</b>	<b>\$74,523</b>	<b>\$75,211</b>	<b>\$687</b>	<b>\$78,324</b>	<b>\$3,114</b>
Funding sources:					
General Fund	\$52,631	\$52,741	\$109	\$54,564	\$1,823
Local property tax	21,892	22,470	578	23,761	1,291



### **2017-18 Guarantee Up \$687 Million Over June 2017 Budget Act Estimate**

- Increase in the guarantee primarily reflects higher-than-expected General Fund revenue.
- A small portion of the increase is due to attendance estimates being revised upward. In June, attendance was estimated to decline by 0.05 percent. The Governor now estimates a 0.02 percent increase.
- The increase in the guarantee is primarily covered with higher-than-anticipated property tax revenue (\$578 million higher than June estimate).



### **2018-19 Guarantee Up \$3.1 Billion Over Revised 2017-18 Level**

- The growth is attributable to a 4.1 percent increase in per capita General Fund revenue.
- Attendance is estimated to decline by 0.3 percent. The minimum guarantee is not adjusted downward because of a two-year “hold harmless” provision in the State Constitution that is triggered by attendance growth in 2017-18.
- The budget estimates that the state’s maintenance factor obligation at the end of 2018-19 would be \$320 million.



## **Governor's Estimates of the Proposition 98 Minimum Guarantee** *(Continued)*

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### **2018-19 Property Tax Revenue Increases \$1.3 Billion Over Revised 2017-18 Level**

- Covers about 40 percent of the increase in the guarantee.
- Increase is attributable primarily to growth in assessed property values.



## Proposition 98 Funding by Segment

	2016-17 Revised	2017-18 Revised	2018-19 Proposed	Change From 2017-18	
				Amount	Percent
<b>Segment (In Millions)</b>					
K-12 education	\$62,048	\$65,340	\$67,695	\$2,355	3.6%
California Community Colleges	8,283	8,654	9,207	553	6.4
Preschool	975	1,122	1,338	216	19.2
Other agencies	85	95	85	-10	-10.7
<b>Totals</b>	<b>\$71,390</b>	<b>\$75,211</b>	<b>\$78,324</b>	<b>\$3,114</b>	<b>4.1%</b>
<b>Enrollment</b>					
K-12 average daily attendance	5,960,037	5,961,253	5,944,090	-17,163	-0.3%
Community college FTE students	1,134,809	1,135,081	1,136,813	1,733	0.2
<b>Funding Per Student</b>					
K-12 education <sup>a</sup>	\$10,588	\$11,165	\$11,628	\$463	4.1%
California Community Colleges	7,299	7,624	8,099	475	6.2
<sup>a</sup> Per-pupil amount combines funding for K-12 education, preschool, and other agencies. FTE = full-time equivalent.					



### Increases in Funding Per Student

- K-12 funding under the Governor's budget is \$11,628 per student in 2018-19, an increase of \$463 (4.1 percent) from 2017-18.
- Community college funding is \$8,099 per student, an increase of \$475 (6.2 percent).



## Proposition 98 Budget Contains Mix of Ongoing and One-time Proposals

*(In Millions)*

	Ongoing Increases	One-Time Initiatives	Total
K-12 education	\$3,095	\$1,860	\$4,954
Community colleges	759	428	1,186
Preschool	68	125	193
<b>Totals</b>	<b>\$3,922</b>	<b>\$2,413</b>	<b>\$6,333</b>

- New Spending Proposals Total \$6.3 Billion**
  - \$3.9 billion (62 percent) for ongoing increases.
  - \$2.4 billion (38 percent) for one-time initiatives. Of this amount, \$1.3 billion million comes from within the 2018-19 minimum guarantee.
  
- New Spending Derived From Various Sources**
  - Growth in 2017-18 and 2018-19 minimum guarantees (\$3.8 billion).
  - Freed-up one-time funds (\$2.2 billion).
  - Other prior-year funds and adjustments (\$0.3 billion).



## Key Components of the Proposition 98 Budget

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- ☑ **Provides \$2.9 Billion for Full Implementation of Local Control Funding Formula (LCFF)**
  - Includes 2.51 percent cost-of-living adjustment (COLA).
  - Reaches full implementation two years ahead of schedule.
  
- ☑ **Allocates \$1.8 Billion for One-Time Discretionary Grants**
  - State would deduct obligations associated with a one-time Medi-Cal billing settlement from any affected district's grant amount.
  - Remaining funds would be attributed to any outstanding mandate claims.
  
- ☑ **Provides \$212 Million for New High School Career Technical Education (CTE) Program**
  - \$200 million for Strong Workforce regional consortia to make competitive grants to school districts.
  - \$12 million for coordinators to help high schools align their CTE offerings with regional consortia workforce plans.
  
- ☑ **Funds Several Augmentations for Community Colleges**
  - \$396 million for increases in apportionments. Consists of \$175 million to hold districts harmless for the implementation of a new funding formula, \$161 million for a 2.51 percent COLA, and \$60 million for 1 percent enrollment growth.
  - \$275 million (one time) for deferred maintenance and instructional materials.
  - \$120 million to create a new online community college (\$100 million one time and \$20 million ongoing).



# Proposition 98 Spending Proposals

*(In Millions)*

<b>K-12 Education</b>	
<b>Ongoing</b>	
Fund full implementation of LCFF	\$2,883
Provide 2.51 percent COLA for select categorical programs <sup>a</sup>	106
Provide county and regional support for low-performing districts	76
Make other ongoing augmentations	29
<b>One Time</b>	
Provide per-student discretionary grants	\$1,757
Establish special education teacher residency program	50
Provide grants for addressing special education teacher shortage	50
Support Southern California Regional Occupational Center	3
Subtotal	(\$4,954)
<b>California Community Colleges</b>	
<b>Ongoing</b>	
Increase apportionment funding and implement new allocation formula	\$396
Fund high school CTE initiative through Strong Workforce Program	212
Fund AB 19 fee waiver program and consolidated financial aid program	79
Provide ongoing support for new online college	20
Make other ongoing augmentations	51
<b>One Time</b>	
Fund deferred maintenance and instructional materials	\$275
Provide one-time support for new online college	100
Fund other one-time activities	53
Subtotal	(\$1,186)
<b>Preschool</b>	
<b>Ongoing</b>	
Increase Standard Reimbursement Rate by 2.8 percent	\$32
Provide 2.51 percent COLA	28
Add 2,959 full-day slots starting April 1, 2019	8
<b>One Time</b>	
Fund early education expansion	\$125
Subtotal	(\$193)
<b>Grand Total of All Spending Proposals</b>	
	<b>\$6,333</b>
<sup>a</sup> Applies to special education, child nutrition, mandates block grant, services for foster youth, adults in correctional facilities, and American Indian education. LCFF = Local Control Funding Formula; COLA = cost-of-living adjustment; and CTE = career technical education.	



## Comments on the Governor's Spending Proposals

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### **Reasonable Mix of Ongoing and One-Time Proposals**

- Setting aside some funds for one-time purposes helps the state avoid committing to programs it might be unable to sustain during tighter fiscal times. We recommend adopting a final budget plan that continues to rely upon a mix of ongoing and one-time spending.



### **Governor Has Reasonable Priorities, but Some Proposals Unlikely to Address Root Issues**

- Most of the budget proposals relate to long-standing issues of interest to the Legislature.
- Some of the proposals are unlikely to address the systemic underlying problems in these areas. We recommend various alternatives designed to address root issues.



### **New Community College Funding Formula Moving in the Right Direction**

- Allocating more funding based on performance would encourage college districts to focus on accelerating students' time to degree, not just increasing enrollment. We recommend allocating at least 20 percent of funding based on performance.
- The Governor's proposed performance measures generally seem reasonable. We recommend refinements to ensure college districts continue to (1) serve low-income students and (2) provide high-demand programs (such as CTE) even when those programs are relatively expensive.
- The proposed funding for low-income students serves a similar goal as many existing categorical programs. We recommend collapsing these funding streams into one pot of funding for low-income students.





## Comments on Governor's Estimates of the Guarantee

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### **Attendance Assumptions Are Significant**

- The small increase in 2017-18 attendance restarts the two-year hold harmless provision—increasing the guarantee not only in that year but also the next two years.
- If attendance growth does not materialize in 2017-18, expect the 2018-19 guarantee to drop a few hundred million dollars.



### **Property Tax Estimates Are Reasonable**

- The administration's estimated growth in assessed property values seems consistent with the continued strength of the state's real estate market.



### **Guarantee Not Likely to Increase Significantly Even if State Revenue Surges**

- Having a small outstanding maintenance factor obligation means the guarantee is less sensitive to increases in state revenue.
- Even if revenue were to surge by billions of dollars, the guarantee would be unlikely to increase by more than a few hundred million dollars.