

MAY 13, 2019

Overview of the May Revision Proposition 98 Package

PRESENTED TO: Senate Budget Subcommittee No. 1 on
Education Finance
Hon. Richard D. Roth, Chair



LEGISLATIVE ANALYST'S OFFICE

Changes to Proposition 98 Guarantee Since January

- ▶ **Estimates of the Proposition 98 Guarantee Revised Up by \$746 Million Over the Period**
 - Increase is primarily attributable to higher General Fund revenue relative to the administration’s January estimates.

- ▶ **Higher Guarantee Covered With Additional General Fund Spending**
 - Estimates of local property tax revenue revised down by \$343 million.
 - Estimates of General Fund spending revised up by \$1.1 billion.

- ▶ **Additional Unspent Prior-Year Funds Available**
 - The May Revision identifies \$113 million in unspent prior-year funds (on top of the \$52 million in the Governor’s January budget) that are available for new one-time commitments.

Changes in Proposition 98 Guarantee			
<i>(In Millions)</i>			
	2017-18	2018-19	2019-20
Governor’s Budget			
General Fund	\$52,887	\$54,028	\$55,295
Local property tax	22,610	23,839	25,384
Totals	\$75,498	\$77,867	\$80,680
May Revision			
General Fund	\$52,951	\$54,445	\$55,904
Local property tax	22,625	23,701	25,166
Totals	\$75,576	\$78,146	\$81,069
Change			
General Fund	\$64	\$417	\$608
Local property tax	14	-138	-219
Totals	\$78	\$279	\$389



Key Features of the May Revision

- ▶ **Makes \$389 Million Deposit Into the Proposition 98 Reserve**
 - Proposition 2 (2014) requires deposits into the Proposition 98 reserve during relatively strong economic times when certain conditions are met. The state has not previously made any deposits.
 - The deposit counts toward meeting the guarantee in 2019-20.

- ▶ **Has Relatively Little Funding Available for New Commitments Beyond the January Budget**
 - After accounting for the school reserve deposit and various baseline cost increases, the state has roughly \$150 million available for new commitments.

- ▶ **Allocates an Additional \$119 Million for Special Education Proposal**
 - The Governor retains his proposal to provide special education concentration grants.
 - The May Revision increases funding for the proposal from \$577 million (\$390 million ongoing and \$187 million one time) to \$696 million (all ongoing).

- ▶ **Modifies Two Notable Non-Proposition 98 Proposals**
 - The May Revision provides an additional \$150 million for school and community college pension relief (on top of the \$700 million included in the January budget). The state would use the additional funds to reduce district pension costs in 2019-20.
 - The May Revision reduces funding for kindergarten facility grants by \$150 million (from \$750 million to \$600 million). The Governor also proposes to (1) limit funding to districts converting part-day kindergarten programs to full-day programs and (2) reduce the local match requirement.



Spending Changes in the May Revision

2019-20 Changes in Proposition 98 Spending			
<i>(In Millions)</i>			
	Governor's Budget	May Revision	Change
2018-19 Revised Spending	\$77,867	\$78,146	\$279
Technical Changes	\$185	-\$128	-\$313
State School Reserve	—	\$389	\$389
Preschool			
COLA	\$41	\$39	-\$2
2,959 full-day slots added in April 1, 2019 (annualize cost)	27	27	—
Non-LEA preschool (shift to non-Proposition 98 funding)	-297	-309	-12
Subtotal	<u>(\$229)</u>	<u>(\$244)</u>	<u>(\$14)</u>
K-12 Education			
LCFF COLA for districts and charter schools	\$2,027	\$1,959	-\$68
Special education concentration grants	390	696	306
COLA for select categorical programs	146	141	-5
Standardized school district accounting system replacement (one time)	3	3	—
Southern California Regional Occupational Center (one time)	—	2	2
Other ^a	—	—	—
LCFF costs covered with one-time funds	—	-251	-251
Subtotal	<u>(\$2,567)</u>	<u>(\$2,551)</u>	<u>(\$16)</u>
California Community Colleges			
COLA for apportionments	\$248	\$230	-\$18
College Promise fee waivers (extend program to sophomores)	40	43	3
COLA for select student support programs	32	30	-2
Enrollment growth (0.55 percent)	26	25	-1
Student Success Completion Grant (caseload adjustment)	11	18	7
Legal services for undocumented students	10	10	—
Foster Care Education Program ^b	—	—	—
Strong Workforce Program (portion of costs shifted to one-time funds)	-77	-1	75
Subtotal	<u>(\$290)</u>	<u>(\$354)</u>	<u>(\$64)</u>
Total Changes	\$2,813	\$2,534	\$110
2019-20 Proposed Spending	\$80,680	\$81,069	\$389
^a May Revision provides \$300,000 to add Cal Grant reporting requirements to the mandates block grant, \$154,000 ongoing to the San Joaquin County Office of Education to maintain the School Accountability Report Card and School Dashboard databases, and \$24,000 one time to translate the School Accountability Report Card and School Dashboard into Vietnamese, Mandarin, and Filipino (they are currently available in English and Spanish).			
^b May Revision includes \$400,000 ongoing to backfill for a reduction in federal funding.			
LCFF = Local Control Funding Formula; COLA = cost-of-living adjustment; and LEA = local education agency.			



Strengths of the May Revision

- ▶ **Estimates of State Revenue and the Proposition 98 Guarantee Are Reasonable**
 - The administration's estimates of General Fund revenue are slightly below ours. This difference is in part due to additional information available when we prepared our estimates and differing assumptions about the effects of initial public offerings of California-based companies.
 - Across the 2017-18 through 2019-20 period, our estimates of the guarantee are only about \$250 million above the administration's estimates.

- ▶ **Deposit Into Proposition 98 Reserve Is Consistent With the Intent of Proposition 2**
 - For the first time, the conditions for making deposits into the Proposition 98 reserve have been met. The deposit will better position schools to weather a future recession.

- ▶ **Mix of One-Time and Ongoing Proposals Moving in the Right Direction**
 - In January, the Governor's budget proposed spending roughly \$80 million more on ongoing programs than it had available in ongoing resources. This approach effectively built a small deficit into the 2020-21 budget.
 - The May Revision eliminates the deficit. It spends about \$150 million less on ongoing programs than it has available in ongoing resources.

- ▶ **Changes to Kindergarten Facility Grants a Positive Step**
 - Proposed changes make the grants more likely to achieve their intended objective of encouraging more full-day kindergarten programs.
 - Since demand for the program is likely to be less than \$600 million, the Legislature could provide even less funding. This would free-up General Fund resources for other priorities.



Concerns With the May Revision

▶ **One-Time Cushion Remains Very Small**

- A one-time cushion of \$150 million is very modest in the context of the Proposition 98 funding drops that could occur in an economic downturn.
- We think the Legislature should consider shifting even more funding to one-time activities to build a larger cushion.

▶ **Notable Concerns With Special Education Proposal, Recommend Considering Other Options**

- Allocating funds according to the number of students with disabilities penalizes districts that successfully implement programs that reduce the need for special education services.
- A new categorical program would add even more complexity to the state's existing patchwork of special education programs.
- Other alternatives—such as funding equalization—would distribute funding more broadly and reduce historical funding inequities, without creating fiscal incentives to keep students in special education.

