

MAY 18, 2020

# Overview of May Revision K-12 and Early Education Proposals

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PRESENTED TO:

Assembly Budget Subcommittee No. 2  
On Education Finance  
Hon. Kevin McCarty, Chair



LEGISLATIVE ANALYST'S OFFICE



## Changes to Proposition 98 Guarantee Since January

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- ▶ **Minimum Guarantee Down \$17.5 Billion Over Three-Year Period**
- ▶ **Reduction in Guarantee Driven Largely by General Fund Revenue**
  - Estimates of the guarantee include \$4.5 billion related to new tax revenue proposals.

<i>(In Millions)</i>			
	2018-19	2019-20	2020-21
<b>Governor's Budget</b>			
General Fund	\$54,505	\$56,405	\$57,573
Local property tax	23,942	25,168	26,475
<b>Totals</b>	<b>\$78,448</b>	<b>\$81,573</b>	<b>\$84,048</b>
<b>May Revision</b>			
General Fund	\$54,746	\$52,352	\$44,872
Local property tax	23,994	25,022	25,618
<b>Totals</b>	<b>\$78,740</b>	<b>\$77,374</b>	<b>\$70,490</b>
<b>Change</b>			
General Fund	\$240	-\$4,053	-\$12,702
Local property tax	52	-146	-857
<b>Totals</b>	<b>\$292</b>	<b>-\$4,199</b>	<b>-\$13,559</b>



## Overall Structure of K-12 Education Budget

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- ▶ **K-12 Proposition 98 Funding Down \$15 Billion Across Three-Year Period**
  - Most of the decrease (\$12 billion) is in 2020-21.
  
- ▶ **Several Actions to Mitigate Effects of Reduction**
  - Governor provides \$5.8 billion in flexible one-time federal funding.
  - Implements \$5.3 billion in reductions as payment deferrals to avoid programmatic reductions.



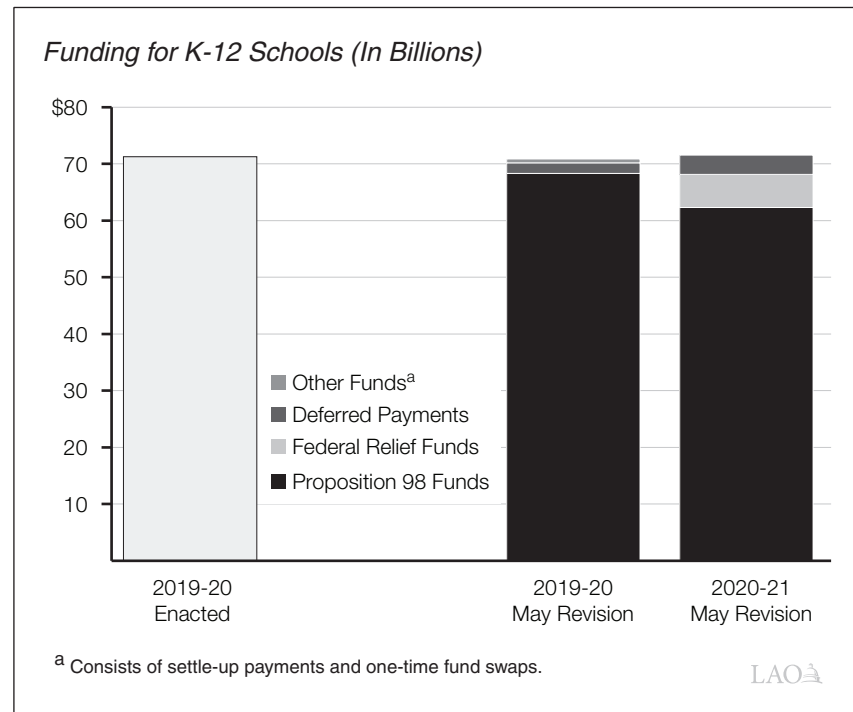
## Overall Structure of K-12 Education Budget

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### ► Overall School Funding Roughly Flat Year-Over-Year



### ► Pension Relief Reduces School District Costs

- Includes \$2.3 billion to reduce school and community college employer pension contribution rates in 2020-21 and 2021-22. Proposal is funded with monies provided in the 2019-20 budget to pay down school and community college unfunded pension liabilities.



## Major K-12 Education Proposition 98 Changes

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- ▶ **Rescinds \$1.6 Billion in January Augmentations**
  - Maintains proposal to provide \$645 million to increase base special education funding rates.
- ▶ **Reduces Local Control Funding Formula (LCFF) by \$6.4 Billion**
  - Consists of rescinding statutory cost-of-living adjustment (COLA) and reducing rates below current levels.
- ▶ **Defers Payments**
  - Defers \$1.9 billion in payments in 2019-20 and an additional \$3.4 billion in 2020-21.
- ▶ **Makes Targeted Reductions to Several Categorical Programs**
  - Reduces career technical education programs by roughly half, for \$100 million savings.
  - Reduces the After School Education and Safety Program by \$100 million—to the minimum amount required in Proposition 49 (2002).
- ▶ **Programmatic Reductions Subject to Federal “Trigger” Language**
  - The administration could temporarily restore funding if the federal government passes legislation with sufficient funding for the state to pay for this spending.

► **Provides \$4.4 Billion for Learning Loss Mitigation**

- Includes \$4 billion of the state’s \$9.4 billion allocation from the Coronavirus Relief Fund and \$355 million from the Governor’s Emergency Education Relief Fund—the state’s entire allocation.
- Of that amount, \$2.9 billion is distributed to local education agencies receiving LCFF concentration grant funds and \$1.5 billion is distributed based on the number of special education students.
- Funding can be used for activities that directly help student achievement and mitigate learning loss related to coronavirus disease 2019 (COVID-19) school closures.
- Recipients must develop an instructional continuity plan that describes how they will (1) use the funds, (2) ensure all students have appropriate devices and connectivity, and (3) measure the effectiveness of their actions.

► **Appropriates \$1.6 Billion in One-Time School Federal Funding**

- Almost \$1.5 billion will go directly to schools based on the federal Title I, Part A formula.
- The remaining \$167 million is for various state activities, including a community school grant program and professional development.

► **Includes \$714 Million for Child Nutrition**

- Federal government has yet to provide guidance on how funds can be used.



## Supplemental Payments to Schools and Community Colleges

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- ▶ **Creates Multiyear Obligation to Increase School and Community College Funding**
  - Multiyear obligation would be \$13 billion—the amount of funding schools and community colleges would have received if funding had grown at the same pace as per capita personal income in 2019-20 and 2020-21.
  
- ▶ **Makes Payments Beginning in 2021-22**
  - Payments would equal 1.5 percent of General Fund revenue and could be allocated for any school or community college program.
  
- ▶ **Recalibrates Proposition 98 Formulas to Make a Portion of Payments Permanent**
  - The state would increase the share of General Fund revenue required to be spent on schools and community colleges from 38 percent to 40 percent. (Roughly \$2.5 billion.)



## LAO Comments on K-12 Education Proposals

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- ▶ **Package Does Not Address Possibility for School Closures or Delays in Beginning of the School Year**
  - Lack of a plan creates fiscal uncertainty for districts.
  - Misses an opportunity to set expectations for student learning in the event of additional closures.
- ▶ **Consider Placing Greater Requirements on Continuity Plans**
  - Require districts to specify how they will provide quality instruction for all students during school closures and reopenings.
  - Distribute based on proportion of low-income students and English learners rather than concentration grants.
- ▶ **Consider Other Targeted Reductions to Mitigate LCFF Reduction**
  - Legislature could consider making reductions to LCFF add-ons, such as minimum state aid, that provide some districts and county offices of education more funding with no clear rationale.
- ▶ **Supplemental Payments Contribute to State's Multiyear Operating Deficit**
  - Recommend rejecting proposal. If the Legislature wants to provide schools with additional funding beyond the Proposition 98 minimum guarantee, it could make that decision as part of annual budget deliberations.





## Major Early Education Proposals

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### ▶ **Reduces Reimbursement Rates**

- For direct contract programs, rescinds proposed COLA (\$57 million savings) and reduces rates by 10 percent (\$202 million savings).
- For voucher-based programs, reduces rates by 10 percent (\$204 million savings).
- Rate reductions subject to federal trigger language.

### ▶ **Reduces State Preschool Slots**

- Withdraws the Governor's proposal to add 10,000 State Preschool slots and removes unallocated State Preschool slots. (Total savings of \$130 million Proposition 98 General Fund and \$159 million non-Proposition 98 General Fund.)

### ▶ **Rescinds One-Time Funding Provided in 2019-20 Budget**

- Includes \$263 million provided for grants to renovate and construct facilities, \$195 million provided for workforce development, and \$10 million provided to improve California Department of Education's (CDE's) early education data system.

### ▶ **Continues Reorganization Proposal**

- Rather than creating a new Department of Early Childhood Development as proposed in January, shifts administration of child care programs from CDE to the Department of Social Services (DSS).

▶ **Provides \$53 Million Ongoing for Alternative Payment Vouchers**

- Reflects ongoing increase in federal Child Care and Development Block Grant that was not included in the January budget.

▶ **Appropriates One-Time Child Care and Development Block Grant Funding**

- Uses \$152 million to cover current-year costs related to COVID-19.
- Provides \$125 million funding for stipends to subsidized child care and preschool providers.
- Adds \$73 million for temporary Alternative Payment vouchers.



## LAO Comments on Early Education Proposals

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▶ **Package Does Not Assume Emergency Orders Continue**

- In the current year, providers are required to maintain lower child-to-adult ratios and smaller group sizes.

▶ **Voucher-Based Reductions Disconnected From Regional Market Rate**

- Rather than making across-the-board reductions, recommend the Legislature make reductions based on a percentile of the regional market rate. This ensures equal access to the private market across the state.

▶ **Consider Other Options to Minimize Rate Reductions**

- Could redirect \$50 million in Proposition 64 (2016) funding currently scheduled to go towards new slots in 2020-21. Could also consider other reductions that do not affect direct services, such as reducing funding for administrative services or the State Preschool Quality Rating and Improvement System.
- If pursuing reductions in the number of children served, recommend the Legislature reduce the income eligibility threshold in order to prioritize families with the greatest need.



## LAO Comments on Early Education Proposals

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▶ **Redirect Most One-time Funding for Stipends**

- Stipends will provide fiscal relief to address various cost pressures caused by the COVID-19 outbreak. Recommend allowing unspent current year funding for temporary vouchers to be used in the budget year.

▶ **Continue to Have Concerns With Reorganization Proposal**

- Ongoing costs of the proposal are not yet clear. Shifting programs at this time also may be difficult considering DSS is anticipating large caseload increases in its existing programs.