LAO 75 YEARS OF SERVICE

The 2016-17 Budget:

Analysis of the Proposition 98 May Revision Budget Package

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Executive Summary

Relatively Small Changes in Overall Proposition 98 Funding. The May Revision increases Proposition 98 funding by a combined $626 million over the 2014-15 through 2016-17 period. Compared with the administration's January estimates, Proposition 98 funding is up $463 million in 2014-15, down $125 million in 2015-16, and up $288 million in 2016-17. These revisions are driven primarily by changes in state revenue.

Relatively Small Differences in Administration's and LAO's Estimates. Our estimates of the minimum guarantee are $305 million higher across the three-year period than the administration's estimates. Our estimates of the guarantee are slightly higher due primarily to our slightly higher estimates of state revenue. In addition, our estimate of local property tax revenue exceeds the administration's estimate by $353 million across 2015-16 and 2016-17 combined. All else constant, this higher local revenue increases the Proposition 98 General Fund obligation in 2016-17 by $58 million and frees up $295 million General Fund that could be used for any state priority.

Mixed Review of Specific Proposition 98 Proposals. The May Revision contains many specific proposals changing spending levels and substantive aspects of Proposition 98 programs. We examine major changes to K-12 education, early education, and community college programs. We believe some of these proposals are reasonable and recommend the Legislature adopt or modify them slightly. In many other cases, however, we have concerns with the proposals and recommend the Legislature reject or modify them more significantly.

INTRODUCTION

In this brief, we analyze the Governor's Proposition 98 May Revision budget package. In the first section, we focus on changes in the overall Proposition 98 funding level under the May Revision compared to the Governor's January budget. In the next three sections, we describe and assess the major changes in specific Proposition 98 proposals for K-12 education, early education, and the California Community Colleges (CCC), respectively. The Appendix to the brief contains 19 figures that have detailed education budget data. (Our February analysis contains background information about Proposition 98 and the calculations of the minimum guarantee. It also contains detailed analyses of the administration's January Proposition 98 budget proposals and, in many cases, our recommended alternatives to those proposals.)

PROPOSITION 98 MINIMUM GUARANTEE

Below, we explain and assess the Governor's revised estimates of the Proposition 98 minimum guarantee.

May Revision Estimates

May Revision Increases Proposition 98 Funding by $626 Million Over the Period. Figure 1 displays the May Revision estimates of the minimum guarantee and compares them to the estimates included in the Governor's January budget. Compared with January, the May Revision reflects a net $626 million increase in Proposition 98 funding, consisting of a $463 million increase in 2014-15, a $125 million decrease in 2015-16, and a $288 million increase in 2016-17. Of the net increase over the three-year period, $389 million comes from the state General Fund and $236 million comes from higher local property tax revenue. Under the May Revision, the 2016-17 minimum guarantee is $71.9 billion. This is a $2.8 billion (4.1 percent) increase over the revised 2015-16 level and a $3.5 billion (5.1 percent) increase over the *2015-16 Budget Act* level.

Total Proposition 98 Funding Increases Despite Decrease in State Revenue Estimates. Though the May Revision updates all of the factors used in the Proposition 98 formulas, changes in General Fund tax revenue account for nearly all of the revisions to the guarantee. Compared to January estimates, the May Revision has General Fund tax revenue down a net $2.1 billion over the three-year period, yet it has Proposition 98 funding increasing. This counterintuitive outcome largely relates to the timing of these revenue changes and their interactions with the Proposition 98 formulas. In broad strokes, the largest revenue increase occurs in 2014-15, when the guarantee is highly sensitive to changes in state revenue, and the largest decrease occurs in 2015-16, when the guarantee is less affected by changes in state revenue. We describe these dynamics further in the next paragraph.

Interaction Between Guarantee and State Revenue Varies Notably by Year. In 2014-15, Test 1 is the operative test for calculating the minimum guarantee and the state is making a large maintenance factor payment. This dynamic requires the state to dedicate virtually every new dollar of revenue to Proposition 98, with General Fund tax revenue increasing by $474 million and the guarantee increasing by $463 million. In 2015-16, by contrast, Test 2 is operative and the state is making a relatively small maintenance factor payment. Under Test 2, the guarantee is determined primarily by changes in per capita personal income and is less sensitive to change in state revenue. Despite a $1.7 billion drop in General Fund revenue, the guarantee drops by only $125 million. In 2016-17, Test 3 is operative and changes in the guarantee depend primarily upon year-to-year growth in state revenue. Though the estimate of 2016-17 state revenue is $933 million below January estimates, this decline is smaller than the $1.7 billion decline in 2015-16 revenue. As a result, year-to-year revenue growth is higher under the May Revision, with the 2016-17 guarantee correspondingly increasing by $288 million.

Maintenance Factor Obligation Increases $360 Million by End of the Period. In January, the administration estimated that the state would end 2016-17 with $548 million in outstanding maintenance factor. Under the May Revision, this amount is estimated to be $908 million, an increase of $360 million from January. The largest factor explaining the increase is higher-than-expected growth in per capita personal income in 2016-17. Whereas the administration had assumed growth of 4.36 percent in January, federal data now show growth of 5.37 percent. The amount of new maintenance factor created in a Test 3 year equals the difference between the amount of funding actually provided and the amount needed to grow at the same rate as per capita personal income. Under the May Revision, the state not only creates more maintenance factor in 2016-17, but it also pays off less total maintenance factor across 2014-15 and 2015-16. Across those two years, payments drop a combined $144 million due to changes in state revenue. (The size of maintenance factor payments is driven largely by year-over-year growth in state revenue. Though growth is higher in 2014-15, this is more than offset by slower growth in 2015-16.)

Small Increase in Estimates of Local Property Tax Revenue. Compared with January, the administration's estimate of local property tax

Figure 1

Changes in Proposition 98 Funding By Segment and Source

(In Millions)

	Governor's Budget	May Revision	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[a]	80	80	—
By Fund Source:			
General Fund	$49,554	$50,029	$475
Local property tax	17,136	17,124	-12
2015-16 Minimum Guarantee	**$69,175**	**$69,050**	**-$125**
By Segment:			
Schools	$61,096	$60,984	-$112
Community colleges	7,997	7,983	-14
Other[a]	82	82	—
By Fund Source:			
General Fund	$49,992	$49,773	-$218
Local property tax	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[a]	83	83	—
By Fund Source:			
General Fund	$50,972	$51,105	$133
Local property tax	20,613	20,769	156

[a] Includes funding for instructional services provided by the State Special Schools, California Department of Corrections and Rehabilitation, and Department of Developmental Services.

revenue is up by $249 million across 2015-16 and 2016-17 combined. (The administration also makes a downward adjustment of $12 million to 2014-15 property tax estimates.) The largest factor explaining the increase is an upward revision to estimates of the ongoing revenue shifted to schools and community colleges from former redevelopment agencies (RDAs). The administration also revises its estimate of growth in assessed property values upward from 5.6 percent to 5.9 percent in 2015-16 and from 5.9 percent to 6.2 percent in 2016-17. These increases are offset by downward revisions to several smaller components of local property tax revenue.

Proposed Settle-Up Payment Reduced by $39 Million. The state currently owes $1.2 billion related to meeting the 2009-10, 2011-12, and 2013-14 minimum guarantees. In January, the administration proposed making a $257 million settle-up payment toward meeting this obligation. The May Revision reduces this proposed payment to $218 million, a reduction of $39 million. After making this payment, the amount of settle up remaining at the end of 2016-17 would be $1 billion. As in January, the administration scores the settle-up payment as a Proposition 2 debt payment.

Assessment

In this section, we compare our estimates of the minimum guarantee, state General Fund, and local property tax revenue with those of the administration. We focus first on our estimates for the budget year and then turn to the next few years.

LAO's Estimates of the Minimum Guarantee Similar to Administration's Estimates in the Near Term. Figure 2 compares our estimates of the guarantee with those included in the May Revision. From 2014-15 through 2016-17, our estimates of the minimum guarantee are a combined $305 million higher than the administration's estimates—$199 million higher in 2014-15, $1 million higher in 2015-16, and $106 million higher in 2016-17. These differences are attributable almost entirely to differences in state revenue estimates. In 2014-15, the guarantee remains highly sensitive to changes in state revenue, with our $210 million higher revenue estimate increasing the guarantee virtually dollar for dollar. In 2016-17, our estimate of state revenue is $172 million above the administration.

Figure 2

Comparing Administration's and LAO's Estimates of the Minimum Guarantee

(In Millions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
May Revision						
General Fund	$50,029	$49,773	$51,105	$52,416	$52,034	$53,301
Local property tax	17,124	19,276	20,769	22,050	23,322	24,639
Total Guarantees	**$67,153**	**$69,050**	**$71,874**	**$74,466**	**$75,356**	**$77,939**
LAO Forecast						
General Fund	$50,235	$49,659	$50,973	$52,553	$52,835	$53,389
Local property tax	17,117	19,392	21,007	22,390	23,642	24,778
Total Guarantees	**$67,352**	**$69,051**	**$71,979**	**$74,943**	**$76,477**	**$78,167**
Difference						
General Fund	$206	-$115	-$132	$137	$800	$88
Local property tax revenue	-7	115	237	340	320	139
Total Differences	**$199**	**$1**	**$106**	**$477**	**$1,121**	**$227**

The guarantee is less sensitive to this additional revenue, however, such that the guarantee increases by only about half of this amount. Given the volatile nature of state General Fund revenue and the sensitivity of the estimates to many different economic assumptions, our differences with the administration are relatively minor. In previous years, our estimates of the minimum guarantee have differed from the administration's estimates by billions of dollars. (The Appendix includes a series of tables comparing estimates of the minimum guarantee.)

LAO Property Tax Estimates Somewhat Higher Than Administration's Estimates. Our estimates of local property tax revenue are $353 million higher than the administration's estimates across 2015-16 and 2016-17. (Our differences in 2014-15 are only $7 million.) Variation in several components of local property tax revenue underlie the differences between the estimates. Compared to the administration, our estimates assume more revenue will be allocated to schools and community colleges from the Educational Revenue Augmentation Fund (ERAF). Our estimates are based on reports from counties to the State Controller (with modifications for the complexities of the ERAF allocation process), while the administration uses other data sources. We also assume more revenue associated from RDA dissolution, primarily due to assumptions about lower RDA-related debt payments. The higher revenue we assume from these two sources is offset partially by our higher estimates of "excess" property tax revenue. (Some districts in California receive more local property tax revenue than required to meet state-established funding levels. These districts keep the revenue in excess of their state-established funding levels but that revenue does not count toward the guarantee.) The administration appears to be assuming lower growth of assessed property values in these districts too. Despite variation in these particular property tax components, our overall difference with the administration represents only about 1 percent of total anticipated property tax revenue over the two-year period. (The Appendix includes tables comparing property tax estimates.)

Higher Local Property Tax Revenue Would Lead to Higher "Test 3 Supplemental Appropriation" in 2016-17. If local property tax revenue exceeds the May Revision estimates, the Proposition 98 General Fund obligation would drop, in turn, freeing up non-Proposition 98 General Fund that the Legislature could use for any state priority. The reduction in Proposition 98 General Fund obligation in 2016-17, however, would be somewhat less than the increase in local property tax revenue because of an interacting statutory provision. Specifically, statute requires the state to ensure that Proposition 98 funding grows at least as quickly as the rest of the state budget when Test 3 is operative. The exact associated increase would depend upon several factors. For illustrative purposes, if local property tax revenue were to exceed the administration's estimates by $353 million across 2015-16 and 2016-17 (an amount equal to the difference between the May Revision and our estimates), the state's supplemental payment in 2016-17 would increase about $58 million, leaving $295 million in freed-up General Fund that the Legislature could use for any state priority.

Slightly Higher LAO Out-Year Estimates of Guarantee Reflect Higher State Revenue Assumptions. For 2017-18 through 2019-20, we estimate the minimum guarantee will be a few hundred million to about $1 billion above the administration's estimates for each year. This difference primarily relates to differences in our assumptions about state revenue. Based on our main economic scenario, we assume that state revenue will be a few billion higher than the administration estimates beginning in 2017-18, with the minimum guarantee correspondingly higher. This increase, however, is partially offset by our lower estimates of K-12 attendance throughout the period. Whereas the administration projects that K-12 attendance will decline slightly (dropping by 0.1 percent to 0.3 percent per year), we estimate a slightly faster decline (dropping by 0.3 percent to 0.4 percent per year). We also project that the amount of maintenance factor outstanding will be a few billion higher than the administration estimates by the end of the period. This difference primarily relates to our higher out-year estimates of per capita personal income, which is one factor determining the amount of new maintenance factor created each year.

Cushion Against Future Economic Downturn Remains Small. The May Revision provides a relatively modest cushion inside the Proposition 98 guarantee to insulate ongoing K-14 programs from volatile state revenues. Of the $71.9 billion proposed spending counting toward the 2016-17 guarantee, the administration dedicates only $524 million (less than 1 percent) for one-time purposes. Though our forecast assumes steady economic growth over the next few years, the state's fiscal condition historically has been more volatile. For example, the guarantee experienced a sudden decline of more than 12 percent in 2008-09 following six consecutive years of growth. In 2001-02, the guarantee dropped by more than 12 percent, having increased 12 percent the prior year.

K-12 EDUCATION

Compared to the Governor's January budget, the May Revision includes an additional $553 million for K-12 education ($252 million in 2016-17 funds and $301 million in prior-year funds). This augmentation brings total 2016-17 funding for schools to $63.6 billion. K-12 funding per student in 2016-17 is $10,657, an increase of $440 per pupil (4.3 percent) over the revised 2015-16 level. Below, we describe and assess the Governor's major May Revision proposals for K-12 education. The Appendix includes tables providing more detail on the K-12 education budget.

Major Spending Changes

Increases LCFF Funding by $154 Million. This increase brings the total LCFF augmentation in 2016-17 to $3 billion. The administration estimates this funding would close 55 percent of the remaining gap to the LCFF target funding level. At $55.6 billion in total LCFF funding in 2016-17, the administration estimates it would be supporting 96 percent of the program's full implementation cost. By comparison, the January budget proposed closing 49 percent of the gap and funding 95 percent of the full implementation cost.

Increases One-Time Funding for K-12 Mandates Backlog by $135 Million. This augmentation would bring total K-12 mandates backlog funding up to $1.4 billion. The funds would be distributed based on student attendance, with the rate increasing to $236 per student (up from the January estimate of $214 per student). The May Revision makes no other changes to the mandate backlog payment. As proposed in January, local education agencies (LEAs) could use the funds for any education purpose, but the administration encourages the funds be used for deferred maintenance, professional development, and implementation of the Common Core State Standards, among other priorities. If an LEA has outstanding mandate claims, the funding would be scored against those claims.

Proposes a New $100 Million Revolving Loan Program for Facility Emergencies. The California

Department of Education (CDE) would operate the K-12 School Facility Emergency Repair Revolving Loan Program. To qualify, schools would need to demonstrate that they have closed their facilities for one-week or longer (with an outside public agency deeming the facility unsafe for occupation), have no extra facilities, and have exhausted all readily available state and local resources. The loans would be interest free for one year, with an interest rate assessed thereafter equal to two percentage points above the Pooled Money Investment Account (PMIA) rate. Schools would have up to 20 years to retire the loans.

Other Spending Changes

Revises LCFF-Related Funding for County Offices of Education (COEs) Upward by $16.5 Million Over Period. The May Revision provides an additional $16.5 million ($5.5 million each in 2014-15, 2015-16, and 2016-17) in LCFF-related funding for COEs. The administration's revision is based on updated prior-year local property tax data. For some COEs with historically high participation in certain state categorical programs, growth in local property tax revenue increases total COE funding. (For other COEs, local property tax revenue offsets state General Fund.)

Makes Significant Modifications to the Standardized Account Code Structure (SACS) Replacement Project Proposal. The state uses the SACS system to collect financial data from LEAs and meet various reporting requirements. The Governor's January budget included $7.2 million ($3.6 million non-Proposition 98 General Fund and $3.6 federal carryover funding) for upgrading the system. The Governor's budget assumed the project would undergo the state's standard review and oversight process through the California Department of Technology (CDT). The May Revision replaces the January proposal with $3 million Proposition 98 funding for CDE to contract with a COE, which in turn would contract with a vendor to replace SACS. The project no longer would be required to undergo the state's standard review and oversight process. Associated trailer bill language indicates the funds would be available for CDE to contract with a COE upon approval of the Department of Finance, with notification to the Joint Legislative Budget Committee.

Increases Dropout and Truancy Programs by $2.6 Million. Proposition 47 reduced the penalties for certain crimes and required that the state savings resulting from the measure go to support certain state programs. Specifically, the measure requires that 25 percent of the savings go to CDE to administer a grant program to reduce high school dropout, truancy, and student victimization rates. The May Revision increases the administration's estimate of Proposition 47 savings, resulting in a $2.6 million augmentation for the dropout and truancy prevention grant program. This augmentation brings total funding for the grant program to $9.9 million (up from $7.3 million in the Governor's budget). Neither the January budget nor the May Revision contain details about the new grant program, but the administration indicates it is working with the Legislature and stakeholders, and likely will authorize the grant program pursuant to legislation adopted this session.

Proposes $2.5 Million One Time for Teacher Recruitment Efforts. The May Revision proposes to create the California Center on Teaching Careers. The Commission on Teaching Credentialing (CTC) would conduct a competitive bid process to select one LEA to manage a recruitment campaign. Specifically, the selected LEA would engage in a statewide effort to inform perspective teachers of the requirements to become a teacher, provide information on loan assistance programs, and engage in a variety of other marketing practices to encourage teachers to enter the workforce.

Increases Funding for College Planning Website by $1 Million. The Governor's January budget proposed $1 million in one-time funds for the nonprofit organization California College Guidance Initiative (CCGI) to enhance its college planning website, also known as Student Friendly Services. The May Revision increases the augmentation to $2 million and makes the entire $2 million ongoing. This augmentation would bring total ongoing Proposition 98 support for the organization to $2.5 million. CCGI's website provides high school counselors, students, and parents with various tools to access information about college planning and financial aid. In addition to these publicly available services, CCGI offers enhanced services to school districts for a fee. CCGI indicates that of the $2.5 million in ongoing state funding, half ($1.25 million) would be used to support operations associated with its publicly available services and half ($1.25 million) for support of its enhanced services.

Zeros Out COLAs for K-12 Education Programs. Based on updated data, the May Revision adjusts the COLA rate used for certain K-12 programs down from 0.47 percent in January to zero. Relative to the Governor's January budget, zeroing out the COLA reduces funding for certain K-12 categorical programs by a combined $18 million. Adjusting the COLA rate also lowers the LCFF target, which partly explains why more of the gap is closed under the May Revision. (The full implementation cost of LCFF has decreased by about $300 million since January due to the reduction in the COLA rate and a slight decline in projected student attendance.)

Revises Proposition 39 Estimates. The May Revision adjusts Proposition 39 revenue estimates upward, resulting in an additional $33 million being designated for school energy-efficiency projects, bringing their total energy-efficiency funds for 2016-17 to $399 million.

One Notable Non-Proposition 98 Proposal Relating to Four-Year Teacher Preparation Programs. The May Revision contains $10 million one-time non-Proposition 98 General Fund to expand or create new four-year undergraduate teacher credentialing programs through the Integrated Teacher Preparation Grant. This funding would go to CTC, which would issue $250,000 grants to institutions of higher education selected prior to June 30, 2018. This funding could support the development of any type of four-year credentialing program, but programs issuing education specialist credentials or single subject credentials in designated shortage areas would get priority. Grant recipients could use funding to release faculty, hire program coordinators, recruit students into the programs, or develop summer courses.

Assessment and Recommendations

Below, we assess the May Revision proposals for K-12 education and provide associated recommendations. Figure 3 summarizes these recommendations.

Continue to Have Concerns With Lack of Plan to Retire Mandate Backlog. The May Revision makes some further progress towards fulfilling the state's constitutional requirement to reimburse LEAs for the activities it mandates of them. The progress, however, is small. Of the $1.4 billion proposed for the K-12 mandates backlog, less than half ($664 million) would reduce the backlog. This is because the funds are allocated on a per-student basis to all LEAs, though about half of LEAs have no outstanding claims and the claims for other LEAs vary widely on a per-student basis. Continuing to use a per-student approach to retire the entire backlog would cost $182 billion—almost 100 times more than the backlog. We continue to recommend the Legislature consider a more strategic approach to retiring the mandate backlog.

Need for Another K-12 Emergency Repair Program Is Unclear. The May Revision creates a new revolving loan program to address emergency facility issues without clearly explaining why the state's existing efforts in this area are inadequate. Established 18 years ago, the state already funds a facility hardship program that provides grants to help districts address their facility issues, including emergency repairs. While it can take several months, districts have been able to secure financing for emergency repairs through the program. If the Legislature is interested in further expediting the process to receive funding for emergency repairs, it could consider over the coming months potential ways to modify the existing program. Also, a $7 billion school bond is on the November ballot, which, if approved, would provide more funding for emergency repairs.

Figure 3

Summary of K-12 Education Recommendations

Program	May Revision Proposal	LAO Recommendation
LCFF funding for school districts	Increase by $154 million.	***Adopt.*** Accelerates LCFF implementation.
K-12 mandates backlog	Increase by $135 million.	***Modify.*** Adopt funding level but combine with strategic plan to pay off remainder of backlog.
School Facility Emergency Repair Revolving Loan	Provide $100 million (one time) for new program.	***Reject.*** New program redundant with state's existing Facility Hardship Grant Program.
LCFF funding for COEs	Increase by $16.5 million ($5.5 million each 2014-15, 2015-16, and 2016-17).	***Modify.*** Change one of the COE LCFF formulas to ensure funding remains connected with the cost of expected COE services.
SACS replacement project	Provide $3 million. (Replaces $7.2 million in combined non-Proposition 98 and federal funds.)	***Reject.*** Direct CDE to work with CDT to progress through initial stages of state review process. Ask agencies to report progress in summer. Signal intent to fund next year once planning phases of project complete.
Dropout and truancy prevention grants (Proposition 47)	Increase by $2.6 million.	***Modify.*** Estimate of available Proposition 47 funds still too low. Allocate funds to schools with the highest concentration of at-risk youth. Provide programmatic flexibility.
California Center on Teaching Careers	Provide $2.5 million (one time) for teacher recruitment.	***Modify.*** Adopt funding level. Require efforts be focused on longstanding teacher shortage areas. Strengthen reporting requirements.
College planning website	Increase by $1 million (for a total of $2 million). Make all $2 million ongoing.	***Modify.*** Approve $750,000 for public side of site. Reject $1.25 million for fee-for-service side of site.
School energy-efficiency projects (Proposition 39)	Increase by $33 million.	***Adopt.*** Increase for projects consistent with revised Proposition 39 revenue estimate.
Integrated Teacher Preparation Programs	Provide $10 million non-Proposition 98 General Fund for one-time incentive grants.	***Reject.*** Barriers to integrated programs unlikely to be overcome by one-time grants.

LCFF = Local Control Funding Formula; COE = county office of education; SACS = Standardized Account Code Structure; CDE = California Department of Education; and CDT = California Department of Technology.

May Revision Further Magnifies the Counterproductive Design of the COE LCFF. The May Revision provides additional funding to a small group of COEs based not on students' or districts' educational costs (the essence of LCFF), but rather on their counties' property tax growth and historic participation in certain state categorical programs. Absent any change, these funding inequities will worsen over time, with certain COEs moving increasingly above the LCFF targets as their property tax revenues increase. This practice runs counter to the intent of the LCFF. To address this problem, we continue to recommend changing one of the underlying COE LCFF formulas to ensure funding remains connected with the cost of expected services. If left unaddressed, we believe the May Revision underestimates the cost of the COE LCFF by a combined $45 million over 2015-16 and 2016-17.

Replacing SACS Is Warranted, but Serious Concerns With May Revision Proposal. Though we agree the SACS system is outdated and should be replaced, we have serious concerns with the administration's latest proposal. The CDE has had nearly a year to work with CDT to put forth a new plan for executing the project, but no progress has been made on the project during this time. In conversations with CDE, CDE indicates that the May Revision approach would be less costly and faster than working with the CDT, but we have not received evidence to support either of these claims. Furthermore, neither CDE nor the administration has made a case as to why CDE should be allowed to circumvent the standard project oversight process for the SACS replacement project (which reflects a relatively typical, mid-sized state technology project). Giving this project special treatment without special justification would set precedent for future state technology projects, potentially undermining the state's oversight process. We also are concerned that approval of the funding would not receive appropriate scrutiny, as proposed trailer bill language is vague as to what is required for Department of Finance approval and only notification is provided to the Legislature.

Recommend Informational Hearing to Ensure CDE and CDT Make Progress on SACS Replacement Project. To ensure the project is developed as soon as possible and with sufficient oversight, we recommend directing CDE to go through the CDT's first stages of project approval by October 1, 2016. We recommend the Legislature hold an informational hearing or an informal meeting with the two departments in August 2016 to monitor their progress in developing the project. To signal good faith in funding the project once planned and approved, we also recommend the Legislature include language in the 2016-17 budget indicating its intent to fund the costs of the project over the subsequent few years.

Could Provide More Funding for Dropout Prevention Program and Offer More Programmatic Flexibility. Although the May Revision adjusts estimated Proposition 47 savings upward, we believe the savings estimate very likely is still too low. If it is concerned that the administration's estimate is too low, the Legislature could choose to appropriate additional funding to the programs funded under the measure. Regarding the dropout and truancy prevention grant program, we continue to recommend that the Legislature design a program that allocates funds to schools with the highest concentrations of at-risk students and then gives those schools flexibility in deciding how best to address their dropout and truancy issues. To this end, we recommend the state rely on its new school planning and accountability systems to monitor student outcomes and provide support to districts that fail to improve outcomes for at-risk students.

Recommend Focusing Teacher Recruitment on Key Shortage Areas. By focusing on teacher recruitment, the May Revision embraces one of the fastest and most cost-effective strategies for bringing more teachers into the workforce. Certain states, such as New York, train thousands more teachers than they hire, while thousands of Californians hold valid teaching credentials but are not actively teaching. While the focus on teacher recruitment seems reasonable to us, the proposed funding is not prioritized to the areas with the greatest teacher shortages. We recommend the Legislature modify the May Revision proposal by prioritizing the new funding for recruiting teachers to perennial shortage subject areas (special education, science, and math) and geographic areas (low-income, central-city, and certain types of rural schools). We also recommend the Legislature strengthen the administration's proposed reporting requirements to include (1) the numbers of teachers recruited into each of these subject and geographic shortage areas and (2) the numbers of teachers recruited in these areas which did not have access to other forms of recruitment (that is, the center made very reasonable effort to focus on individuals who otherwise might not have been recruited into the teaching profession).

Mixed Review of Funding Increase for College Planning Website. The Governor's proposal to increase funding to CCGI by an additional $750,000 to support the public college planning website seems reasonable. The state has long provided Proposition 98 funding to CCGI to contract for the free portion of the website and the organization has provided documentation describing the enhancements it would make with the increased funding. The Governor's proposal to begin providing funding to subsidize the fee-side of the website, however, raises concerns about whether the state should be subsidizing one service provider over others. (Various entities offer college planning tools for a fee.) The state funds high school students at a higher per-pupil rate to account for the costs of things like college planning. We believe that school districts can use their general purpose dollars to contract with the service provider that best serves their students' needs. With this in mind, we recommend rejecting $1.25 million of the Governor's proposal to fund the enhanced side of the website.

Recommend Rejecting the Governor's Approach to Expanding Four-Year Teacher Preparation Programs. While a four-year credentialing program can make the teaching profession more accessible, thereby potentially increasing the statewide supply of teachers, a lack of planning grants likely is not the key barrier to the developing more of these programs. Higher education institutions currently offer a limited number of blended credentialing programs. Their decision not to offer more programs appears at least partly linked to low student interest in these types of programs. Expansion also might be limited due to challenges in coordinating the degree requirements between departments, but, in the past, the state has been able to encourage the segments of higher education to engage in program development and degree alignment without providing planning grants. For these reasons, we recommend the Legislature explore other strategies for encouraging expansion of four-year routes into the teaching profession.

EARLY EDUCATION BLOCK GRANT

Of the $626 million increase the May Revision provides in total Proposition 98 funding, $6 million is for early education. This increase consists of two changes: a $10 million augmentation for COEs to help with implementation of the Early Education Block Grant and a $4 million reduction due to the zeroing out of the COLA for State Preschool. Though the May Revision contains only this slight change in overall funding, it contains many significant fiscal and policy changes. Below, we describe and assess these changes.

May Revision Changes

Includes Additional Details on Preschool Restructuring, Postpones Start to 2017-18. The May Revision makes several modifications to the Governor's January preschool restructuring proposal, including postponing its start date. Under the May Revision, the State Preschool and Transitional Kindergarten programs would continue to operate as usual in 2016-17. Beginning in 2017-18, the State Preschool and Transitional Kindergarten funding streams would be consolidated into one block grant prioritized for low-income and at-risk four-year olds. (Similar to the January proposal, $33 million from State Preschool that currently supports lab schools at the community colleges would not be shifted into the new block grant.) The $50 million in preschool Quality Rating and Improvement System (QRIS) grant funds, which was included in the block grant under the January proposal, would not be shifted into the new preschool program.

Establishes Statewide Definitions of Low-Income and At-Risk Children. The May Revision includes specific definitions of the low-income and at-risk children who would receive priority for the new preschool program. Children would be deemed low-income if they met the income-eligibility requirements for free or reduced-price school meals or state-subsidized child care. (The current income eligibility threshold for free or reduced-price meals is $37,167 for a family of three, while the child care eligibility threshold is $42,216 for the same family size.) The May Revision defines at-risk children as those who are homeless, at risk of abuse or neglect, foster youth, children with disabilities that affect their learning, and English learners. Providers may use block grant funding to serve children who are not low income or at risk as long as they make every effort to first serve all prioritized children who are interested in participating. Specifically, the provider must actively promote the program to the families of low-income and at-risk children and take steps to ensure the program is convenient for those families before serving other children. To increase overall participation in the new preschool program, the May Revision allows providers to charge fees to families of children who are not low income or at risk.

Gives Bulk of Funding Directly to School Districts. Under the May Revision, school districts would begin receiving block grant funding in 2017-18. That year each district would receive the same amount of funding it had received in 2016-17 for Transitional Kindergarten and State Preschool combined. School districts also would receive funding that previously went to non-LEA State Preschool providers in their areas. COEs would receive the rest of the block grant funds, with each COE receiving the same amount of funding it received in 2016-17 from State Preschool contracts. Over time, the proposal intends to shift preschool funds from COEs to school districts, with each COE's funding reallocated to districts in that county that have unmet need. (The reallocation occurs only if districts are deemed to have capacity to serve more preschoolers.) Though school districts are the primary intended providers of the new preschool program, districts would be allowed to subcontract with other entities to provide the program.

Requires School Districts to Serve Specified Number of Children. The May Revision would require each school district to serve at least as many children as it served in 2016-17, adjusted moving forward for year-to-year percentage changes in its kindergarten through third grade average daily attendance. Beginning in 2020-21, CDE could reduce funding for school districts by up to 5 percent per year if they fail to meet these attendance requirements.

Specifies Future Funds Be Allocated Based on School Districts' Prior-Year Funding Levels and Unmet Need. In future years, school districts would receive their prior-year funding amount plus a COLA. Additional funding beyond COLA would be allocated based on estimates of school districts' unmet need. Specifically, CDE would distribute funding proportionally based on the number of unserved low-income and at-risk children in each district. Districts would receive $6,200 for every additional child served. This rate is somewhat lower than the current full-day State Preschool rate adjusted for a 180-day school year ($6,935 per year).

Sets Minimum State Standards but Offers Flexibility in Demonstrating Compliance. Providers would be required to operate preschool programs for a minimum of three hours per day and 180 days per year (the same requirements as kindergarten). Rather than setting other specific programmatic requirements, the proposal requires providers to meet Tier 4 standards of the QRIS matrix in 2017-18. This five-tier matrix awards points for different levels of staffing ratios and qualifications, the quality of child-teacher interactions, and the implementation of certain child assessments, among other program aspects. This approach gives districts flexibility to pursue the quality elements they deem most important. Funding from the $50 million preschool QRIS block grant would be used to rate providers on the five-tier matrix and assist them in achieving at least a Tier 4 rating.

Includes Additional Funding and Responsibilities for COEs. The May Revision includes $20 million ($10 million one time, $10 million ongoing) for COEs to coordinate regional preschool planning, help school districts implement new programs, and provide ongoing technical assistance and professional development opportunities to school districts. The May Revision also specifies that COEs have first priority for the $50 million in preschool QRIS block grant funds. Any remaining QRIS funds would be spent by the regional QRIS consortia. (Currently, regional consortia determine how all QRIS block grant funds are spent. In many cases, COEs are lead agencies of their regional consortia.) Prioritizing COEs for QRIS funding means COEs likely would have a major role in rating preschool providers. Both pots of funding (the $20 million and $50 million) would be distributed to COEs based on countywide average daily attendance.

Requires School Districts to Develop Local Early Learning Plans. Beginning in 2018-19, the proposal requires districts to submit three-year plans to their COEs and align spending with these plans. District plans must identify the number of unserved low-income and at-risk children living within school district boundaries and areas of the district where the number of priority children and access to preschool is not well matched. District plans also must set goals and specify actions they will take to increase access to preschool, especially for low-income and at-risk children, and to work with other local preschool providers (such as Head Start programs) to maximize the availability and quality of preschool services for priority children. In addition, district plans must describe how preschool programs are being aligned with elementary school programs.

Requires COEs to Develop Regional Early Learning Plans. The proposal requires each COE to submit a three-year, county-level plan to CDE. In this plan, a COE must assess the early learning needs of the county, taking into account county-level demographic information and data included in districts' local plans. Additionally, COE plans must set goals and create an action plan to improve access to early education in the county, help providers improve quality and align programs with elementary school programs, and improve their capacity to recognize when district programs need technical assistance.

Assessment: Some Significant Improvements

Delaying Implementation for One Year Is Less Disruptive Approach. Delaying preschool restructuring for one year would minimize disruption to current preschool providers and families who have already signed up to use the existing programs in 2016-17. The one-year period also would give districts and COEs additional time to develop preschool programs that meet the proposed new requirements.

New Definition Helps Ensure Children Are Prioritized Consistently Statewide. By creating statewide definitions of low-income and at-risk children and requiring districts to prioritize these children, the May Revision provides greater assurance that similar children will be prioritized similarly across the state. Additionally, because the state would have information regarding the number of unserved low-income and at-risk children, future funding increases could be better targeted to areas with greater unmet need.

Achieves Reasonable Balance of State Standards and Local Flexibility. We think aligning the minimum preschool requirements for length of school day and year with existing kindergarten requirements is a reasonable approach that provides greater alignment with elementary school programs. Additionally, we think setting other program standards using the QRIS matrix is an improvement over the current State Preschool and Transitional Kindergarten requirements, as it would allow providers flexibility to pursue the quality elements they deem most relevant. For example, preschool providers could achieve a Tier 4 QRIS rating by hiring teachers with Child Development Teacher Permits and providing an 8 to 1 child-to-adult ratio or hiring teachers with master's degrees and providing a 12 to 1 child-to-adult ratio.

COEs Well Positioned to Provide Support and Undertake Regional Planning. Requiring COEs to develop regional plans and provide support to school districts would complement many of the activities COEs currently undertake. For example, COEs already provide fiscal oversight and review school districts' strategic plans. In some cases, COEs provide technical assistance to low-performing schools and districts. Many COEs also are currently involved in regional planning for preschool since they are members of local planning councils that set local priorities for child care and preschool activities. In addition, COEs currently receive QRIS block grant funding to assist providers in improving program quality.

Assessment: Some Notable Shortcomings

School District Hold Harmless Provisions Disconnect Funding From Need. Despite changes in the May Revision, we continue to be concerned that funds from the proposed block grant would not be distributed statewide based on the number of low-income and at-risk children in each district. While a hold harmless provision would be helpful for some school districts in the initial years of implementation, the proposal does little to assure funding is better aligned to need in the long run. Although the proposal specifies that future increases would be allocated based on need, the only required increase in future years would be a COLA applied to prior-year funding levels. Since school district allocations under the new system would be based on historical Transitional Kindergarten and State Preschool funding and enrollment, districts likely would have very different effective per-child funding rates.

Applying a uniform COLA would only enhance these disparities, giving larger per-child dollar increases to districts with already higher per-child funding levels. Under this approach, significant variation would be perpetuated across the state in per-student funding and in the share of low-income and at-risk children served.

Implementing QRIS Statewide Likely Multiyear Effort. Providers may need several years to attain a Tier 4 QRIS rating. Although some existing State Preschool programs have received a Tier 4 rating, the minimum State Preschool requirements are roughly equivalent to a Tier 3 rating. For Transitional Kindergarten, the state minimum standards are far below the standards for a Tier 4 rating. COEs and regional QRIS consortia also likely would need several years to build the capacity to rate all state-subsidized preschool programs. Currently, State Preschool programs are rated only on a voluntary basis.

Proposed COE Role Leads to Conflicts of Interest. We also are concerned the proposal allows a COE to operate preschool programs (through a direct appropriation or as a contract provider for school districts) while also requiring it to play a prominent role in providing support, oversight, and ratings for all state-subsidized preschool programs in the county. This structure leads to a conflict of interest, as it potentially would result in COEs being required to evaluate their own preschool programs, determine when their own programs should receive technical assistance, and, in those cases, provide themselves technical assistance.

Proposal Does Not Include Enough Detail on Oversight and Accountability. The May Revision also does not provide sufficient detail regarding COEs' role in supporting struggling programs, which makes other important provisions of the proposal difficult to implement. For example, the proposal requires both COEs and CDE to provide technical assistance, but it does not specify when they should offer assistance, what kinds of assistance they should offer, how long they should offer assistance, and at what point funding should be revoked if programs do not improve after prolonged assistance. Additionally, the proposal does not provide sufficient detail regarding when CDE should provide technical assistance to COEs. This lack of clarity could result in wide variety in how programs receive technical assistance across the state.

Recommendations

Below, we discuss our recommendations regarding the Early Education Block Grant. Figure 4 (see next page) summarizes these recommendations.

Adopt Revised Consolidation Approach. We continue to recommend consolidating the State Preschool and Transitional Kindergarten programs into one program and delaying that restructuring until 2017-18. Since the proposal uses the QRIS rating matrix to evaluate programs, we also think continuing to use $50 million for implementation of preschool QRIS rather than distributing those funds directly to districts is reasonable.

Choose One Definition of Income Eligibility. We recommend the state only use eligibility for free and reduced-price meals to determine whether a child is low income. While the two proposed definitions of low income (free and reduced-price meal eligibility and state-subsidized child care eligibility) are currently somewhat similar, they could diverge in future years. Since districts already use free and reduced-price meal eligibility as a criterion for other K-12 education programs, they likely would find using this measure administratively easier. Eligibility for free and reduced-price meals also would be a preferable measure because it is based on a federal poverty measure that is annually updated for changes in the cost of living. By contrast, the income threshold for state-subsidized child care eligibility has not been regularly updated by the state.

Include One-Year Hold Harmless Provision for Districts, Then Gradually Align Allocations With Need. To align funding with the distribution of low-income and at-risk children across the state, we recommend the state shift funds to districts with the highest percentages of unserved

Figure 4

Summary of Early Education Block Grant Recommendations

Program Component	May Revision Proposal	LAO Recommendation
Funding for providers during initial years of implementation	Provide funding to school districts based on 2016-17 State Preschool and Transitional Kindergarten funding. Provide funding to COEs based on 2016-17 State Preschool funding. Include three-year hold harmless for school districts and COEs. Redirect funding from non-LEA providers to school districts in the area.	***Modify.*** Include one-year hold harmless provision for districts, then gradually align funding based on the number of low-income and at-risk children in each district. Decrease non-LEA and COE funding over five years and reallocate funding to districts within each county based on unmet need.
Future funding allocations	Specify future funding would be allocated based on prior-year funding levels and determination of unmet need.	***Adopt.***
Prioritization of children	Require districts to prioritize funding for low-income and at-risk youth.	***Adopt.***
Definition of low income	Children who qualify for free or reduced-price meals or state-subsidized child care.	***Modify.*** Define children as low income only if they qualify for free or reduced-price meals.
Definition of at risk	Children who are homeless, at risk of abuse or neglect, foster youth, children with disabilities that affect their learning, and English learners.	***Adopt.***
Attendance expectations	Require districts to serve at least as many children as they served in 2016-17, adjusted for changes in K-3 attendance.	***Modify.*** Over the long run, adjust attendance expectations to serve as many priority children as possible given available funding.
Program duration	Require programs to operate for a minimum of three hours per day and 180 days per year.	***Adopt.***
Program standards	Require programs to meet QRIS Tier 4 standards.	***Modify.*** Phase in QRIS standards and rating process over several years. Require independent party evaluate COE-operated programs.
New COE responsibilities	Require COEs to coordinate regional planning, help school districts implement new programs, and provide ongoing technical assistance and professional development opportunities to school districts.	***Modify.*** Require COEs (and CDE) to provide technical assistance under specified conditions.
New COE funding	Provide $20 million ($10 million one time, $10 million ongoing) for additional responsibilities.	***Modify.*** Provide $10 million one-time funding. Make decision on ongoing funding amount in 2017-18 budget.
QRIS funding	Give COEs first priority for $50 million in preschool QRIS block grant funds.	***Adopt.***

COE = county office of education; LEA = local educational agency; QRIS = Quality Rating and Improvement System; and CDE = California Department of Education.

low-income and at-risk four-year olds beginning in 2018-19. We recommend that this shift occur gradually over time to help any affected districts adjust to lower funding levels. For example, the state could reduce the grant amounts of districts that serve large numbers of non-prioritized four-year olds by no more than 5 percent per year.

Decrease Non-LEA and COE Provider Funding Over Five Years, Reallocate Countywide to Districts With Highest Need. We recommend that non-LEA and COE State Preschool funding be reallocated countywide to school districts with the highest percentages of unserved low-income and at-risk four-year olds over a five-year period. Reallocating these funds gradually statewide allows the state to ease the transition for non-district providers and families that use those programs while still making progress toward to a more equitable system in the long term.

Recommend Modifying New Standards and Oversight Process. We recommend adopting the May Revision's proposed oversight structure and program standards. We recommend, however, phasing in the QRIS standards and rating process over several years. To ensure COE-operated preschools are given a fair rating, we also recommend the state require those programs to be evaluated by an independent party, such as CDE or a neighboring COE.

Clarify Specific Instances When COEs and CDE Must Provide Technical Assistance. We recommend requiring COEs to provide districts with technical assistance in at least two circumstances: (1) if districts do not meet QRIS Tier 4 requirements (when QRIS is fully implemented), and (2) if the share of preschool students who are low income or at risk is lower than the districtwide share of kindergarteners who are low income or at risk. Similarly, we recommend CDE provide technical assistance to COEs' preschool programs in these two circumstances. We also recommend requiring CDE to provide technical assistance to COEs if half of the preschool programs in a county do not meet QRIS Tier 4 requirements (when QRIS is fully implemented) and if the share of preschool students in the county who are low income or at risk is lower than the countywide percentage of kindergarteners who are low income or at risk.

Provide COEs One-Time Funding in Budget Year, Consider the Appropriate Ongoing Funding Level Over Coming Year. The proposal includes additional responsibilities for COEs. Without specificity in the plan regarding how or when counties should offer technical assistance, however, what amount of ongoing funding they should receive is unclear. We recommend providing $10 million in one-time funding in 2016-17 and then determining the appropriate amount of ongoing funds COEs should receive as part of the 2017-18 budget process.

COMMUNITY COLLEGES

Compared to the Governor's January budget, the May Revision includes an additional $73 million for community colleges ($36 million in 2016-17 funds and $37 million in current- and prior-year funds combined). This augmentation brings total 2016-17 community college funding to $8.3 billion. Funding per full-time-equivalent (FTE) student is $7,053 in 2016-17, an increase of $158 (2.3 percent) over the revised 2015-16 level. Below, we describe and assess the Governor's major May Revision proposals for community colleges. The Appendix includes tables providing more detail on the CCC budget.

Major Spending Changes

Provides $75 Million Unallocated Base Increase. The May Revision provides $75 million in ongoing, general purpose apportionment funding. The Governor proposes the increase to account for additional operating expenses in areas such as employee benefits, facilities, professional development, and converting faculty from part time to full time, but colleges could use the funds for any purpose.

Backfills Anticipated Property Tax Shortfall. The May Revision includes one-time funding of $39 million to offset an anticipated property tax shortfall in 2015-16 relating to less-than-expected revenue flowing to community colleges from former RDAs. If the shortfall is less than this amount, the Chancellor's Office would distribute remaining funds toward the CCC mandates backlog.

Increases One-Time Funding for CCC Mandates Backlog by $29 Million. The May Revision brings total backlog payments in the budget package up to $106 million. The May Revision continues to allocate these payments on a per-FTE student basis. The new funding would provide $92 per FTE student.

Provides $20 Million One Time to Accelerate Implementation of Online Education Initiative. The state initially funded this effort with $17 million in 2013-14 and has provided $10 million annually thereafter to increase CCC students' access to and success in online courses. The initiative includes several projects: a common course management system for colleges, resources to help faculty design high-quality courses, online learner readiness modules, tutoring and counseling platforms, exam-proctoring solutions, and the CCC Online Course Exchange. (The course exchange, to be piloted in 2016-17, is a system enabling students at any community college to enroll in degree-applicable courses at other colleges.) With the proposed May Revision augmentation, the administration expects community colleges to speed up progress on several of these projects and increase course offerings significantly.

Other Spending Increases

The May Revision includes seven new proposals ranging from $300,000 to $5 million each.

Provides $5 Million One Time for Technical Assistance to Adult Education Consortia. The May Revision includes one-time funding of $5 million for one selected school district, community college district, COE, or consortium to provide technical assistance to consortia over a three-year period (2016-17 through 2018-19). Services could include meeting facilitation, assistance with governance issues, dissemination of effective practices, and professional development, among others. These types of services would be intended to help consortia successfully transition to the new adult education program structure.

Expands Systemwide Internet Capacity. The May Revision proposes to provide $7 million one time (from 2015-16 funds) and $5 million ongoing to the Telecommunications and Technology Infrastructure Program (TTIP) for network equipment upgrades and higher-capacity Internet connections to community colleges sites. The administration notes that the improvements are needed to meet growing demand for connectivity (for example, students increasingly are connecting multiple mobile devices to college WiFi networks) and prepare for statewide rollout of the common assessment, education planning, online education, and other statewide technology initiatives. (These initiatives currently are in various stages of development and piloting.)

Increases Funding for Energy-Efficiency Projects. The May Revision revises Proposition 39 revenue estimates upward, resulting in an additional $4.1 million for community college energy-efficiency projects, bringing their total energy-efficiency funds for 2016-17 to $49.3 million.

Funds Instructional Materials for Incarcerated Adults. The Governor proposes $3 million ongoing to purchase electronic textbooks and other classroom resources for inmates under the jurisdiction of the California Department of Corrections and Rehabilitation (CDCR) who are enrolled in community college courses. The department indicates it already has the necessary e-readers for inmates to access these resources. It previously has purchased textbook content to use on these readers, but the content expires after a limited time.

Provides Funding to Further Equal Employment Opportunity. The May Revision provides $2.3 million from the Employment Opportunity Fund to promote equal opportunity in hiring and promotion at community colleges. (This fund contains penalties paid by community college districts that do not meet their full-time faculty obligation number.)

Increases Financial Aid for CTE Students. The May Revision provides $2.2 million to expand eligibility for the Full-Time Student Success Grant to Cal Grant C recipients and fund an anticipated increase in the number of eligible Cal Grant B recipients. The proposal also fixes the annual grant amount at $600 per student. (The state created the Full-Time Student Success Grant in 2015-16 to provide financial aid supplements to Cal Grant B recipients attending CCC full time.)

Increases Support for Statewide Academic Senate by $300,000. The May Revision increases state support for the Academic Senate from $468,000 to $768,000 in recognition of its role in implementing several statewide initiatives, including the proposed Strong Workforce Program.

Two Adjustments Associated With Specific Districts. The May Revision includes a $42 million correction to properly account for stability funding provided to San Francisco Community College District pursuant to Chapter 34 of 2014 (SB 860, Senate Committee on Budget and Fiscal Review). This adjustment does not change state policy regarding the district's funding. Instead, it ensures the scheduled stability payment for 2016-17 will not reduce the availability of enrollment funding across the CCC system. The May Revision also includes a reduction to the interest rate on loans provided to Compton Community College District to reflect rates recently provided to certain school districts.

Spending Reductions

Reduces One-Time Deferred Maintenance and Instructional Equipment Funding. The May Revision partly offsets the above increases by a $66 million reduction in the Physical Plant and Instructional Equipment categorical program. Budget-year funding for these purposes would drop from $255 million to $189 million. Total funding for these purposes, including funding scored to the current and prior years, would be $219 million (compared with $290 million in the Governor's January budget).

Updates COLA Rate. Based upon updated data, the May Revision adjusts the COLA rate used for certain community college programs down from 0.47 percent in January to zero. Relative to the Governor's budget, zeroing out the COLA reduces apportionment costs by $29 million and selected categorical program costs by $1.3 million.

Changes to Strong Workforce Proposal

In addition to spending changes, the May Revision contains trailer bill proposals that would make various substantive changes to the Governor's January proposals. Among the most significant of these substantive changes, discussed below, are those proposed for the Strong Workforce Program.

Separately Designates Funding for Regional Collaboratives and Districts. The Governor's January proposal allocated $200 million to regional "collaboratives" to expand the availability of quality CTE and workforce development courses, pathways, and programs resulting in certificates, degrees, and other credentials. The collaboratives would consist of community college districts, local education agencies, interested CSU and UC campuses, civic representatives, workforce development boards, representatives from the organized labor community, and economic development and industry sector leaders. Each region's share of the $200 million would be based on specified factors (the region's unemployment rate, its share of statewide CTE enrollment, projected job openings in the region, and member colleges' workforce outcomes), and the collaboratives would use the funds for regionally prioritized projects and programs. Under the May Revision, 40 percent of program funding will be allocated to collaboratives and the remaining 60 percent directly to member districts based on the same funding factors. Districts would use their direct funding for regionally prioritized activities consistent with the collaborative's regional plan. Of the funds provided directly to a district, no more than 60 percent could be used for ongoing costs.

Strengthens Requirements for Improving Curriculum Development and Approval Processes. The Governor's January proposal required the Chancellor's Office to develop policies to streamline local and statewide curriculum approval. The revised proposal requires the Chancellor's Office to develop a plan for expedited approval of CTE courses and programs by July 1, 2017 and implement the plan by January 1, 2018. The plan would be required to set forth two curriculum-approval options. One option would permit colleges to adopt courses and programs within one academic year, to be offered the following academic year. The other option would permit adoption within one semester, for courses and programs to be offered the following semester. In consultation with the Department of Finance and the Legislative Analyst's Office, the Chancellor's Office would select one of these options to implement. The plan also would include a process for a college to adopt or adapt another college's approved CTE course or program within one semester.

Calls for Study of Possible Program Consolidation. The May Revision states legislative intent for the Chancellor's Office, Department of Finance, and Legislative Analyst's Office to investigate potential consolidation of other CTE programs within the Strong Workforce Program.

Other Changes. Additional changes include requiring the CCC Academic Senate to establish a CTE subcommittee consisting mainly of CTE faculty to ensure (1) portability of courses, programs, and degrees across colleges and (2) alignment of CTE instruction with industry trends. The proposal clarifies the types of degree and certificate programs to be included in the Strong Workforce Program and the definition of supplanting for the program purposes. It also requires the Chancellor's Office to recommend the regional allocation of funds to the Legislative Analyst's Office and the Department of Finance for approval prior to distribution. (The Governor's January proposal required only Department of Finance approval.)

Other Policy Changes

Changes to Zero-Textbook-Cost Degree Proposal. The May Revision also includes a number of changes to the administration's January zero-textbook-cost degree proposal. Changes include reducing the grant amount to $200,000 per degree program (from $500,000), authorizing districts to use funding to obtain professional development and technical assistance, and requiring that grantees strive to offer the new degree programs by fall 2018. Additional changes providing clarification or fine-tuning include:

- ***Prioritizes Use of Existing Open Educational Resources (OER).*** The May Revision requires colleges to prioritize use of existing OER through existing initiatives or elsewhere, before creating new content. It requires that faculty have flexibility to update and customize instructional materials, effectively requiring that all OER used have a type of license that permits faculty to make changes.

- ***Requires Sustainability Planning.*** The May Revision also requires that colleges consider sustainability of materials developed under the program, including how content will be updated and presented after grant funding is exhausted.

- ***Other Clarifications.*** The May Revision proposal includes a number of clarifications regarding printing of instructional materials, safeguarding of testing and assessment materials posted publicly, types of degree and certificate programs that may be developed and prioritized, and compliance with applicable federal laws.

Changes to Basic Skills Proposal. In January, the Governor proposed a $30 million ongoing augmentation to the Basic Skills Initiative. The majority of these funds would be allocated to districts, with a small portion designated for statewide professional development activities. (At that time, we recommended redirecting this augmentation to an existing, one-time Basic Skills and Student Outcomes Transformation grant program for colleges to redesign their basic skills programs.) The May Revision proposes to amend provisional language to provide a larger share of Basic Skills Initiative funding for statewide faculty and staff development. The goal of these professional development activities is to improve curriculum, instruction, student services, and program practices in basic skills and English as a second language programs. The May Revision includes $2.5 million or 5 percent of total funding for statewide activities, compared with the $1.2 million or 2.4 percent of total funding proposed in January. The May Revision also requires notification and concurrence of the Legislative Analyst's Office and the Department of Finance on factors to include in the funding formula for this program. (The Governor's January proposal required only Department of Finance concurrence.)

Changes to Adult Education Block Grant Program. The May Revision contains trailer bill language that would (1) require the fiscal agents of regional adult education consortia to distribute funds to their members within 45 days of receipt and (2) prohibit these fiscal agents from requiring members to be funded on a reimbursement basis.

Assessment and Recommendations

Below, we assess the May Revision proposals for community colleges and provide associated recommendations. Figure 5 (see next page) summarizes these recommendations. We begin by identifying those proposals we believe reasonable and recommend adopting or amending slightly. We then turn to those proposals we believe have notable shortcomings and recommend rejecting or modifying more significantly.

Recommend Approving Increase in General Purpose Funding. Given the availability of additional Proposition 98 funding for community colleges at the May Revision, we think providing an apportionment increase is reasonable. Although state categorical programs have received substantial augmentations in recent years, these programs often do not give districts sufficient flexibility to meet state priorities, nor are they always perfectly aligned with local priorities. Districts could use this more flexible funding to tailor their approaches to meeting statewide priorities and meet any other high priorities.

Several New Funding Proposals Appear to Have Merit. We have no significant concerns regarding five of the Governor's new spending proposals. These are modifications to established programs and have a high likelihood of successful implementation. Specifically, we think the CCC could use the following augmentations productively:

- ***Online Education Initiative.*** This initiative is well underway and the Chancellor's Office believes it could significantly accelerate progress with the proposed funding. Before approving the proposed May Revision increase, we recommend the Legislature ask CCC to identify specific

Figure 5

Summary of California Community Colleges Recommendations

Program	May Revision Proposal	LAO Recommendation
General purpose apportionment funding	Increase by $75 million.	***Adopt.*** Colleges can use flexible funds to meet highest priorities.
Online Education Initiative	Provide $20 million one time.	***Adopt.*** Accelerates implementation of online courses.
Technical assistance for Adult Education Consortia	Increase by $5 million one time (over three years).	***Adopt.*** Maintains service level to consortia during transition process.
Telecommunications and Technology Infrastructure	Increase by $7 million one time and $5 million ongoing.	***Adopt.*** Expands Internet capacity for statewide technology projects.
Full-Time Student Success Grant	Increase by $2 million.	***Adopt.*** Reduces financial aid disparity between career technical education students and other students.
CCC Academic Senate	Increase by $300,000.	***Adopt.*** Addresses increased workload for statewide initiatives.
Energy-efficiency projects (Proposition 39)	Increase by $4 million.	***Adopt.*** Increase for projects consistent with revised Proposition 39 revenue estimate.
Equal Employment Opportunity	Increase by $2 million.	***Adopt.*** Uses special fund balance for authorized purposes.
Strong Workforce Program	Make policy changes.	***Modify.*** Remove requirement that LAO approve funding allocations.
Zero-Textbook-Cost Degree Program	Make policy changes.	***Modify.*** Add requirement for CCC to coordinate with related state initiatives. Consider adding component for instructional materials for incarcerated adults.
Instructional materials for incarcerated adults	Provide $3 million.	***Reject.*** Proposal lacks adequate information and raises several concerns. Consider link to zero-textbook-cost proposal.
Basic Skills Initiative	Make policy changes.	***Modify.*** Adopt change in share for statewide professional development (from 2.4 percent to 5 percent of total program funding). Designate first-year funding for grants. Remove requirement that LAO concur on funding factors.
Enrollment growth	Make no changes to January proposal.	***Modify.*** Reduce 2015-16 enrollment base to reflect updated data and carry adjustment forward into 2016-17. Still assume 2 percent growth year over year. Use freed-up funds for other high priorities.
CCC mandates backlog	Provide $29 million.	***Reject.*** Per-student approach to reducing CCC mandates backlog no longer makes sense.
Deferred Maintenance and Instructional Equipment	Increase by $189 million.	***Modify.*** To extent Legislature frees up funding by rejecting or modifying other CCC proposals, redirect funds for one-time purposes such as maintenance backlog.

associated deliverables it can expect from the project over the next few years. It would be helpful to know, for example, the number of courses currently scheduled for piloting over the next two or three years and the extent to which the proposed funding would increase this number.

- ***Technical Assistance for Adult Education Consortia.*** The May Revision proposal would enable CDE and the Chancellor's Office to maintain for three more years the level of support they have been providing for districts as they transition to the new adult education program. (Although both agencies received state operations funding for the adult education program, they have provided support for consortia partly with one-time funds that recently were exhausted.) Although many consortia have successfully transitioned to the new model and are working together well, others continue to struggle with establishing the necessary relationships, structures, and policies to collaborate effectively. Additional one-time funding could help these consortia come together and assist all consortia in improving their practices and outcomes through better coordination, professional development and targeted technical assistance.

- ***Technology Infrastructure.*** We believe the TTIP program has developed a solid plan for using the $7 million one time and $5 million ongoing augmentations proposed in the May Revision to expand Internet capacity across the system.

- ***Financial Aid for CTE Students.*** The proposal to expand the CCC Full-Time Student Success Grant reflects an option we recommended the Legislature consider if it wanted to increase financial aid for CCC CTE students. Community colleges were able to quickly implement the grant program last year after it was initially funded and should not have difficulty expanding the program to include Cal Grant C recipients.

- ***Academic Senate.*** The Academic Senate has an important role in supporting the implementation of statewide initiatives that involve instructional programs. These include recent student success and basic skills initiatives as well as the proposed new workforce program.

Recommend Approving Substantive Changes to Strong Workforce Program. Limiting the share of funding that can be used for ongoing programs, as the May Revision does, would help ensure that resources remain available over time for periodic CTE equipment purchase and renewal and other one-time CTE costs. Setting a time line for planning and implementing improvements to the CTE curriculum development process, and clarifying expectations for the new process, likely would accelerate improvement on this longstanding issue. Exploring consolidation of other workforce programs has the potential to reduce duplication in planning and reporting and improve alignment of activities across the system. We recommend one modification, however, to the Governor's proposal. While we believe it is appropriate for our office to review the proposed funding allocation and notify the Legislature of any concerns, it is not appropriate for our office to have an executive branch role of approving a particular funding allocation.

Recommend Approving May Revision Changes to Zero-Textbook-Cost Degree Proposal. Several of the May Revision changes—including reducing the grant amounts, authorizing use of grant funds for outside professional development, prioritizing the use of existing OER, establishing a time line for offering new programs, and planning for sustainability—are consistent with our February recommendations. Other May Revision changes, such as the change to safeguard testing and assessment materials, provide helpful clarifications. In addition to adopting the May Revision changes, we recommend the Legislature require the Chancellor's Office to coordinate the program with other OER initiatives in the state, including a current OER adoption incentive grant program for CSU and CCC. We also recommend the Legislature consider incorporating into this program efforts to provide free instructional materials for inmate education.

Inmate Education Proposal Lacks Sufficient Information. We have several questions regarding this proposal and recommend the Legislature reject it at this time. It is unclear whether CDCR and CCC (including the CCC Academic Senate) have had sufficient communication about the proposed electronic textbook materials. Although a growing number of community colleges are offering courses and programs for inmates, few CCC faculty have opted to use the existing e-readers. While some faculty may perceive resources as a barrier to using these devices, others report that they prefer using printed materials that inmates may keep in their cells. In addition, unlike the electronic textbooks CDCR has purchased, printed materials do not expire at the end of a term. If the Legislature is interested in considering this initiative, it could ask the agencies to work together to develop a proposal for the next legislative session. To begin addressing the need for course resources in the meantime, the Legislature could consider amending the Governor's zero-textbook-cost degree proposal to ensure a portion of that initiative results in free, customizable, and non-expiring materials for inmate education programs.

Modify Basic Skills Initiative Proposal. We continue to think the state would be better served by providing the proposed funding for additional Basic Skills and Student Outcomes Transformation grants, as we recommended earlier this year. Since the time of our initial analysis, the Chancellor's Office awarded the full $60 million in available grant funding to 43 colleges. Another 21 applicants were eligible for $30 million in awards but did not receive funding. We recommend the Legislature designate the Governor's proposed $30 million augmentation to this program instead for additional transformation grants. The ongoing funds would become available following 2016-17 for the ongoing Basic Skills Initiative. Should the Legislature not wish to fund additional transformation grants, however, we recommend adopting the Governor's proposed increase in the share of funding designated for statewide professional development. Additionally, similar to one or our concerns with the revised workforce proposal, we recommend the Legislature modify the requirement that our office concur on the Chancellor's Office's proposed funding allocation.

Enrollment Growth Funding Likely Too High. Although updated CCC enrollment reports show lower 2015-16 enrollment than anticipated in January, the May Revision does not reduce enrollment growth funding for the current year or the budget year. Based on apportionment data, we recommend reducing current-year enrollment growth funding by about 12,000 FTE students to reflect anticipated systemwide growth of 1 percent. We also recommend reducing base enrollment by a similar amount for 2016-17. For each year, this would free up about $60 million that the Legislature could redirect to other Proposition 98 priorities. Lower-than-anticipated growth in the current year makes it less likely that CCC will achieve systemwide growth of 2 percent in 2016-17. Rather than reducing growth funding at this time, however, we recommend the Legislature revisit the issue in 2016-17 and make adjustments at that time based on fall 2016 enrollment reports. This will ensure sufficient funding in the event growth begins to recover.

Recommend Redirecting Funding From CCC Mandates Backlog to Higher One-Time CCC Priorities. We are especially concerned that the May Revision increases funding for the CCC mandates backlog. Only ten of the 72 community college districts have outstanding mandates claims. (The backlog for all other districts was eliminated the past few years, as the state made large backlog payments.) Though the state subjects community college districts to the same set of mandated activities, some districts claim far more than others in costs for these activities. Four community college districts account for over 90 percent of the system's backlog. One district alone accounts for 52 percent of the system's backlog. Given this very uneven distribution of mandates claims, paying all districts on a per-FTE student basis no longer makes sense. We recommend the Legislature redirect the $106 million the administration proposes for the CCC mandates backlog to higher one-time priorities, such as addressing CCC's substantial deferred maintenance issues. The Chancellor's Office reports a maintenance backlog at every campus, with a total systemwide maintenance backlog in excess of $1 billion.

Concern With Reducing One-Time Spending. We also are concerned about the proposed reduction to the maintenance and instructional equipment item, not only because of the large maintenance backlog but also because reducing one-time spending leaves the state with a smaller cushion in the event of a decline in the Proposition 98 guarantee the next few years. To the extent the Legislature frees up funding within the guarantee by adopting some of our recommendations above (such as adjusting CCC funding downward to account for updated enrollment data), we encourage the Legislature to redirect those funds for one-time purposes, such as the maintenance backlog.

APPENDIX

Education Budget Figures

Tracking Changes in Estimates of Proposition 98 Minimum Guarantee[a]

(In Millions)

	June 2015	January 2016	May 2016	Change From January 2016	Change From June 2015
2014-15	$66,303	$66,690	$67,153	$463	$850
2015-16	68,409	69,175	69,050	-125	641
2016-17	—	71,585	71,874	288	3,465[b]

[a] Reflects budget act estimates for June 2015 and administration's estimates for January 2016 and May 2016.
b Reflects change from June 2015 estimate of 2015-16 minimum guarantee. Increase is 5.1 percent.

Changes in General Fund Tax Revenue and Proposition 98 General Fund[a]

(In Millions)

	Governor's Budget	May Revision	Change
2014-15			
General Fund tax revenue	$111,975	$112,448	$474
Proposition 98 General Fund	49,554	50,029	475
2015-16			
General Fund tax revenue	$120,205	$118,516	-$1,688
Proposition 98 General Fund	49,992	49,773	-218
2016-17			
General Fund tax revenue	$124,154	$123,222	-$933
Proposition 98 General Fund	50,972	51,105	133

[a] The Proposition 98 minimum guarantee is met using state General Fund and local property tax revenue. "Proposition 98 General Fund" refers to the amount of the guarantee covered by state General Fund.

Changes in Proposition 98 Funding By Segment and Source

(In Millions)

	Governor's Budget	May Revision	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[a]	80	80	—
By Fund Source:			
General Fund	$49,554	$50,029	$475
Local property tax	17,136	17,124	-12
2015-16 Minimum Guarantee	**$69,175**	**$69,050**	**-$125**
By Segment:			
Schools	$61,096	$60,984	-$112
Community colleges	7,997	7,983	-14
Other[a]	82	82	—
By Fund Source:			
General Fund	$49,992	$49,773	-$218
Local property tax	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[a]	83	83	—
By Fund Source:			
General Fund	$50,972	$51,105	$133
Local property tax	20,613	20,769	156

[a] Includes funding for instructional services provided by the State Special Schools, California Department of Corrections and Rehabilitation, and Department of Developmental Services.

2015-16 Proposition 98 Spending Changes

(In Millions)

	Governor's Budget	May Revision	Change
***2015-16 Budget Act* Spending**	**$68,409**	**$68,409**	**—**
Technical Adjustments			
Make LCFF adjustments	-$91	-$35	$56
Other	43	-61	-104
Subtotals	(-$48)	(-$96)	(-$48)
Policy Changes			
Pay down K-12 mandate backlog	$681	$586	-$95
Pay down CCC mandate backlog	73	76	3
Fund CTE Incentive Grant program	60	—	-60
Backfill CCC for lower than projected property tax revenue[a]	—	39	39
Backfill special education for lower than projected property tax revenue[a]	—	29	29
Provide CCC with technology infrastructure funding (one time)	—	7	7
Subtotals	($814)	($737)	(-$78)
Total Changes	**$766**	**$641**	**-$125**
2015-16 Revised Spending	**$69,175**	**$69,050**	**-$125**

[a] If backfill amounts exceed actual property tax shortfalls, CCC Chancellor's Office directed to use excess funds for CCC mandate backlog. Excess funds for special education would revert.

LCFF = Local Control Funding Formula and CTE = career technical education.

2016-17 Proposition 98 Spending Changes

(In Millions)

	Governor's Budget	May Revision	Change
2015-16 Revised Proposition 98 Spending	**$69,175**	**$69,050**	**-$125**
Technical Adjustments			
Remove prior-year one-time payments	-$1,446	-$1,301	$145
Make other adjustments	-115	-152	-36
Adjust categorical programs for changes in attendance	-16	-21	-6
Make LCFF adjustments	101	175	74
Annualize funding for previously approved preschool slot increases	31	31	—
Subtotals	(-$1,445)	(-$1,268)	($177)
K-12 Education			
Increase LCFF funding	$2,825	$2,979	$154
Fund CTE Incentive Grant for Secondary Schools (year two of three)[a]	240	300	60
Provide COLA for select categorical programs[b]	23	—	-23
Fund truancy and dropout prevention program	7	10	3
Fund High Speed Network[c]	5	5	—
Revise estimate of energy-efficiency funds	52	85	33
Support Exploratorium	4	4	—
Fund improvement of web-based tools for state accountability system	1	1	—
Remove augmentation for infants and toddlers with disabilities	-30	-30	—
Fund COEs for implementation of new Early Education Block Grant	—	10	10
Support Student Friendly Services	—	2	2
Subtotals	($3,125)	($3,365)	($239)
California Community Colleges			
Implement workforce recommendations of BOG task force	$200	$200	—
Fund deferred maintenance and instructional equipment (one time)	255	189	-$66
Fund 2 percent enrollment growth	115	115	—
Provide apportionment increase (above growth and COLA)	—	75	75
Make CTE Pathways Initiative ongoing	48	48	—
Augment Basic Skills Initiative	30	30	—
Fund Innovation Awards at community colleges (one time)	25	25	—
Revise estimate of energy-efficiency funds	6	11	4
Increase funding for Institutional Effectiveness Initiative	10	10	—
Augment technology infrastructure funding	—	5	5
Fund technical assistance to adult education consortia (one time)	—	5	5
Fund development of "zero-textbook-cost" degree programs (one time)	5	5	—
Provide instructional materials for incarcerated adults	—	3	3
Improve systemwide data security	3	3	—
Extend Full-Time Student Success Grant to Cal Grant C recipients	—	2	2
Increase apprenticeship reimbursement rate	2	2	—
Provide COLA[b]	31	—	-31
Subtotals	($730)	($728)	(-$2)
Total Changes	**$2,410**	**$2,824**	**$414**
2016-17 Proposed Spending	**$71,585**	**$71,874**	**$288**

[a] Governor's budget includes $60 million in 2015-16 funding for this purpose.
[b] COLA rate was estimated at 0.47 percent in January and finalized at zero in May.
[c] Budget also includes $3.5 million in one-time funding for this purpose.
LCFF = Local Control Funding Formula; CTE = career technical education; COLA = cost-of-living adjustment; COE = county office of education; and BOG = Board of Governors.

2016-17 K-12 Proposition 98 Spending Changes

(In Millions)

	Governor's Budget	May Revision	Change
2015-16 Revised Spending	**$61,178**	**$61,066**	**-$112**
Technical Adjustments	-$977	-$852	$125
Policy Proposals			
Increase LCFF funding	$2,825	$2,979	$154
Fund CTE Incentive Grant for Secondary Schools	240[a]	300	60
Revise estimate of energy-efficiency funds	52	85	33
Fund truancy and dropout prevention program	7	10	3
Fund COEs for implementation of new Early Education Block Grant	—	10	10
Fund High Speed Network	5[b]	5[b]	—
Support Exploratorium	4	4	—
Fund improvement of web-based tools for state accountability system	1	1	—
Support Student Friendly Services	—[d]	2	2
Provide COLA for select categorical programs[c]	23	—	-23
Remove augmentation for infants and toddlers with disabilities	-30	-30	—
Subtotals	($3,125)	($3,365)	($239)
Total Changes	**$2,148**	**$2,513**	**$364**
2016-17 Proposed Spending	**$63,326**	**$63,579**	**$253**

[a] Also included $60 million in 2015-16 funding for this purpose.
[b] Also includes $3.5 million in one-time funding for this purpose.
[c] COLA rate was estimated at 0.47 percent in January, finalized at zero in May.
[d] Governor's budget proposed $1 million in prior-year funds.
LCFF = Local Control Funding Formula; CTE = Career Technical Education; COE = county office of education and COLA = cost-of-living adjustment.

K-12 Proposition 98 Funding Per Pupil

	Governor's Budget	May Revision	Change
2014-15	$9,933	$10,001	$68
2015-16	10,237	10,217	-20
2016-17	10,605	10,657	52
Year-to-Year Change[a]			
Amount	$369	$440	$72
Percent	3.6%	4.3%	0.7%

[a] Reflects change from 2015-16 to 2016-17.

Changes in LCFF Funding

(Dollars in Millions)

	2015-16 Revised	2016-17 Governor's Budget	2016-17 May Revision	2016-17 Change	Year-to-Year Change[a]
Base funding[b]	$46,433	$52,585	$52,580	-$5	$6,147
Gap funding	6,171	2,889	3,053	163	-3,118
Total Funding	**$52,604**	**$55,475**	**$55,633**	**$158**	**$3,029**
Target	**$58,266**	**$58,473**	**$58,158**	**-$315**	**-$108**
Gap closure	52.1%	49.1%	54.7%	5.6%	3%
Percent of target level funded	90.3%	94.9%	95.7%	0.8%	5%

[a] Reflects change from the 2015-16 revised level to the 2016-17 May Revision level.
[b] Base funding reflects total prior-year funding adjusted for changes in student attendance.
LCFF = Local Control Funding Formula.

2016-17 CCC Proposition 98 Changes

(In Millions)

	Governor's Budget	May Revision	Change
2015-16 Revised Spending	**$7,997**	**$7,983**	**-$14**
Technical Adjustments	**-$468**	**-$416**	**$52**
Policy Proposals			
Implement workforce recommendations of BOG task force	$200	$200	—
Fund deferred maintenance and instructional equipment (one time)[a]	255	189	-$66
Fund 2 percent enrollment growth	115	115	—
Provide apportionment increase (above growth and COLA)	—	75	75
Make CTE Pathways Initiative ongoing	48	48	—
Augment Basic Skills Initiative	30	30	—
Fund Innovation Awards at community colleges (one time)	25	25	—
Revise estimate of energy-efficiency funds	6	11	4
Increase funding for Institutional Effectiveness Initiative	10	10	—
Augment technology infrastructure funding	—	5	5
Fund technical assistance to adult education consortia (one-time)	—	5	5
Fund development of "zero-textbook-cost" degree programs (one time)	5	5	—
Provide instructional materials for incarcerated adults	—	3	3
Improve systemwide data security	3	3	—
Extend Full-Time Student Success Grant to Cal Grant C recipients	—	2	2
Increase apprenticeship reimbursement rate	2	2	—
Augment funding for systemwide Academic Senate[b]	—	—	—
Provide COLA[c]	31	—	-31
Subtotals	($730)	($728)	(-$2)
Total Changes	**$262**	**$311**	**$50**
2016-17 Proposed Spending	**$8,259**	**$8,295**	**$36**

[a] Governor's budget provided an additional $28 million in Proposition 98 settle up and $6.4 million in unspent Proposition 98 prior-year funds for this purpose. The May Revision provides $24 million in settle up and $6.4 million in unspent prior-year funds.
[b] Provides $300,000.
[c] COLA rate was estimated at 0.47 percent in January, finalized at zero in May.
BOG = Board of Governors; COLA = cost-of-living adjustment; and CTE = Career Technical Education.

Community College Programs Funded by Proposition 98

(In Millions)

	2015-16			2016-17		
	Governor's Budget	May Revision	Change	Governor's Budget	May Revision	Change
Apportionments						
General Fund	$3,417	$3,455	$38	$3,209	$3,346	$137
Local property tax	2,624	2,562	-62	2,812	2,760	-52
Subtotals	($6,041)	($6,017)	(-$24)	($6,020)	($6,106)	($86)
Categorical Programs and Other Appropriations						
Adult Education Block Grant	$500	$500	—	$500	$505	$5
Student Success and Support Program	299	299	—	299	299	—
Physical plant and instructional support (one time)	100	100	—	255	189	-66[a]
Economic and Workforce Development	23	23	—	223	223	—
Student equity plan implementation	155	155	—	155	155	—
Extended Opportunity Programs and Services	123	123	—	124	123	-1
Disabled Students Program	115	115	—	116	115	-1
Financial aid administration	74	74	—	68	71	2
Student Success for Basic Skills Students	20	20	—	50	50	—
CTE Pathways Initiative	—	—[b]	—	48	48	—
Lease revenue bond payments	56	56	—	47	47	—
Proposition 39 energy-efficiency projects	39	39	—	45	45	—
Cal Grant B and C supplemental grants	39	39	—	39	41	2
CalWORKs student services	35	35	—	35	35	—[c]
Mandates block grant[d]	32	32	—	33	32	—[c]
Apprenticeship (community colleges)	31	31	—	32	32	—[c]
Institutional effectiveness initiative	18	18	—	28	28	—
Innovation awards (one time)	—	—	—	25	25	—
Part-time faculty compensation	25	25	—	25	25	—
Telecommunications and technology services	20	27	$7	23	28	5
Apprenticeship (school districts)	20	20	—	22	21	—[c]
Online course initiative	10	10	—	15	18	3
Nursing grants	13	13	—	13	13	—
Foster Parent Education Program	5	5	—	5	5	—
Fund for Student Success	4	4	—	4	4	—
Part-time faculty office hours	4	4	—	4	4	—
Campus child care support	3	3	—	3	3	—[c]
Other[e]	3	3	—	3	3	—[c]
Mandate backlog payment (one time)	190	193	3	—	—	—
Subtotals	($1,956)	($1,966)	($10)	($2,238)	($2,189)	(-$49)
Totals	**$7,997**	**$7,983**	**-$14**	**$8,259**	**$8,295**	**$36**

[a] Budget provides an additional $24 million in Proposition 98 settle-up and $6 million in unspent Proposition 98 prior-year funds for this purpose.
[b] State provided $96 million in 2014-15, including $48 million for 2015-16 costs.
[c] Less than $500,000.
[d] Includes $17,000 in 2015-16 and $13,000 in 2016-17 for mandate reimbursements.
[e] Includes Equal Employment Opportunity, transfer education and articulation, district financial crisis oversight, part-time faculty health insurance, and Academic Senate.
CTE = career technical education.

Proposed Funding for Education Mandates Backlog

(In Millions)

	Governor's Budget	May Revision	Change
K-12 Education			
Pay down scored to:			
2014-15	$339	$635	$296
2015-16	681	586	-95
Settle up	229	194	-35
Other[a]	32	—	-32
Subtotals	($1,281)	($1,416)	($135)
California Community Colleges			
Pay down scored to:			
2014-15	$3	$29	$26
2015-16	73	76	3
Subtotals	($76)	($106)	($29)
Totals	**$1,357**	**$1,521**	**$164**

[a] Prior-year unspent funds.

Key Proposition 98 Information Underlying May Revision

(Dollars in Millions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Minimum Guarantee						
General Fund	$50,029	$49,773	$51,105	$52,416	$52,034	$53,301
Local property tax	17,124	19,276	20,769	22,050	23,322	24,639
Total Guarantees	**$67,153**	**$69,050**	**$71,874**	**$74,466**	**$75,356**	**$77,939**
Inputs						
General Fund taxes[a]	$112,448	$118,516	$123,222	$127,585	$128,677	$133,178
K-12 average daily attendance	5,981,713	5,977,223	5,966,068	5,961,800	5,945,458	5,941,669
State civilian population	38,750,025	39,098,266	39,444,353	39,789,683	40,132,904	40,475,897
Growth Factors						
Per capita personal income	-0.2%	3.8%	5.4%	4.9%	3.9%	3.5%
Per capita General Fund[b]	10.4	5.0	3.6	3.1	0.5	3.1
K-12 average daily attendance	-0.2	-0.1	-0.2	-0.1	-0.3	-0.1
State civilian population	0.9	0.9	0.9	0.9	0.9	0.9
Assessed property values	6.1	5.9	6.2	5.8	5.7	5.4
K-14 cost-of-living adjustment	0.9	1.0	—	1.1	2.4	2.7
Outcomes						
Proposition 98 operative "test"	1	2	3	3	3	3
Spike protection effect[c]	-$1,009	—	—	—	—	—
Test 3 supplemental payment	—	—	$502	$387	$728	$279
Maintenance factor:						
Amount created/paid (+/-)	-5,679	-$379	746	884	1,797	—
Amount outstanding	514	155	908	1,837	3,700	3,827
PSSSA Deposit?	—	No	No	No	No	No

[a] Reflects General Fund revenue that affects the calculation of the minimum guarantee.
[b] Reflects per capita General Fund plus 0.5 percent (one of the Test 3 factors).
[c] Due to a revenue spike in 2014-15, a portion of the increase in the 2014-15 minimum guarantee is backed out from the calculation of the minimum guarantee moving forward.
PSSSA = Public School System Stabilization Account.

Key Proposition 98 Information Underlying LAO Forecast

(Dollars in Millions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Minimum Guarantee						
General Fund	$50,235	$49,659	$50,973	$52,553	$52,835	$53,389
Local property tax	17,117	19,392	21,007	22,390	23,642	24,778
Total Guarantees	**$67,352**	**$69,051**	**$71,979**	**$74,943**	**$76,477**	**$78,167**
Inputs						
General Fund taxes[a]	$112,658	$118,485	$123,393	$129,701	$132,327	$135,325
K-12 average daily attendance	5,981,713	5,972,805	5,956,678	5,939,701	5,913,566	5,894,938
State civilian population	38,750,025	39,098,266	39,440,742	39,758,017	40,063,426	40,364,205
Growth Factors						
Per capita personal income	-0.2%	3.8%	5.4%	4.4%	6.2%	5.4%
Per capita General Fund[b]	10.6	4.7	3.7	4.8	1.8	2.0
K-12 average daily attendance	-0.2	-0.2	-0.3	-0.3	-0.4	-0.3
State civilian population	0.9	0.9	0.9	0.8	0.8	0.8
Assessed property values	6.1	5.9	6.6	5.9	5.7	5.3
K-14 cost-of-living adjustment	0.9	1.0	—	1.8	2.4	2.3
Outcomes						
Proposition 98 operative "test"	1	2	3	2	3	3
Spike protection effect[c]	-$1,078	—	—	—	—	—
Test 3 supplemental payment	—	—	$540	—	$558	$410
Maintenance factor:						
Amount created/paid (+/-)	-5,802	-$249	583	—	2,770	2,159
Amount outstanding	391	157	748	$779	3,593	5,933
PSSSA Deposit?	—	No	No	No	No	No

[a] Reflects General Fund revenue that affects the calculation of the minimum guarantee.
[b] Reflects per capita General Fund plus 0.5 percent (one of the Test 3 factors).
[c] Due to a revenue spike in 2014-15, a portion of the increase in the 2014-15 minimum guarantee is backed out from the calculation of the minimum guarantee moving forward.
PSSSA = Public School System Stabilization Account.

Comparing Administration's and LAO's Estimates of the Minimum Guarantee

(In Millions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
May Revision						
General Fund	$50,029	$49,773	$51,105	$52,416	$52,034	$53,301
Local property tax	17,124	19,276	20,769	22,050	23,322	24,639
Total Guarantees	**$67,153**	**$69,050**	**$71,874**	**$74,466**	**$75,356**	**$77,939**
LAO Forecast						
General Fund	$50,235	$49,659	$50,973	$52,553	$52,835	$53,389
Local property tax	17,117	19,392	21,007	22,390	23,642	24,778
Total Guarantees	**$67,352**	**$69,051**	**$71,979**	**$74,943**	**$76,477**	**$78,167**
Difference						
General Fund	$206	-$115	-$132	$137	$800	$88
Local property tax revenue	-7	115	237	340	320	139
Total Differences	**$199**	**$1**	**$106**	**$477**	**$1,121**	**$227**

Comparing Proposition 98 Property Tax Revenue Estimates

(In Millions)

Governor's Budget to May Revision

	2015-16			2016-17		
	Governor's Budget	May Revision	Change	Governor's Budget	May Revision	Change
Total local property tax revenue	**$19,183**	**$19,276**	**$93**	**$20,613**	**$20,769**	**$156**
Base property tax revenue	18,306	18,221	-85	19,391	19,385	-5
Ongoing RDA revenue shift	1,008	1,167	159	1,045	1,240	196
ERAF	448	503	55	859	862	3
Sales of RDA assets	116	126	10	10	11	1
Excess tax revenue	-695	-740	-45	-690	-729	-39

May Revision to LAO May Outlook

	2015-16			2016-17		
	May Revision	May LAO	Change	May Revision	May LAO	Change
Total local property tax revenue	**$19,276**	**$19,392**	**$115**	**$20,769**	**$21,007**	**$237**
Base property tax revenue	18,221	18,201	-19	19,385	19,426	41
Ongoing RDA revenue shift	1,167	1,212	45	1,240	1,297	57
ERAF	503	616	113	862	1,106	245
Sales of RDA assets	126	158	33	11	52	40
Excess tax revenue	-740	-795	-56	-729	-874	-145

RDA = redevelopment agency and ERAF = Educational Revenue Augmentation Fund.

Year-Over-Year Growth in Proposition 98 Property Tax Revenue

(Dollars in Millions)

	2015-16	2016-17	Change	Percent
May Revision				
Total local property tax revenue	**$19,276**	**$20,769**	**$1,493**	**8%**
Base property tax revenue	18,221	19,385	1,164	6
Ongoing RDA revenue shift	1,167	1,240	73	6
ERAF	503	862	359	71
Sales of RDA assets	126	11	-114	-91
Excess tax revenue	-740	-729	10	-1
LAO May Outlook				
Total local property tax revenue	**$19,392**	**$21,007**	**$1,615**	**8%**
Base property tax revenue	18,201	19,426	1,224	7
Ongoing RDA revenue shift	1,212	1,297	86	7
ERAF	616	1,106	490	80
Sales of RDA assets	158	52	-107	-67
Excess tax revenue	-795	-874	-79	10

RDA = redevelopment agency and ERAF = Educational Revenue Augmentation Fund.

Summary of K-12 Education Recommendations

Program	May Revision Proposal	LAO Recommendation
LCFF funding for school districts	Increase by $154 million.	***Adopt.*** Accelerates LCFF implementation.
K-12 mandates backlog	Increase by $135 million.	***Modify.*** Adopt funding level but combine with strategic plan to pay off remainder of backlog.
School Facility Emergency Repair Revolving Loan	Provide $100 million (one time) for new program.	***Reject.*** New program redundant with state's existing Facility Hardship Grant Program.
LCFF funding for COEs	Increase by $16.5 million ($5.5 million each 2014-15, 2015-16, and 2016-17).	***Modify.*** Change one of the COE LCFF formulas to ensure funding remains connected with the cost of expected COE services.
SACS replacement project	Provide $3 million. (Replaces $7.2 million in combined non-Proposition 98 and federal funds.)	***Reject.*** Direct CDE to work with CDT to progress through initial stages of state review process. Ask agencies to report progress in summer. Signal intent to fund next year once planning phases of project complete.
Dropout and truancy prevention grants (Proposition 47)	Increase by $2.6 million.	***Modify.*** Estimate of available Proposition 47 funds still too low. Allocate funds to schools with the highest concentration of at-risk youth. Provide programmatic flexibility.
California Center on Teaching Careers	Provide $2.5 million (one time) for teacher recruitment.	***Modify.*** Adopt funding level. Require efforts be focused on longstanding teacher shortage areas. Strengthen reporting requirements.
College planning website	Increase by $1 million (for a total of $2 million). Make all $2 million ongoing.	***Modify.*** Approve $750,000 for public side of site. Reject $1.25 million for fee-for-service side of site.
School energy-efficiency projects (Proposition 39)	Increase by $33 million.	***Adopt.*** Increase for projects consistent with revised Proposition 39 revenue estimate.
Integrated Teacher Preparation Programs	Provide $10 million non-Proposition 98 General Fund for one-time incentive grants.	***Reject.*** Barriers to integrated programs unlikely to be overcome by one-time grants.

LCFF = Local Control Funding Formula; COE = county office of education; SACS = Standardized Account Code Structure; CDE = California Department of Education; and CDT = California Department of Technology.

Summary of Early Education Block Grant Recommendations

Program Component	May Revision Proposal	LAO Recommendation
Funding for providers during initial years of implementation	Provide funding to school districts based on 2016-17 State Preschool and Transitional Kindergarten funding. Provide funding to COEs based on 2016-17 State Preschool funding. Include three-year hold harmless for school districts and COEs. Redirect funding from non-LEA providers to school districts in the area.	***Modify.*** Include one-year hold harmless provision for districts, then gradually align funding based on the number of low-income and at-risk children in each district. Decrease non-LEA and COE funding over five years and reallocate funding to districts within each county based on unmet need.
Future funding allocations	Specify future funding would be allocated based on prior-year funding levels and determination of unmet need.	***Adopt.***
Prioritization of children	Require districts to prioritize funding for low-income and at-risk youth.	***Adopt.***
Definition of low income	Children who qualify for free or reduced-price meals or state-subsidized child care.	***Modify.*** Define children as low income only if they qualify for free or reduced-price meals.
Definition of at risk	Children who are homeless, at risk of abuse or neglect, foster youth, children with disabilities that affect their learning, and English learners.	***Adopt.***
Attendance expectations	Require districts to serve at least as many children as they served in 2016-17, adjusted for changes in K-3 attendance.	***Modify.*** Over the long run, adjust attendance expectations to serve as many priority children as possible given available funding.
Program duration	Require programs to operate for a minimum of three hours per day and 180 days per year.	***Adopt.***
Program standards	Require programs to meet QRIS Tier 4 standards.	***Modify.*** Phase in QRIS standards and rating process over several years. Require independent party evaluate COE-operated programs.
New COE responsibilities	Require COEs to coordinate regional planning, help school districts implement new programs, and provide ongoing technical assistance and professional development opportunities to school districts.	***Modify.*** Require COEs (and CDE) to provide technical assistance under specified conditions.
New COE funding	Provide $20 million ($10 million one time, $10 million ongoing) for additional responsibilities.	***Modify.*** Provide $10 million one-time funding. Make decision on ongoing funding amount in 2017-18 budget.
QRIS funding	Give COEs first priority for $50 million in preschool QRIS block grant funds.	***Adopt.***

COE = county office of education; LEA = local educational agency; QRIS = Quality Rating and Improvement System; and CDE = California Department of Education.

Summary of California Community Colleges Recommendations

Program	May Revision Proposal	LAO Recommendation
General purpose apportionment funding	Increase by $75 million.	***Adopt.*** Colleges can use flexible funds to meet highest priorities.
Online Education Initiative	Provide $20 million one time.	***Adopt.*** Accelerates implementation of online courses.
Technical assistance for Adult Education Consortia	Increase by $5 million one time (over three years).	***Adopt.*** Maintains service level to consortia during transition process.
Telecommunications and Technology Infrastructure	Increase by $7 million one time and $5 million ongoing.	***Adopt.*** Expands Internet capacity for statewide technology projects.
Full-Time Student Success Grant	Increase by $2 million.	***Adopt.*** Reduces financial aid disparity between career technical education students and other students.
CCC Academic Senate	Increase by $300,000.	***Adopt.*** Addresses increased workload for statewide initiatives.
Energy-efficiency projects (Proposition 39)	Increase by $4 million.	***Adopt.*** Increase for projects consistent with revised Proposition 39 revenue estimate.
Equal Employment Opportunity	Increase by $2 million.	***Adopt.*** Uses special fund balance for authorized purposes.
Strong Workforce Program	Make policy changes.	***Modify.*** Remove requirement that LAO approve funding allocations.
Zero-Textbook-Cost Degree Program	Make policy changes.	***Modify.*** Add requirement for CCC to coordinate with related state initiatives. Consider adding component for instructional materials for incarcerated adults.
Instructional materials for incarcerated adults	Provide $3 million.	***Reject.*** Proposal lacks adequate information and raises several concerns. Consider link to zero-textbook-cost proposal.
Basic Skills Initiative	Make policy changes.	***Modify.*** Adopt change in share for statewide professional development (from 2.4 percent to 5 percent of total program funding). Designate first-year funding for grants. Remove requirement that LAO concur on funding factors.
Enrollment growth	Make no changes to January proposal.	***Modify.*** Reduce 2015-16 enrollment base to reflect updated data and carry adjustment forward into 2016-17. Still assume 2 percent growth year over year. Use freed-up funds for other high priorities.
CCC mandates backlog	Provide $29 million.	***Reject.*** Per-student approach to reducing CCC mandates backlog no longer makes sense.
Deferred Maintenance and Instructional Equipment	Increase by $189 million.	***Modify.*** To extent Legislature frees up funding by rejecting or modifying other CCC proposals, redirect funds for one-time purposes such as maintenance backlog.

LAO Publications

This brief was prepared by the Education Unit of the Legislative Analyst's Office (LAO). The LAO is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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