

May 15, 2014

Proposition 98: May Revision Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Budget Subcommittee No. 2 on Education Finance
Hon. Al Muratsuchi, Chair





Updates to Proposition 98 Minimum Guarantee

Proposition 98 Funding			
<i>(Dollars in Millions)</i>			
	January	May Revision	Change
2012-13	\$58,342	\$57,795	-\$547
By Segment:			
K-12	\$51,634	\$51,119	-\$515
CCC	6,149	6,117	-32
Other ^a	559	559	—
By Fund Source:			
General Fund	\$42,207	\$41,682	-\$524
Local Property Taxes	16,135	16,112	-23
2013-14	\$56,813	\$58,302	\$1,489
By Segment:			
K-12	\$49,995	\$51,363	\$1,368
CCC	6,233	6,355	121
Other ^a	585	585	—
By Fund Source:			
General Fund	\$40,948	\$42,731	\$1,783
Local Property Taxes	15,866	15,572	-294
2014-15	\$61,559	\$60,859	-\$700
By Segment:			
K-12	\$54,250	\$53,626	-\$624
CCC	6,723	6,646	-76
Other ^a	587	587	—
By Fund Source:			
General Fund	\$45,062	\$44,462	-\$600
Local Property Taxes	16,497	16,397	-100

^a Includes funding for state preschool programs and state agencies providing direct instructional services.



Updates to Proposition 98 Minimum Guarantee

(Continued)

- Minimum Guarantee Down \$547 Million in 2012-13 Due to Lower Revenues**
 - Minimum guarantee decreases virtually dollar-for-dollar with decline in revenues.

- Higher Revenues Increase 2013-14 Minimum Guarantee by \$1.5 Billion**
 - Increase primarily due to higher General Fund revenue estimates. Also increases due to higher estimates of average daily attendance (ADA).

- Despite Higher Revenues, 2014-15 Minimum Guarantee Down \$700 Million.**
 - Lower year-to-year growth in General Fund revenues reduces required maintenance factor payment.



Updates to Deferral Paydown Plan

Changes to Governor's Deferral Paydown Plan			
<i>(In Millions)</i>			
	January	May	Difference
2012-13			
K-12	\$1,813	\$1,295	-\$518
CCC	194	139	-55
Subtotals	(\$2,007)	(\$1,433)	(\$-574)
2013-14			
K-12	\$1,520	\$2,781	\$1,260
CCC	163	296	134
Subtotals	(\$1,683)	(\$3,077)	(\$1,394)
2014-15			
K-12	\$2,238	\$1,496	-\$742
CCC	236	158	-78
Subtotals	(\$2,474)	(\$1,653)	(\$-820)
Total Proposed Deferral Paydown	\$6,164	\$6,164	—



May Revision Continues to Pay Down All Outstanding School and Community College Deferrals

- Proposal changes years in which paydowns are counted, consistent with revised estimates of minimum guarantee.



Major Proposition 98 Spending Changes

Changes in 2014-15 Proposition 98 Spending			
<i>(In Millions)</i>			
	January	May	Change
Crosscutting K-14 Adjustments			
Deferral paydown	\$2,474	\$1,653	-\$820
K-14 COLA	82	80	-1
Prior-year adjustments	-2,784	-2,784	—
Proposition 39 adjustments	-101	-112	-11
Other changes	—	-18	-18
K-12 Education			
LCFF implementation	4,498	4,498	—
K-12 pupil testing	56	54	-2
LCFF attendance growth	7	128	121
FCMAT	—	1	1
Attendance growth for categorical programs	-18	-1	17
California Community Colleges			
Student Success and Support	200	200	—
Enrollment growth	155	140	-15
Deferred maintenance (one-time)	88	148	61
Instructional equipment (one-time)	88	—	-88
Community college technical assistance teams	3	3	—
CTE funding (one-time)	—	50	50
Internet equipment (one-time) and connectivity	—	6	6
Total Changes	\$4,746	\$4,046	-\$700

COLA = cost-of-living adjustment; LCFF = Local Control Funding Formula; FCMAT = Fiscal Crisis and Management Assistance Team; and CTE = career technical education.

- Higher Attendance Increases LCFF Costs**
 - 2013-14 ADA growth estimate increased from 0.01 percent to 0.33 percent.

- Makes Notable Changes to Community College Proposals**



Community Colleges



May Revision Proposals

- ***Deferred Maintenance and Instructional Support.*** Rescinds January proposal to provide \$87.5 million for replacement of instructional equipment and library materials (instructional support). Increases state support for California Community Colleges (CCC) deferred maintenance by \$60.5 million (from \$87.5 million in January to \$148 million). Eliminates local matching requirement for deferred maintenance funds.
- ***Career Technical Education (CTE).*** Provides \$50 million (one-time) for CTE activities provided through CCC's Economic Development categorical program. Funds would be allocated on a formula basis to existing regional consortia of CCC districts. Districts within each region would develop a plan for spending funds. Funds could be spent for various CTE-related purposes, including acquisition of instructional equipment, curriculum development and redesign, and professional development for CTE faculty.
- ***Technology Infrastructure.*** Provides \$6 million (\$1.4 million one-time, \$4.6 million ongoing) for CCC's Telecommunications and Technology Services categorical program. Proposes \$1.4 million in one-time funds for campuses to replace outdated routers and other networking-related equipment. Additional \$4.6 million in ongoing funds to operate primary and backup internet connections at every community college.
- ***Noncredit Funding.*** Proposes trailer bill language to increase the funding rate for "enhanced" noncredit instruction (such as noncredit CTE and high school diploma classes) to the credit rate beginning in 2015-16.



Community Colleges

(Continued)



Assessment and Recommendations

- ***Deferred Maintenance and Instructional Support.***

Recommend approval of proposed dollar amounts for deferred maintenance and instructional support. Recommend rejection of proposal to eliminate local matching requirement for deferred maintenance since (1) a significant maintenance backlog exists and more of it could be addressed if the requirement is retained, (2) a match requirement creates a stronger incentive for colleges to implement projects as effectively as possible, and (3) the Chancellor's Office is already authorized to waive the match requirement for districts demonstrating financial hardship.

- ***CTE.*** Reject Governor's proposal. Community colleges already spend over \$1 billion on CTE programs and the state budget already provides additional resources (through two K-14 initiatives) for CTE collaboration. Community colleges also receive annual federal Perkins funds (\$58 million in 2013-14) for almost identical purposes as proposed by the Governor. At the same time, state has considerable outstanding obligations, including owing CCC more than \$500 million (one-time) in mandate costs.

- ***Technology Infrastructure and Noncredit Funding.***

Notwithstanding the potential merit of these proposals, the Legislature will need more time to understand and discuss the implications of these issues. Recommend the Legislature reject these proposals without prejudice.



K-12 High-Speed Network



Governor's May Revision Proposal

- Provides \$26.7 million in Proposition 98 funds to (1) assess schools' Internet connectivity infrastructure, with accompanying report to be submitted to Legislature and administration by spring 2015, and (2) create a grant program to improve Internet connectivity infrastructure.



Assessment

- Proposed report could provide valuable information regarding schools' capability to implement new computer-based tests. Reporting language, however, could be improved by requiring schools to (1) compare existing Internet usage and speeds with those needed to implement new tests and (2) identify the amount of state Common Core funding already dedicated for upgrades. (The state provided \$1.3 billion in one-time funding that schools could use in 2013-14 and 2014-15 for these types of purposes.)
- Grant proposal raises concerns because it allows grants to be awarded to schools before (1) the assessment is complete and (2) criteria for awarding funds are developed. In addition, the grant proposal does not specify how funds are to be used and whether funds could be used to supplant other sources of funding.



Recommendation

- Authorize assessment report but modify as described above.
- Withhold action on creating grant program until assessment is complete.



Education Mandates



May Revision Proposal

- Adds three new mandates to the K-12 block grant: Developer Fees, Parental Involvement, and *Williams Case* Implementation. Provides no additional funding to the block grant for these new mandates.
- Increases K-12 block grant by \$1.6 million and decreases CCC block grant by \$345,000 to account for projected changes in student population in 2014-15.



Assessment

- Governor's approach of adding new mandates to the block grant misses an opportunity to review new mandates to determine if they serve a compelling state purpose.
- Developer Fees mandate is unnecessary because school districts already have a strong incentive to notify their city or county if they wish to have a developer fee levied.
- Most activities associated with the Parental Involvement and *Williams Case* Implementation mandates are duplicative of activities being undertaken as part of school districts' Local Control Accountability Plans.



Recommendation

- Reject Governor's proposal to include the three new mandates in the block grant. Instead, repeal most activities in the three mandates but consolidate one activity with another existing mandate.
- Approve Governor's proposal to adjust block grant funding to account for changes in student population.