

May 18, 2015

Proposition 98: May Revision Overview

LEGISLATIVE ANALYST'S OFFICE

Presented to:
Assembly Budget Subcommittee No. 2 on Education Finance
Hon. Kevin McCarty, Chair





May Revision Updates to Proposition 98 Minimum Guarantee

Changes in Proposition 98 Funding by Segment and Source

(In Millions)

	January	May	Change
2013-14 Minimum Guarantee	\$58,673	\$58,914	\$241
By Segment:			
Schools	\$51,675	\$51,898	\$223
Community colleges	6,413	6,431	18
Preschool	507	507	—
Other ^a	78	78	—
By Fund Source:			
General Fund	\$42,824	\$42,996	\$171
Local property taxes	15,849	15,918	70
2014-15 Minimum Guarantee	\$63,153	\$66,303	\$3,150
By Segment:			
Schools	\$55,506	\$58,321	\$2,814
Community colleges	6,902	7,238	336
Preschool	664	664	—
Other ^a	80	80	—
By Fund Source:			
General Fund	\$46,648	\$49,608	\$2,960
Local property taxes	16,505	16,695	190
2015-16 Minimum Guarantee	\$65,716	\$68,409	\$2,693
By Segment:			
Schools	\$57,348	\$59,744	\$2,396
Community colleges	7,630	7,914	283
Preschool	657	671	14
Other ^a	80	80	—
By Fund Source:			
General Fund	\$47,019	\$49,416	\$2,397
Local property taxes	18,697	18,993	296

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

- Minimum Guarantee Up \$6.1 Billion Over Three-Year Period**
- General Fund Costs Up \$5.5 Billion, Local Property Tax Revenue Up \$556 Million**



LAO May Proposition 98 Forecast

Comparing Administration's and LAO's Estimates of the Minimum Guarantee					
<i>(In Millions)</i>					
	2013-14	2014-15	2015-16	2016-17	2017-18
May Revision					
General Fund	\$42,996	\$49,608	\$49,416	\$50,570	\$51,698
Local property tax revenue	15,918	16,695	18,993	20,336	21,549
Total Guarantee	\$58,914	\$66,303	\$68,409	\$70,906	\$73,247
LAO Forecast					
General Fund	\$43,003	\$49,576	\$50,100	\$50,733	\$51,929
Local property tax revenue	15,917	16,899	19,032	20,665	21,842
Total Guarantee	\$58,919	\$66,475	\$69,132	\$71,398	\$73,771
Change From May Revision to LAO Forecast					
General Fund	\$7	-\$32	\$684	\$162	\$231
Local property tax revenue	-2	204	40	329	293
Total Guarantee	\$5	\$172	\$723	\$492	\$524

Posted May 2015.

Minimum Guarantee Is \$723 Million Higher in 2015-16 Under LAO Forecast

- LAO revenue forecast is \$3 billion higher in 2015-16 than administration.
- Under our forecast, the state would pay off all outstanding maintenance factor.

Recommend Caution in Building Final Proposition 98 Package

- If the Legislature adopts a budget with our higher revenues, we recommend waiting to provide additional Proposition 98 funding until later in the fiscal year.
- Funds could be designated for one-time priorities, including completely eliminating the mandate backlog and addressing critical facility projects.



Major Spending Increases

- Dedicates Additional \$2.8 Billion to Mandates Backlog**
- Provides Additional \$2.1 Billion for Local Control Funding Formula (LCFF) Implementation**
- Provides \$64 Million for Package of Seven Special Education Proposals**
- Provides Community Colleges With \$638 Million Increases**



LAO Comments on Overall Proposition 98 Plan

- Overall Approach Continues to Be Sound**
 - Emphasis on retiring mandates backlog is prudent.
 - Accelerating LCFF implementation is consistent with Legislature's and Governor's priorities.

- Several Notable Concerns With Specific Policy Proposals**



Mandates Backlog

Provides Additional \$2.5 Billion to Pay Down K-12 Mandates Backlog

- Combined with January augmentations, the Governor would provide \$3.6 billion for the K-12 backlog.
- Payments would be distributed on the basis of K-12 average daily attendance (ADA).

Allocation Method Consistent With Past State Approach, but Has Notable “Leakage”

- We estimate about 91 percent of remaining claims are associated with high school and unified districts but only 79 percent of backlog funds under Governor’s plan would go to these entities.
- We estimate the remaining K-12 backlog under Governor’s plan would be about \$850 million.

Recommend Alternative Approach for Making K-12 Payments

- K-12 payments could be more targeted toward high schools. Recommend allocating \$3.3 billion of \$3.6 billion to unified and high school districts on the basis of ADA.
- We estimate the remaining K-12 backlog under the LAO’s alternative would be about \$450 million.



LCFF for Districts and Charter Schools

- Provides Additional \$2.1 Billion in LCFF Funding for Districts and Charter Schools**
 - Brings total 2015-16 LCFF augmentation up to \$6.2 billion. The administration estimates this will close 53 percent of the remaining gap to target LCFF levels.

- Provides Fixed Percentage of Gap Closure Rather Than Specific Dollar Amount**
 - Total state cost of providing gap funding will vary depending on changes in other factors, such as attendance and number of English learners and low-income students.

- Appropriating Fixed Gap Percentage Creates New Uncertainty for State**
 - Approach provides somewhat more certainty for districts and charter schools, but creates more uncertainty regarding total state LCFF costs. Adds another risk factor that could result in the state over- or underestimating state costs.



Special Education Package

May Revision Special Education Proposals		
<i>2015-16 (In Millions)</i>		
Proposal	Description	Amount
Proposition 98 Funds		
Infant and toddler services	Increases funding for districts to serve children with disabilities ages birth to three (brings total funding to \$119 million).	\$30.00
Preschool slots	Funds 2,500 additional part-day State Preschool slots, with priority given to students with disabilities.	12.10
Improve instructional practices	Provides funding for incentive grants and technical assistance to improve how districts provide instruction and manage student behaviors.	10.00 ^a
Preschool rate increase, training, and parent information	Specifies State Preschool contractors must provide staff training and parent education on how to identify and meet students' special needs, and increases part-day reimbursement rate by 1 percent to cover associated costs.	6.03
Fund swap	Redirects federal funds from local assistance to state-level activities, then backfills with Proposition 98 funds.	1.96
Subtotal, Proposition 98		<u>(\$60.09)</u>
Federal Funds^b		
Office of Administrative Hearings	Increases funding for state-level hearings regarding special education disputes (brings total funding to \$12.8 million).	\$1.89
Alternative dispute resolution	Increases funding for local grants to help districts and families resolve disputes without a trial (brings total funding to \$1.95 million).	1.65
State-level improvement activities	Funds CDE to contract with another entity to develop resources and provide technical assistance in implementing new federally required plan to improve services for students with disabilities.	0.50
Subtotal, Federal		<u>(\$4.04)</u>
Total		<u>\$64.13</u>

^a One-time allocation.
^b New state-level activities funded in part by an increase in the state's federal grant and in part by redirecting \$1.96 million from local assistance.
 CDE = California Department of Education.

Addresses Several Priorities Highlighted by Special Education Task Force

Several Proposals Are Too Little, Too Late



Recommend Alternative Approach for Special Education

LAO Recommendations for Special Education Funding			
<i>2015-16 (In Millions)</i>			
Proposal	MR	LAO	Recommendation
Proposition 98 Funds			
Equalization of base rates	—	\$150.00	Provide funding to equalize special education base funding rates. Funds about half of gap to full equalization, similar to LCFF. Implements a primary recommendation of Special Education Task Force and aligns with LCFF goals of providing same amount of resources across the state.
Infant and toddler services	\$30.00	—	Revisit proposal in 2016-17 once additional information is available. Adopt BBL requiring CDE, DDS, and stakeholders to submit a proposal for a new service and funding approach in spring 2015.
Preschool slots	12.10	5.00	Adopt alternative approach to increase inclusion. (1) Adopt new expectation that between 5 percent and 15 percent of State Preschool slots be filled by students with disabilities (similar to Head Start program). Phase in over four years. (2) Increase supplemental funding rate for serving these students from 20 percent of base reimbursement rate to 40 percent.
Improve instructional practices	10.00 ^a	—	Reject proposal. Consider adding funding in future years to implement policy objectives once desired activities are more clearly defined.
Preschool rate increase, training, and parent information	6.03	—	Reject proposed rate increase, hold off on adopting new requirements until more information is available. Proposed changes do not represent additional workload, do not justify rate increase, would complicate existing rate structure. Also, unclear whether new requirements are necessary.
Fund swap	1.96	—	Reject proposal. Not needed under LAO alternative.
Federal Funds			
Office of Administrative Hearings	1.89	1.89	Adopt proposed funding increase but only on a one-time basis. Request that CDE provide additional information as to why workload has increased and whether that higher level will be ongoing.
Alternative dispute resolution (ADR)	1.65	-0.25	Reject proposed expansion and end existing ADR grants (\$300,000), but provide \$50,000 for CDE to develop statewide resources about ADR. Proposed funding level too little to result in meaningful changes, and fiscal incentives already exist to avoid costly trials. Districts could benefit from information on how to implement ADR.
State-level improvement activities	0.50	0.50	Adopt proposal. Implements federal requirements.
Totals	\$64.13	\$157.14	

^a One-time allocation.
 MR = May Revision; LCFF = Local Control Funding Formula; BBL = budget bill language; CDE = California Department of Education; and DDS = Department of Developmental Services.



2014-15 Proposition 98 Spending Changes

2014-15 Proposition 98 Spending Changes	
<i>(In Millions)^a</i>	
	Difference
Technical Adjustments	\$176
K-12 Education	
Pay down mandate backlog	\$2,415
Increase funding for career technical education grants	150
Provide incentive grants to improve instruction	10
Fund partial QEIA program for districts with no concentration funding	5
Support for evaluation rubric workload ^b	—
Subtotal	(\$2,580)
California Community Colleges	
Pay down mandate backlog	\$261
Provide funding for basic skills initiatives	62
Fund physical plant and instructional equipment	48
Fund California Community Colleges Innovation Awards	23
Subtotal	\$394
Total 2014-15 Changes	\$3,150

^a All proposals shown, except for technical adjustments, reflect one-time spending.
^b Provides \$350,000 for State Board of Education.
 QEIA = Quality Education Investment Act.
 Updated May 2015.



2015-16 Proposition 98 Spending Changes

2015-16 Proposition 98 Spending Changes	
<i>(In Millions)</i>	
	Difference
Technical Adjustments	\$105
K-12 Education	
Fund LCFF increase for school districts	\$2,127
Increase services for infants and toddlers with disabilities	30
Provide preschool slots prioritizing children with disabilities	12
Increase part-day State Preschool rate by 1 percent	6
Expand special education alternative dispute resolution grants ^a	2
Provide funding for Tools of Tolerance training program	2
Provide COLA for select categorical programs ^b	-25
Subtotal	(\$2,154)
California Community Colleges	
Provide apportionment increase (above growth and COLA)	\$142
Provide physical plant and instructional equipment funding (one time)	100
Increase funding for full-time faculty	75
Fund enrollment growth ^c	50
Provide funds to restore enrollment earned back by districts	42
Fund CCC Innovation Awards (one time)	25
Fund implementation of local student equity plans	15
Fund dissemination of effective practices	12
Augment technical assistance for districts	3
Provide COLA for select categorical programs	2
Provide COLA for apportionments ^b	-31
Subtotal	(\$434)
Total 2015-16 Changes	\$2,693
^a Provides backfill for redirection of federal funds. ^b Rate estimated at 1.58 percent in January, finalized at 1.02 percent in May. ^c Proposed 2 percent growth in January and proposes 3 percent growth in May. LCFF = Local Control Funding Formula and COLA = cost-of-living adjustment.	