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Overview of Proposition 98 and Early Education Budget Proposals

L E G I S L A T I V E A N A L Y S T ' S O F F I C E

Presented to:

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





Decreases in 2015-16 and 2016-17 Minimum Guarantees

(In Millions)

	2015-16			2016-17		
	June 2016 Estimate	January 2017 Estimate	Change	June 2016 Estimate	January 2017 Estimate	Change
Minimum Guarantee						
General Fund	\$49,722	\$48,989	-\$733	\$51,050	\$50,330	-\$720
Local property tax	19,328	19,681	353	20,824	21,038	215
Totals	\$69,050	\$68,671	-\$379	\$71,874	\$71,368	-\$506

- ☑ **2015-16 Minimum Guarantee Down \$379 Million**
- ☑ **2016-17 Minimum Guarantee Down \$506 Million**
- ☑ **Lower Minimum Guarantees Primarily Due to Lower State Revenue Estimates**
 - Growth in per capita General Fund revenue is a key factor in the Proposition 98 calculations.
 - Compared with June estimates, General Fund revenue is down \$3.1 billion across the two years.



Spending Changes in 2015-16 and 2016-17



Governor Proposes to Lower Proposition 98 Spending to Match Revised Estimates of the Minimum Guarantees



Changes Accounting of Some One-time Spending

- Governor's budget identifies \$324 million in one-time payments that can be counted toward 2016-17 instead of 2015-16.
- Reduces 2015-16 spending and increases 2016-17 spending.



Defers LCFF Payment

- Delays \$859 million in school funding from June 2017 to July 2017.
- Reduces 2016-17 spending and increases 2017-18 spending.



Implications if State Does Not Adopt Governor's Proposals

- State would be providing more than the minimum guarantee.
- Higher school funding level would carry forward into 2017-18 and future years.
- Less funding would be available for non-Proposition 98 programs.



2017-18 Proposition 98 Minimum Guarantee

(Dollars in Millions)

	2015-16 Revised	2016-17 Revised	2017-18 Proposed	Change From 2016-17	
				Amount	Percent
Proposition 98 Funding	\$68,671	\$71,368	\$73,511	\$2,143	3.0%
By Segment:					
K-12 education	\$59,770	\$62,064	\$64,012	\$1,947	3.1%
California Community Colleges	7,933	8,246	8,424	179	2.2
Preschool	885	975	995	20	2.0
Other agencies	82	83	80	-3	-3.3
By Source:					
General Fund	\$48,989	\$50,330	\$51,351	\$1,021	2.0%
Local property tax	19,681	21,038	22,160	1,121	5.3



Minimum Guarantee Up \$2.1 Billion Over Revised 2016-17 Level

- Due primarily to modest growth in General Fund revenue.



Local Property Tax Revenue Increases \$1.1 Billion

- Due primarily to growth in assessed property values.
- Covers about half of the increase in the minimum guarantee.



Key Components of 2017-18 Proposition 98 Package

- ☒ **Provides \$859 Million to Eliminate Prior-Year Payment Deferral**
- ☒ **Provides \$744 Million for Implementation of Local Control Funding Formula (LCFF)**
 - Average district would receive a 1.5 percent funding increase.
 - LCFF would be 96 percent funded.
- ☒ **Provides Two Main Augmentations for Community Colleges**
 - \$197 million (ongoing) for increases in apportionments. Consists of \$94 million for a 1.48 percent cost-of-living adjustment, \$79 million for a 1.34 percent enrollment increase, and an additional \$24 million unallocated increase.
 - \$150 million (one time) for colleges to develop guided pathways—comprehensive programs to improve student outcomes.



2017-18 Proposition 98 Spending Proposals

(In Millions)

K-12 Education	
Retire June-to-July LCFF deferral (one time)	\$859
Increase LCFF funding	744
Provide 1.48 percent COLA for select categorical programs	58
Add mandated reporter training to Mandates Block Grant	8
Make other adjustments	277
Subtotal	(\$1,947)
California Community Colleges	
Fund guided pathways initiative (one time)	\$150
Provide 1.48 percent COLA for apportionments	94
Fund 1.34 percent enrollment growth	79
Provide unallocated increase	24
Fund Innovation Awards (one time)	20
Augment Online Education Initiative	10
Develop integrated library system (one time)	6
Provide 1.48 percent COLA for select categorical programs	4
Make other adjustments	-209
Subtotal	(\$179)
Preschool	\$20
Other Agencies	-\$3
Total Changes	\$2,143
LCFF = Local Control Funding Formula and COLA = cost-of-living adjustment.	



Other One-Time Proposition 98 Funding



Governor Proposes to Make \$400 Million Settle-Up Payment

- State currently owes \$1 billion related to meeting the minimum guarantee in prior years (primarily 2009-10).
- Similar to the past few years, the proposed settle-up payment would be counted as a Proposition 2 debt payment.



Governor's Budget Also Identifies \$201 Million in Unspent Proposition 98 Funds From Prior Years



Governor Proposes to Use One-Time Funds for Several Activities

- Paying down the K-12 mandates backlog (\$287 million).
- Funding the final year of the Career Technical Education Incentive Grant Program (\$200 million).
- Covering some ongoing special education and technology costs (\$70 million).
- Addressing deferred maintenance at community colleges (\$44 million).



LAO Comments



The 2015-16 Minimum Guarantee Is Unlikely to Change Much in the Coming Months



The Governor's Estimate of the 2016-17 Minimum Guarantee Is Reasonable Given State Revenue Collections to Date

- If revenue estimates change, the minimum guarantee would rise or fall about 50 cents for each dollar of higher or lower revenue.



The 2017-18 Minimum Guarantee Is Likely to Be Higher by May

- The administration's estimate of state revenue in 2017-18 seems too low given its other economic assumptions.
- A revenue increase of \$2 billion would increase the guarantee by about \$500 million.
- A revenue increase of \$4 billion would increase the guarantee by about \$1.5 billion.



Exhaust Other Options Before Deferring LCFF Payment

- State likely could identify some additional one-time savings in the coming months that would reduce the size of a deferral.



Rely Upon a Mix of Ongoing and One-Time Spending

- Governor's proposed 2017-18 spending plan roughly balances new one-time and ongoing Proposition 98 spending.
- Devoting some funding to one-time purposes allows the state to address future revenue declines more easily—making cuts to ongoing education programs less likely.



Child Care and Preschool Budget

(Dollars in Millions)

	2015-16 Revised	2016-17 Revised ^a	2017-18 Proposed	Change From 2016-17	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	\$334	\$418	\$386	-\$32	-8%
Stage 2 ^b	419	445	505	60	13
Stage 3	257	287	303	15	5
Subtotals	(\$1,010)	(\$1,150)	(\$1,193)	(\$43)	(4%)
Non-CalWORKs Child Care					
General Child Care ^c	\$305	\$321	\$319	-\$1	— ^d
Alternative Payment Program	251	267	279	12	4%
Migrant Child Care	29	31	31	— ^d	— ^d
Care for Children With Severe Disabilities	2	2	2	— ^d	— ^d
Infant and Toddler QRIS Grant (one-time)	24	—	—	—	—
Subtotals	(\$611)	(\$620)	(\$630)	(\$10)	(2%)
Preschool Programs^e					
State Preschool—part day ^f	\$425	\$447	445	-\$2	— ^d
State Preschool—full day	555	627	648	21	3%
Transitional Kindergarten ^g	665	704	714	10	1
Preschool QRIS Grant	50	50	50	—	—
Subtotals	(\$1,695)	(\$1,828)	(\$1,857)	(\$29)	(2%)
Support Programs	\$76	\$89	\$82	-\$7	-8%
Totals	\$3,392	\$3,688	\$3,763	\$76	2%
Funding					
Proposition 98 General Fund	\$1,550	\$1,679	\$1,709	\$30	2%
Non-Proposition 98 General Fund	885	984	1,002	18	2
Federal CCDF	573	639	606	-32	-5
Federal TANF	385	385	446	61	16

^a Reflects Department of Social Services' revised Stage 1 estimates. Reflects budget act appropriation for all other programs.

^b Does not include \$9.2 million provided to community colleges for certain child care services.

^c General Child Care funding for State Preschool wraparound care shown in State Preschool—full day.

^d Less than \$500,000 or 0.5 percent.

^e Some CalWORKs and non-CalWORKs child care providers also use their funding to offer preschool.

^f Includes \$1.6 million each year used for a family literacy program at certain State Preschool programs.

^g Reflects preliminary LAO estimates. Transitional Kindergarten enrollment data not yet available for any year of the period.

QRIS = Quality Rating and Improvement System; CCDF=Child Care and Development Fund; TANF=Temporary Assistance for Needy Families; CDE = California Department of Education; and DOF = Department of Finance.



2017-18 Child Care and Preschool Changes

(In Millions)

Change	Proposition 98 General Fund	Non-Proposition 98 General Fund	Federal Funds	Total
Annualization of Changes Initiated in 2016-17				
Annualizes Regional Market Rate increase ^a	—	\$45	\$12	\$57
Annualizes State Preschool slot increase	\$24	—	—	24
Annualizes 5 percent license-exempt rate increase	—	9	2	11
Subtotals	(\$24)	(\$54)	(\$13)	(\$91)
Caseload Changes				
Decreases non-CalWORKs slots for statutory growth adjustment ^b	-\$4	-\$3	—	-\$7
Makes CalWORKs caseload and average cost of care adjustments	—	61	-\$73	-11
Subtotals	(\$-4)	(\$58)	(\$-73)	(\$-18)
Other Adjustments				
Adjusts Transitional Kindergarten for increases in LCFF	\$10	—	—	\$10
Replaces state funds with federal funds	—	-\$93	\$93	—
Removes one-time funding	—	-1	-6	-7
Subtotals	(\$10)	(\$-95)	(\$88)	(\$3)
Totals	\$30	\$18	\$28	\$76

^a Includes a hold harmless provision so that no provider receives less than it received in 2015-16. This provision will expire at the end of 2017-18.

^b Reflects 0.4 percent decrease in the birth-through-four population.

LCFF = Local Control Funding Formula.



Governor Increases Spending on Child Care and Preschool by \$76 Million



Governor Proposes Suspending Much of Multiyear Budget Agreement

- Does not add new State Preschool slots or annualize certain rate increases adopted in the 2016-17 budget plan.



Governor Proposes Various Policy Changes to State's Preschool Programs

- Allows part-day State Preschool programs more flexibility to serve children with special needs from families with incomes above the threshold.
- Includes several proposals to better align State Preschool and Transitional Kindergarten.



LAO Recommendations

- ☒ **Allow All Types of Providers to Apply for Any Additional State Preschool Slots**
- ☒ **Ensure Already Eligible Children Served Before Expanding Preschool Eligibility**
- ☒ **Reject Alignment Proposals and Pursue Alignment More Holistically**