

SUBCOMMITTEE NO. 1

Agenda

Senator Anthony J. Portantino, Chair
Senator Hannah-Beth Jackson
Senator John M. W. Moorlach



Thursday, March 2, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 3191

Consultants: Elisa Wynne and Anita Lee

AGENDA PART A

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6100 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES**Issue 1: Overview of Proposition 98 and 2017-18 Budget Proposals (Information Only)****Panel I:**

- State Superintendent of Public Instruction Tom Torlakson

Panel II:

- Lisa Mierczynski, Department of Finance
- Kenneth Kapphahn, Legislative Analyst's Office
- Debra Brown, California Department of Education
- Mario Rodriguez, Chancellor's Office of California Community Colleges

Background:

California provides academic instruction and support services to over six million public school students in kindergarten through twelfth grade (K-12) and 2.3 million students in community colleges. There are 58 county offices of education, approximately 1,000 local K-12 school districts, more than 10,000 K-12 schools, and more than 1,200 charter schools throughout the state, as well as 72 community college districts, 113 community college campuses, and 70 educational centers. Proposition 98, which was passed by voters as an amendment to the state Constitution in 1988, and revised in 1990 by Proposition 111, was designed to guarantee a minimum level of funding for public schools and community colleges.

The proposed 2017-18 budget includes funding at the Proposition 98 minimum guarantee level of \$73.5 billion. The budget proposal also revises the 2016-17 Proposition 98 minimum guarantee downward to \$71.4 billion, a decrease of \$506 million from the 2016 Budget Act, and revises the 2015-16 Proposition 98 minimum guarantee down to \$68.7 billion, a decrease of \$379 million from the 2016 Budget Act as a result of a decline in revenues. The Governor also proposes to pay \$400 million in Proposition 98 settle-up towards meeting the 2009-10 Proposition 98 minimum guarantee. Together, the revised guarantee levels and settle-up payments net out to a total of almost \$1.6 billion in increased funding for education over the three years, as compared to the 2016 Budget Act.

The Governor proposes to eliminate the over-appropriation of funding for the guarantee in 2015-16 and 2017-18 by shifting or deferring expenditures to the 2016-17 and 2017-18 years, as discussed later in this section. The remaining Proposition 98 funds in 2017-18, after the changes for over-appropriations and funding workload growth and cost-of-living adjustments, are proposed to be used primarily towards implementing the Local Control Funding Formula (LCFF). These proposals are more fully described later in this section and in separate sections of this report.

Proposition 98 Funding. State funding for K-14 education—primarily K-12 local educational agencies and community colleges—is governed largely by Proposition 98. The measure, as modified

by Proposition 111, establishes minimum funding requirements (referred to as the “minimum guarantee”) for K-14 education. General Fund resources, consisting largely of personal income taxes, sales and use taxes, and corporation taxes, are combined with the schools’ share of local property tax revenues to fund the Proposition 98 minimum guarantee. These funds typically represent about 80 percent of statewide funds that K-12 schools receive. Non-Proposition 98 education funds largely consist of revenues from local parcel taxes, other local taxes and fees, federal funds and proceeds from the state lottery. In recent years, there have been two statewide initiatives that increased General Fund Revenues and therefore, Proposition 98. Proposition 30, passed by the voters in 2012, raised sales and income taxes, but phases out over seven years. Recently, anticipating the expiration of the Proposition 30 taxes, Proposition 55 was passed by voters in 2016, extending the income tax portion of Proposition 30 for another 12 years.

The table below summarizes overall Proposition 98 funding for K-12 schools and community colleges since 2007-08, or just prior to the beginning of the steep recent recession. 2011-12 marks the low point for the guarantee with steady increases since then. The economic recession impacted both General Fund resources and property taxes. The amount of property taxes has also been impacted by a large policy change in the past few years—the elimination of redevelopment agencies (RDAs) and the shift of property taxes formerly captured by the RDAs back to school districts. The guarantee was adjusted to account for these additional property taxes, so although Local Educational Agencies (LEAs) received significantly increased property taxes starting in 2012-13, they received a roughly corresponding reduction in General Fund.

**Proposition 98 Funding
Sources and Distributions
(Dollars in Millions)**

	Pre-Recession 2007-08	Low Point 2011-12	Revised 2015-16	Revised 2016-17	Proposed 2017-18
Sources					
General Fund	42,015	33,136	48,989	50,330	51,351
Property taxes	14,563	14,132	19,681	21,038	22,160
Total	56,577	47,268	68,670	71,368	73,511
Distribution					
K-12	50,344	41,901	60,655	63,039	65,007
CCC	6,112	5,285	7,933	8,246	8,424
Other	121	83	82	83	80

Source: Legislative Analysts’ Office and Department of Finance

Calculating the Minimum Guarantee. The Proposition 98 minimum guarantee is determined by comparing the results of three “tests”, or formulas, that are based on specific economic and fiscal data. The factors considered in these tests include growth in personal income of state residents, growth in General Fund revenues, changes in student average daily attendance, and a calculated share of the General Fund. When Proposition 98 was first enacted by the voters in 1988, there were two “tests”, or formulas, to determine the required funding level. Test 1 calculates a percentage of General Fund revenues based on the pre-Proposition 98 level of General Fund that was provided to education, plus local property taxes. Test 2 calculates the prior year funding level adjusted for growth in student average daily attendance and per capita personal income. K-14 education was guaranteed funding at the higher of these two tests. In 1990, Proposition 111 added a third test, Test 3 which takes the prior

year funding level and adjusts it for growth in student average daily attendance and per capita General Fund revenues. The Proposition 98 formula was adjusted to compare Test 2 and Test 3, the lower of which is applicable. This applicable test is then compared to Test 1 and the higher of the tests determines the Proposition 98 guarantee level.

Proposition 98 Tests
Calculating the Level of Education Funding

Test	Calculated Level	Operative Year	Times Used
Test 1	Based on a calculated percent of General Fund revenues (currently around 38.1%).	If it would provide more funding than Test 2 or 3 (whichever is applicable).	4
Test 2	Based on prior year funding, adjusted for changes in per capita personal income and attendance.	If growth in personal income is $\leq$ growth in General Fund revenues plus 0.5%.	13
Test 3	Based on prior year funding, adjusted for changes in General Fund revenues plus 0.5% and attendance.	If statewide personal income growth $>$ growth in General Fund revenues plus 0.5%.	11

Generally, Test 2 is operative during years when the General Fund is growing quickly and Test 3 is operative when General Fund revenues fall or grow slowly. The Test 1 percentage is historically-based, but is adjusted, or “rebenched”, to account for large policy changes that impact local property taxes for education or changes to the mix of programs funded within Proposition 98. In the past few years, rebenching was done to account for property tax changes, such as the dissolution of the RDAs, and program changes, such as removing childcare from the Proposition 98 minimum guarantee and adding mental health services. In the budget year, the Test 1 calculation is adjusted to reflect RDA changes. Proposition 98 tests are based on estimated factors during budget planning; however, the factors are updated over time and can change past guarantee amounts and even which test is applicable in a previous year. Statute specifies that at a certain point the Proposition 98 minimum guarantee for a given year shall be certified and no further changes shall be made. The guarantee was last fully certified for 2007-08.

The Governor’s proposal assumes that in all three years; 2015-16, 2016-17, and 2017-18, the Proposition 98 guarantee is calculated under Test 3. A Test 3 is reflective of strong per capita personal income growth in comparison to relatively lower General Fund growth. Generally, the Proposition 98 minimum guarantee calculation was designed in order to provide growth in education funding equivalent to growth in the overall economy, as reflected by changes in personal income (incorporated in Test 2). In a Test 3 year, the Proposition 98 minimum guarantee does not grow as fast as in a Test 2 year, in recognition that the state’s General Fund is not reflecting the same strong growth as personal income and the state may not have the resources to fund at a Test 2 level; however, a maintenance factor is created as discussed in more detail later. As noted in the table above, in most years the Proposition 98 minimum guarantee has been determined by the application of Test 2; however, this latest budget proposal which includes reductions in General Fund Revenues, is pushing the guarantee back into an era of Test 3.

Suspension of Minimum Guarantee. Proposition 98 includes a provision that allows the Legislature and Governor to suspend the minimum funding requirements and instead provide an alternative level of funding. Such a suspension requires a two-thirds vote of the Legislature and the concurrence of the Governor. To date, the Legislature and Governor have suspended the Proposition 98 minimum guarantee twice in 2004-05 and 2010-11. While the suspension of Proposition 98 can create General

Fund savings during the year in which it is invoked, it also creates obligations in the out-years, as explained below.

Maintenance Factor. When the state suspends the Proposition 98 minimum guarantee or Test 3 is operative (that is, when the Proposition 98 guarantee grows more slowly due to declining or low General Fund growth), the state creates an out-year obligation referred to as the “maintenance factor.” When growth in per capita General Fund revenues is higher than growth in per capita personal income (as determined by a specific formula also set forth in the state Constitution), the state is required to make maintenance factor payments, which accelerate growth in K-14 funding, until the determined maintenance factor obligation is fully restored. Outstanding maintenance factor balances are adjusted each year by growth in student average daily attendance and per capita personal income.

The maintenance factor payment is added on to the minimum guarantee calculation using either Test 1 or Test 2.

- In a Test 2 year, the rule of thumb is that roughly 55 percent of additional revenues would be devoted to Proposition 98 to pay off the maintenance factor.
- In a Test 1 year, the amount of additional revenues going to Proposition 98 could approach 100 percent or more. This can occur because the required payment would be a combination of the 55 percent (or more) of new revenues plus the established percentage of the General Fund—roughly 38.1 percent—that is used to determine the minimum guarantee.

Prior to 2012-13, the payment of maintenance factor was made only on top of Test 2; however, in 2012-13, the Proposition 98 guarantee was in an unusual situation as the state recovered from the recession. It was a Test 1 year and per capita General Fund revenues were growing significantly faster than per capita personal income. Based on a strict reading of the Constitution, the payment of maintenance factor is not linked to a specific test, but instead is required whenever growth in per capita General Fund revenues is higher than growth in per capita personal income. As a result the state funded a maintenance factor payment on top of Test 1 and this interpretation continues today and results in the potential for up to 100 percent or more of new revenues going to Proposition 98 in a Test 1 year with high per capita General Fund growth. This was the case in 2014-15, when the maintenance factor payment was more than \$5.6 billion.

The Governor’s proposal assumes a Test 3 calculation of the guarantee in all three years (2015-16, 2016-17, and 2017-18) and therefore a maintenance factor is created in each of the three years resulting in a total outstanding maintenance factor balance of \$1.6 billion at the end of 2017-18. In 2017-18, a relatively small amount of new revenues – approximately \$1.5 billion - could move the guarantee into a Test 2 calculation and require a maintenance factor payment, therefore increasing funding for schools in the budget year.

Settle-Up. Every year, the Legislature and Governor estimate the Proposition 98 minimum guarantee before the final economic, fiscal, and attendance factors for the budget year are known. If the estimate included in the budget for a given year is ultimately lower than the final calculation of the minimum guarantee, Proposition 98 requires the state to make a “settle-up” payment, or series of payments, in order to meet the final guarantee for that year. The Governor’s budget proposes General Fund settle-up payments of \$400 million in 2017-18 counting towards the 2009-10 minimum guarantee. After this payment, the state would owe \$626 million in settle-up for years prior to 2014-15. In the recent past,

the state was not required to make settle-up payments on schedule; however, Proposition 2, passed in 2014, requires the state to spend a minimum amount each year to buy down eligible state debt. Proposition 98 settle-up debt is one area that meets Proposition 2 requirements, and in compliance with this requirement, the state has made settle-up payments in the past few years.

Spike Protection. Proposition 98 also has a built-in formula to prevent large increases in the guarantee, referred to as “spike protection”. This constitutional formula specifies that in years when a Test 1 is operative and is greater than the Test 2 amount by 1.5 percent of General Fund revenues, then when calculating the guarantee level in the subsequent year, the excess amount over the 1.5 percent of General Fund revenues is not included in the calculation. This part of the formula has only been in play twice, and reduced the impact of revenue gains on the 2013-14 and 2015-16 minimum guarantee calculations.

Proposition 98 Rainy Day Fund and District Reserve Caps. Proposition 2 also requires a deposit in a Proposition 98 Rainy Day Fund under certain circumstances. These required conditions are that maintenance factor (accumulated prior to 2014-15) is paid off, Test 1 is in effect, the Proposition 98 guarantee is not suspended, and no maintenance factor is created. Related statute requires that in the year following a deposit into this fund, a cap on local school district reserves would be implemented. Both the Governor and the Legislative Analyst’s Office (LAO) continue to project that a Test 1 will not be in effect in their forecast period over the next few years. The conditions needed to trigger Test 1 include significant year-over-year revenue gains that are unlikely, given the modest growth projections and potential for a slowing economy in the near future.

Outstanding Obligations. The state currently has paid most of the outstanding obligations to school districts and community colleges that built up over the last recession. However, as of the 2016 Budget Act, the state still has more than \$1.8 billion in unpaid mandate claims. The Governor’s proposal for 2017-18 would retire approximately \$287 million of these mandate obligations.

Governor’s Proposal

K-14 Proposition 98 Education Overall. The budget estimates a total Proposition 98 funding level of \$73.5 billion (K-14). This is a \$1.6 billion increase over the 2016-17 Proposition 98 level provided in the 2016 Budget Act (a \$2.1 billion increase over the revised 2016-17 Proposition 98 level). The Administration estimates that the Proposition 98 calculation for 2017-18 will be a Test 3 calculation.

The budget estimates that the total Proposition 98 guarantee (K-14) for 2015-16 decreased by \$379 million compared to the level estimated in the 2016 Budget Act (for a total of \$68.7 billion). Similarly, for 2016-17, the Governor estimates a decrease in the total guarantee of \$506 million (for a total of \$71.4 billion). These adjustments are the result of a decline in anticipated General Fund revenues over the three-year budget period and result in the over-appropriation of the Proposition 98 guarantee, absent actions to reduce appropriations in 2015-16 and 2016-17. (The Governor proposes to eliminate this over-appropriation by shifting or deferring expenditures from the 2015-16 and 2016-17 years to the 2016-17 and 2017-18 years, as discussed later in this section.) The Administration estimates that the Proposition 98 calculations for 2015-16 and 2016-17 are Test 3 calculations.

K-12 Education Proposition 98 Major Spending Proposals. The budget includes a proposed Proposition 98 funding level of \$64 billion for K-12 programs. This includes a year-to-year increase of almost \$2 billion in Proposition 98 funding for K-12 education, as compared to the revised Proposition

98 K-12 funding level for 2016-17. Under the Governor's proposal, ongoing K-12 Proposition 98 per pupil expenditures increase from \$10,579 provided in 2016-17 (revised) to \$10,910 in 2017-18. This 2017-18 proposed Proposition 98 funding level for K-12 reflects a per-pupil increase of 3.1 percent, as compared to the revised per-pupil funding level provided for in 2016-17. The Governor's major K-12 spending proposals are identified below.

- **K-12 Local Control Funding Formula.** The 2013 Budget Act changed how the state provides funding to school districts and county offices of education by creating the LCFF. Since its inception, the state has dedicated a large portion of the new Proposition 98 revenues in each year towards full implementation of the LCFF. The 2016 Budget Act included \$2.9 billion in new Proposition 98 funds for LCFF implementation. However, the Governor's budget includes Proposition 98 estimates for 2015-16 and 2016-17 that are below the levels assumed in the 2016 Budget Act and, as a result, proposes to defer \$859.1 million of the funding scheduled to be provided for LCFF implementation from 2016-17 to 2017-18 (payments to LEAs would shift from June 2017 to July 2017). This would result in a one-time deferral, fully paid off in the 2017-18 fiscal year. In addition to the one-year deferral, the Governor's budget proposes an increase of approximately \$744 million in 2017-18 to implement the LCFF. Overall, this investment results in the formula funded at 96 percent of full implementation in 2017-18, maintaining the same implementation percentage assumed as of the 2016 Budget Act. County offices of education reached full implementation with the LCFF allocation in the 2014 Budget Act. The accountability system for LCFF is also not yet fully implemented.
- **Discretionary Funds / Mandate Backlog Reduction.** The budget proposes an increase of \$287 million in discretionary one-time Proposition 98 funding provided to school districts, charter schools, and county offices of education. The Administration indicates that this funding will allow school districts, charter schools, and county offices of education to continue to invest in implementing state adopted academic content standards, upgrade technology, provide professional development, support beginning teacher induction and address deferred maintenance projects. These funds would also serve to offset outstanding mandate reimbursement claims. In addition, as part of the actions taken to reduce the Proposition 98 appropriation levels, \$310 million in discretionary, one-time Proposition 98 expenditures for school districts, charter schools, and county offices of education for these same purposes in 2015-16, would be shifted to the 2016-17 year.
- **K-12 Special Education.** The budget proposes to begin a series of stakeholder meetings during the spring budget process on the funding model for special education. In 2017-18, the budget proposes expenditures of \$3.2 billion in Proposition 98 funding and \$1.2 billion in federal funds for special education. Unlike other categorical programs, funding for special education was not rolled into the funding for local educational agencies under the LCFF. LEAs are required to operate as, or be a member of, a Special Education Local Plan Area (SELPA). The majority of funding for special education is provided to the SELPAs which distribute funds to member LEAs agencies based on a locally-determined formula. The Governor's budget notes that stakeholder conversations would be centered on principles aligned with the LCFF, including equity, transparency, flexibility, local control and focus on the needs of students.
- **K-12 School Facilities.** In November, 2016, the voters passed the Kindergarten through Community College Facilities Bond Act of 2016 (Proposition 51), which authorizes the state to sell \$9 billion in general obligation bonds with the proceeds to be used for K-12 and community college facilities. The K-12 share of the proceeds, \$7 billion, would be subject to the rules of the

state's existing school facilities program and could be used for new construction, modernization, career technical education facilities, and charter school facilities. The Administration notes concerns with the proper expenditure of funding from prior facilities bonds and proposes to strengthen program oversight and accountability prior to expenditure of the Proposition 51 bond funds. The Administration plans to accomplish this in two ways: (a) supporting the State Allocation Board and the Office of Public School Construction on revising and creating policies and regulations; and, (b) introducing legislation requiring that the annual K-12 Audit Guide include facility bond expenditures.

- **Enrollment and Cost-of-Living Adjustments.** The proposed budget reflects an estimated decrease in student enrollment in the K-12 system. Specifically, it reflects a decrease of \$168.9 million in 2016-17, as a result of a decrease in the projected average daily attendance (ADA), compared to the 2016 Budget Act. For 2017-18, the Governor's proposed budget reflects a decrease of \$63.1 million to reflect a projected further decline in ADA for the budget year. (For charter schools, the Governor's proposed budget funds an estimated increase in charter school ADA, as discussed below.) The proposed budget also provides \$58.1 million to support a 1.48 percent cost-of-living adjustment for categorical programs that are not included in the new LCFF. These programs include special education and child nutrition, among others. The proposed funding level for the LCFF includes cost-of-living adjustments for school districts and county offices of education.

Other K-12 Education Budget Proposals. Additional proposals contained within the budget related to K-12 education include the following:

- **Career Technical Education Incentive Grant.** The budget includes \$200 million in Proposition 98 funding for career technical education grants to local educational agencies. This is the final installment of funding for a three-year grant program adopted in the 2015 Budget Act.
- **Proposition 39 Energy Efficiency Investments.** The budget proposes to allocate \$422.9 million in Proposition 39 energy funds available in 2017-18 to K-12 school districts and charter schools for energy efficiency project grants. Funds for Proposition 39 flow from a change made to the corporate income tax code in 2013-14. Under the Proposition, half of the General Fund revenue gained as a result of the tax changes are to be used for clean energy projects in schools for the first five years. 2017-18 is the fifth and final year that funds must be used for this purpose.
- **Charter Schools.** The budget proposes an increase of \$93 million in Proposition 98 funds to reflect a projected increase in charter school ADA.
- **Special Education.** The budget proposes a decrease of \$4.9 million in Proposition 98 funds to reflect a projected decrease in special education ADA.
- **Proposition 56.** The budget proposes \$29.9 million to support tobacco and nicotine prevention and reduction programs at K-12 schools. This funding is the result of an increase in taxes on tobacco products as a result of the passage of Proposition 56 in November 2016, which requires a percentage of the revenues to be available for school-based tobacco prevention programs.
- **Proposition 47.** The budget proposes \$10.1 million in Proposition 98 funding to support improved outcomes for students who are truant, at risk of dropping out of school, or are victims of crimes.

Proposition 47 reduced penalties for some crimes and required that 25 percent of the resulting savings be invested in K-12 truancy, dropout prevention, victim services, and drug and mental health treatments. SB 527 (Liu), Chapter 533, Statutes of 2016 and AB 1014 (Thurmond), Chapter 397, Statutes of 2016, created a program for the expenditure of K-12 Proposition 47 funds. Pursuant to this legislation, the Department of Education will award grants to LEAs and provide training and technical assistance to grantees on pupil engagement, school climate, truancy reduction, and supporting pupils who are at risk of dropping out of school or are victims of crime. This is a slight increase from the \$9.9 million estimate from this funding source included in the 2016 Budget Act.

- **Mandate Block Grant.** The budget provides \$8.5 million in Proposition 98 for the mandate block grant to reflect the addition of the Training for School Employee Mandated Reporters program.
- **Child Care and Development.** The budget provides nearly \$3.8 billion total funds (\$1 billion federal funds; \$1.7 billion Proposition 98 General Fund; and \$1 billion non-Proposition 98 General Fund) for child care and early education programs. However, the Governor does not include scheduled increases in rates and state preschool slots that were scheduled to be included for the 2017-18 year as part of the 2016-17 budget agreement. This saves \$226.8 million in 2017-18 (\$121.4 million in non-Proposition 98 General Fund and \$105.4 million in Proposition 98.)

California Community Colleges Proposition 98 Budget Proposals.

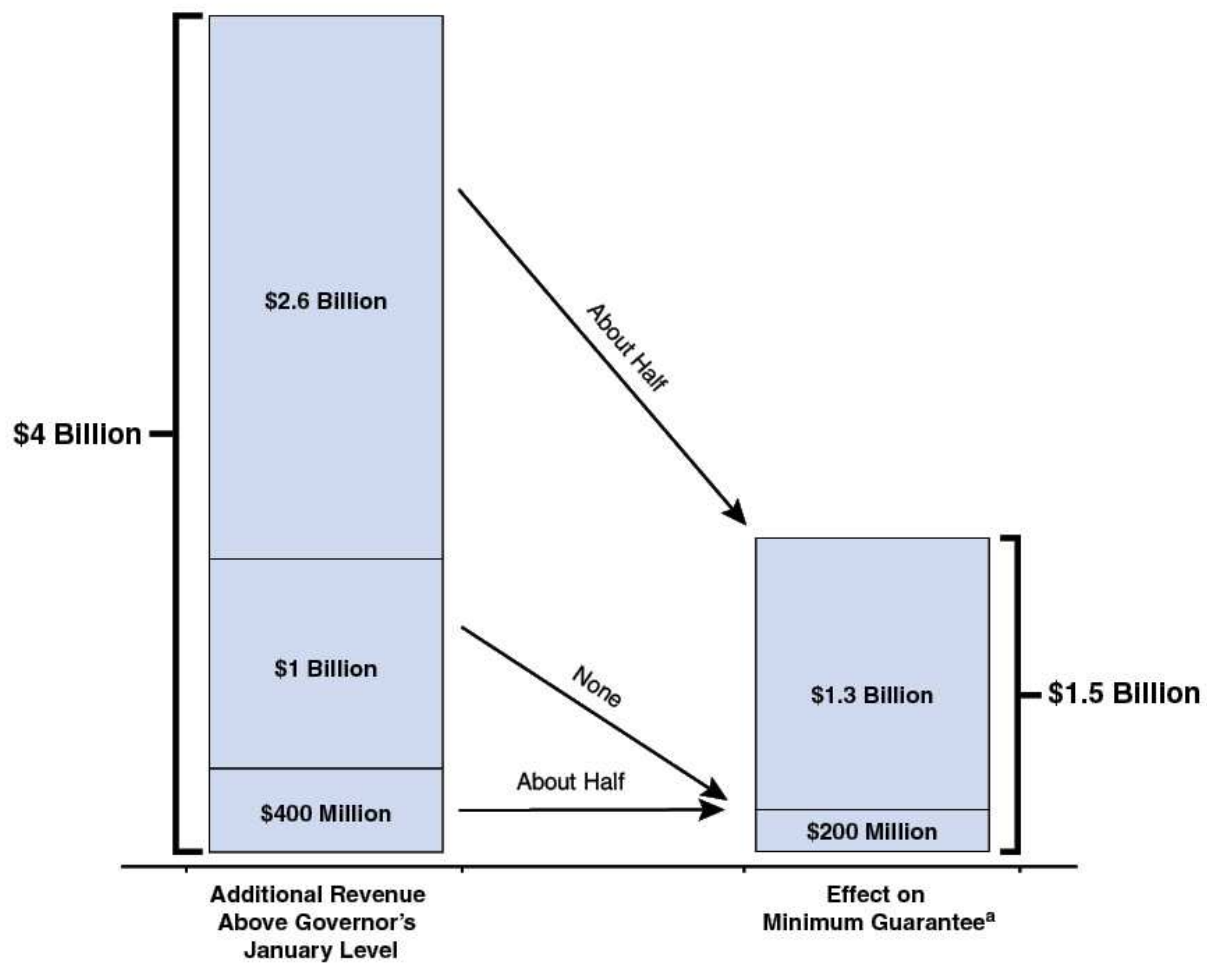
- **Apportionments** – The budget assumes a decrease of \$27.1 million Proposition 98 General Fund, which reflects: (1) an increase of \$94.1 million for a 1.48 percent cost-of-living adjustment, (2) an increase of \$79.3 million for enrollment growth (1.34 percent), (3) an increase of \$3.8 million as a result of decreased offsetting student enrollment fee revenues, (4) a decrease of \$56.6 million to reflect unused growth provided in 2015-16, and (5) a decrease of \$147.7 million as a result of increased offsetting local property tax revenues.
- **Guided Pathways** – The budget provides \$150 million one-time Proposition 98 General Fund for grants to community colleges to develop an integrated, institution-wide approach to student success. Trailer bill language largely delegates program design to the Chancellor's Office. Additionally, about 90 percent of funding will go directly to colleges based on a college's share of the state's Pell Grant-eligible students, share of full-time equivalent students, and a fixed base grant for each college. About ten percent will be for statewide assistance and programmatic support.
- **Operating Expenses** – The budget provides an increase of \$23.6 million Proposition 98 General Fund to support community college operating expenses, such as employee benefits, facilities, professional development, and other general expenses.
- **Online Education Initiative** – The budget provides an increase of \$10 million Proposition 98 General Fund to provide system-wide access to the initiative's course management system. The proposal would increase implementation of the Canvas course management system, and cover the subscription costs for all colleges indefinitely.
- **Integrated Library System** – The budget provides an increase of \$6 million one-time Proposition 98 General Fund to develop an integrated library system that would allow for students to access a cloud-based library system.

- **Deferred Maintenance** – The budget proposes a \$43.7 million one-time Proposition 98 General Fund increase for deferred maintenance, instructional equipment, and specified water conservation projects. Community colleges will not need to provide matching funds for deferred maintenance.
- **Proposition 39** – The budget proposes an increase of \$3 million Clean Energy Job Creation Fund for community college energy efficiency projects, consistent with Proposition 39.
- **Innovation Awards** – The budget proposes \$20 million one-time Proposition 98 General Fund for innovation awards for the development and implementation of innovative practices as determined by the Chancellor’s Office. The Chancellor’s Office indicated that it would prioritize applicants that focus on addressing needs like improving adult learning and better serving veterans.
- **Strong Workforce Program** – The budget proposes to move \$48 million from the Career Technical Education Pathways program, which is scheduled to sunset on July 1, 2017, into the Strong Workforce Program.

LAO Analysis and Recommendations

The LAO recently released “The 2017-18 Budget: Proposition 98 Education Analysis” which includes detailed information on the calculation of the Proposition 98 Guarantee and programs provided with Proposition 98 funding. The LAO’s analyses of specific Proposition 98 funded programs will be discussed in detail when the subcommittee hears the related program area.

The LAO notes that the 2015-16 minimum guarantee is somewhat insensitive to revenue changes and likely will remain unchanged without large revenue swings. The 2016-17 minimum guarantee would change with revenue changes, a change in revenue of one dollar (either higher or lower than estimates) would result in a 50 cent change to the guarantee. In the budget year, the impact of new revenue to the guarantee would be somewhat different based on the amount. In the chart below, the LAO shows that for the first \$400 million in revenue gains, the guarantee would increase by \$200 million, or 50 cents on the dollar. At that point, the minimum guarantee calculations would switch from a Test 3 to a Test 2. Further increases in revenue would have no impact until the maintenance factor requirement is triggered, at about \$1.4 billion in additional revenue above current DOF estimates, anything above that point would again result in a 50 cent on the dollar increase to the guarantee, up to a total of \$4 billion above current estimates.

Figure 13**The Impact of Higher State Revenues on the 2017-18 Minimum Guarantee**

^a Assumes all other Proposition 98 inputs remain unchanged.

Source: Legislative Analyst's Office

Under the LAO's revenue estimates, higher General Fund Revenues would increase the minimum guarantee by approximately \$1 billion in 2017-18. Both the LAO and the DOF will update their estimates of General Fund Revenues for the May revision of the budget.

Subcommittee Questions

1. What rate of growth are LAO and the DOF estimating for the Proposition 98 guarantee in the out years (2018-19 and later)? How does this impact the ability of the state to meet Proposition 98 funding obligations?
2. The Governor proposes to reduce over-appropriations of the Proposition 98 guarantee in 2015-16 and 2016-17 through shifting some one-time expenditures from 2015-16 to 2016-17 and

deferring a portion of LCFF payments from 2016-17 to 2017-18. Can DOF comment on the practical impact of these changes to local educational agencies?

3. In the Budget Summary released by the Governor, the Administration is proposing to hold a series of stakeholder meetings on Special Education funding. Can DOF expand on the outcomes that are expected from the stakeholder meetings? Will there be a related proposal in the May Revision? What problems is the Governor hoping to address?

Staff Recommendation

No action, this issue is information only and the Proposition 98 guarantee calculation will be updated at the May Revision.

6100 DEPARTMENT OF EDUCATION**Issue 2: Federal Funding and Every Student Succeeds Act Update (Information Only)****Panel:**

- Natasha Collins, Legislative Analyst's Office
- Marguerite Ries, California Department of Education

Federal Funding of K-14 Education:

In addition to state and local sources of funding for education, K-12 schools also receive federal funding, which makes up about 10 percent of all total K-12 funding. The Governor's budget includes an estimated \$7.5 billion in federal funding for 2017-18. This funding is provided through a variety of programs, including:

- Child nutrition programs totaling \$2.6 billion; includes the National School Lunch program and the School Breakfast program.
- Low-income student support programs totaling almost \$2 billion; supports schools educating low-income children under Title I of the Every Student Succeeds Act.
- Students with disabilities programs totaling \$1.2 billion; supports direct services for the education of students with disabilities.
- Other programs include support of English learners, after school programs, early childhood education, and career technical education.

Finally, federal funding makes up \$161 million of the state operations budget of the Department of Education, or about 70 percent of the department's total budget.

ESSA Background:

On December 10, 2015, the federal Elementary and Secondary Education Act (ESEA) was reauthorized with the passage of the Every Student Succeeds Act (ESSA). This replaces a prior version of the law, passed in 2002, known as No Child Left Behind (NCLB). The ESEA was originally passed in 1965 by the Lyndon B. Johnson administration, with a primary goal of supporting low-income students. Under ESEA, states are eligible for both formula and competitive grants, with the largest being Title I formula grants that states receive on the basis of the number of low-income students.

Funding for Every Student Succeeds Act

Proposed 2017-18^a (In Millions)

Support for:

Low-income students (Title I)	\$1,958
Teachers and administrators (Title II)	238
English learners (Title III)	145
After-school programs and charter schools (Title IV)	164
Rural schools (Title V)	1
American Indian education (Title VI)	7 ^b
Schools on federal lands (Title VII)	85 ^b
Total	\$2,598

^aDoes not include various competitive grant awards. In 2016, we estimate California educational entities received a total of \$60 million in competitive grant funding.

^bLAO estimates.

Source: Legislative Analyst's Office

Title I. Title I provides funding to support the academic achievement of low-income students. Under ESSA, as under NCLB, states receive funding based on the number of low-income students, most of which goes out on a formula basis to local educational agencies (LEAs). Of the total grant, states may use up to one percent for state administration. For the 2017-18 year, California anticipates receiving almost \$2 billion in Title I funds.

Federal accountability is also included in Title I. Under ESSA, of the total Title I grant amount, states must set aside seven percent for school improvement interventions and technical assistance. The majority of these funds must be used to provide four-year grants to LEAs. States may also set aside three percent of the total Title I allocation for direct services to students. Additionally, under Title I states are required to adopt challenging academic standards (federal approval is not required) and implement standards-aligned assessments in specified grade spans and subject areas (the same as under NCLB).

States must develop accountability systems that rate schools using academic achievement, growth rates (K-18), graduation rates (high school), English learner progress in language proficiency, and other factors determined by the state. Academic growth must have the greatest weight. Title I requires identification of, and intervention in, the lowest performing five percent of schools, high schools that fail to graduate more than one-third of their students, and schools in which any subgroup is in the lowest performing five percent and has not improved over time.

Title II. Title II provides funding to increase the quality of teachers and principals. Title II also prohibits the Secretary of Education from requiring or controlling teacher evaluations, definitions of effectiveness, standards, certifications, and licensing requirements.

Title III. Title III provides funding specifically for the education of English learner students. Under ESSA, Title III includes reporting on English learners; numbers, percentages, attainment of proficiency, and long-term academic performance. Under NCLB, Title III included accountability provisions called annual measurable achievement objectives. Accountability for English Learners is included in the new accountability system under Title I.

Timelines. The Legislature can expect that ESSA funding changes will impact the state's budget process for the 2017-18 fiscal year. In addition, new ESSA for accountability takes effect in 2017-18. Generally, programs may finish out existing grant funds and requirements before transitioning to new ESSA requirements. Federal regulations that provide additional detail and guidance for the implementation of ESSA have been underway since, 2016; however the new federal Administration and Congress may make changes that impact ESSA regulations. For example, the previous Administration issued regulations around the ESSA accountability requirements in November; however the House of Representatives recently voted to overturn the regulations and similar action is anticipated from the Senate. If the regulations are overturned, Congress is barred from issuing "substantially similar" regulations on these issues before lawmakers reauthorize ESSA. States would then rely only on the plain language of the ESSA statute for moving forward.

ESSA State Plan. The ESSA state plan is a comprehensive plan that includes all of the federal requirements as reflected in Titles I through IX. A stakeholder process to contribute to the ESSA State Plan has been underway since 2016 through the California Practitioners Advisory Group (CPAG). The CDE and the State Board of Education (SBE) have been working to align ESSA planning requirements with the new statewide accountability system under the LCFF to establish a single coherent local, state, and federal accountability and continuous improvement system. At the March 2017 SBE meeting, CDE staff will update the SBE on continued development of the state plan and the federal assurances the state must agree to in order to receive federal funding.

Staff Recommendation: No action. This item is informational only.