*Senate Budget and Fiscal Review—Holly J. Mitchell, Chair*

# SUBCOMMITTEE NO. 1 Agenda

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

**Thursday, March 8, 2018**
**9:30 a.m. or upon adjournment of session**
**State Capitol - Room 3191**

Consultants: Elisa Wynne and Anita Lee

## AGENDA



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## 6100 Department of Education
## 6870 California Community Colleges

**Issue 1: Overview of Proposition 98 and 2018-19 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
- Christian Osmeña, 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 grades (K-12) and 2.1 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. Of the K-12 students, approximately 3.9 million are low-income, English learners, or foster youth students or some combination of those categories. Approximately 1.4 million of the K-12 students served in public schools are English learners. There are also 72 community college districts, 114 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 2018-19 budget includes funding at the Proposition 98 minimum guarantee level of $78.3 billion. The budget proposal also revises the 2017-18 Proposition 98 minimum guarantee to $75.2 billion, an increase of $687 million from the 2017 Budget Act. In 2016-17, the guarantee decreases slightly by just $63 million and the budget maintains appropriations at the 2017-18 estimate of $71.4 billion. The Governor also proposes to pay $100 million in Proposition 98 settle-up toward meeting the 2009-10 Proposition 98 minimum guarantee. Together, the revised guarantee levels, freed up ongoing funds previously dedicated to one-time purposes and settle-up payments provide a total of $6.3 billion available for new education expenditures. Additional Proposition 98 funds in 2018-19 are proposed to be used primarily toward full implementation of the Local Control Funding Formula (LCFF) and providing one-time discretionary resources. 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, the Proposition 98 minimum guarantee. 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 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 **2016-17** | Revised **2017-18** | Proposed **2018-19** |
|---|---|---|---|---|---|
| **Sources** | | | | | |
| General Fund | 42,015 | 33,136 | 49,993 | 52,741 | 54,564 |
| Property taxes | 14,563 | 14,132 | 21,397 | 22,470 | 23,760 |
| **Total** | **56,577** | **47,268** | **71,390** | **75,211** | **78,324** |
| **Distribution** | | | | | |
| K-12 | 50,344 | 41,901 | 63,022 | 66,462 | 69,034 |
| CCC | 6,112 | 5,285 | 8,283 | 8,654 | 9,207 |
| Other | 121 | 83 | 85 | 95 | 85 |

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, which 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 (ADA), 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 ADA 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 ADA 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 minimum guarantee.

**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 percent). | 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 ≤ growth in General Fund revenues plus 0.5 percent. | 14 |
| Test 3 | Based on prior year funding, adjusted for changes in General Fund revenues plus 0.5 percent and attendance. | If statewide personal income growth > growth in General Fund revenues plus 0.5 percent. | 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, for 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 certified in statute for 2008-09.

The Governor's proposal assumes that in 2016-17 and 2018-19 the Proposition 98 minimum guarantee is calculated under Test 3 and that in 2017-18, the minimum guarantee is calculated under Test 2. 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.

**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 when Test 3 is operative (that is, when the Proposition 98 minimum 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 ADA 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 can result 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. However, in recent years, the state's maintenance factor balance from the last recession has largely been paid off and therefore the possibility of the Proposition 98 calculation absorbing an unusually large portion of state revenue gains is less likely within the next few years.

The Governor's proposal assumes a Test 2 calculation of the guarantee in 2017-18 and under this scenario pays off about $1.2 billion of the maintenance factor obligation. This leaves a balance of only $228 million going into 2018-19. This amount is then adjusted for growth in student ADA and per capita personal income, and the estimated Test 3 calculation in 2018-19, adds $83 million in maintenance factor obligation, bringing the 2018-19 balance to an estimated $320 million.

**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 $100 million in 2018-19 counting toward the 2009-10 minimum guarantee. After this payment, the state would owe $340 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 meets Proposition 2 requirements. 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 minimum guarantee, referred to as "spike protection". This constitutional formula specifies that in years when Test 1 is operative and is greater than the Test 2 amount by 1.5 percent of General Fund revenues, the excess amount over the 1.5 percent of these General Fund revenues is not included in the calculation in the subsequent year. This part of the formula has only been in play twice, when it reduced the impact of revenue gains on the 2013-14 and 2015-16 minimum guarantee calculations.

**3B Supplemental Appropriation.** The 3B supplement is a component of the Proposition 98 calculation that ensures that school funding grows at the same rate as the rest of the budget when the state is experiencing low General Fund growth. As part of the 2017 Budget agreement, statute was amended to notwithstand the 3B supplemental appropriation calculation for the 2016-17 through 2020-21 fiscal years. Waiving this statutory portion of the calculation reduces the Proposition 98 obligation in future years, but this reduction amount is added to the maintenance factor calculation to be paid back, when the state experiences higher General Fund growth. Under the Governor's budget proposals guarantee calculation, the 3B supplement would have added approximately $5 million to the minimum guarantee level in 2018-19.

**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 required that in the year following a deposit into this fund, a cap on local school district reserves would be implemented. However, SB 751 (Hill), Chapter 674, Statutes of 2017, amended the requirements to trigger the cap to specify that the trigger is when the Proposition 98 Rainy Day Fund is funded at three percent of the K-12 share of the Proposition 98 guarantee. SB 751 also loosens the requirements on local school districts in implementing the reserve cap. Both the Governor and the Legislative Analyst's Office (LAO) continue to project that under this new methodology, they do not anticipate the reserve cap to trigger during their forecast period over the next few years. The conditions needed to trigger Test 1 (and now reach a specific level of funding in the Proposition 98 Rainy Day Fund) include significant year-over-year revenue gains that are unlikely given the current modest growth projections.

**<u>K-12 Education Proposition 98 Budget Proposals:</u>**

The Governor's budget includes a proposed Proposition 98 funding level of $67.7 billion for K-12 programs (excluding preschool). This includes a year-to-year increase of $2.4 billion in Proposition 98 funding for K-12 education, as compared to the revised Proposition 98 K-12 funding level for 2017-18. Under the Governor's proposal, ongoing K-12 Proposition 98 per pupil expenditures increase from $11,149 provided in 2017-18 (revised) to $11,614 in 2018-19, an increase of almost 4.2 percent. 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 Local Control Funding Formula (LCFF). Since its inception, the state has dedicated a large portion of the new ongoing Proposition 98 revenues each year toward full implementation of the LCFF. The budget proposes approximately $2.9 billion in additional ongoing Proposition 98 funding to fully implement LCFF for school districts in 2018-19. County offices of education reached full implementation with their LCFF allocation in the 2014 Budget Act. When LCFF was enacted in 2013-14, the Governor estimated full implementation of LCFF in 2020-21.

**Discretionary Funds / Mandate Backlog Reduction –** The budget proposes an increase of $1.8 billion in discretionary one-time Proposition 98 funding provided to school districts, charter schools, and county offices of education. The Administration indicates that this funding allows for continued investments in implementing state adopted academic content standards, upgrading technology, providing professional development, supporting beginning teacher induction and addressing deferred maintenance projects. These funds would offset outstanding mandate reimbursement claims, although the amount may be adjusted to account for any outstanding balances school districts have related to Medi-Cal billing practices.

**K-12 Special Education –** Recognizing statewide difficulties in recruiting and retaining special education teachers, the budget includes two proposals to support a teacher pipeline in these areas. First, the budget includes $50 million in one-time Proposition 98 funding for a teacher residency grant program for special education teachers. Second, the budget includes $50 million in one-time Proposition 98 funding to provide competitive grants to local education agencies to support local efforts to recruit and retain special education teachers. In addition, the budget provides $125 million in one-time Proposition 98 and $42.2 million in federal Temporary Assistance to Needy Families (TANF) funding to provide competitive grants to expand inclusive settings for education and care of 0-5 year-olds with exceptional needs.

**Career Technical Education (CTE) –** The budget proposes the creation of a new K-12 CTE program that would be administered by the California Community Colleges in consultation with the California Department of Education. The program would provide ongoing Proposition 98 funding of $200 million in competitive grants to school districts through the existing Strong Workforce Program and $12 million for local industry experts to provide technical assistance to school districts with CTE programs.

**K-12 Accountability and Support –** When LCFF was enacted, the state also provided a framework for a new accountability system based on multiple measures. In 2016, the State Board of Education adopted accountability performance measures, now available through a tool called the California School Dashboard, which provides school and district-level performance data by student subgroups (.e.g. ethnicity, foster youth, English learners). Since 2013-14, the state has continued to build a system of support for school districts identified as needing improvement under the new system. The budget includes $55 million in Proposition 98 funding for county offices of education to support districts that are in need of improvement under the state's accountability system, $10 million for special education local plan areas (SELPAs) to support districts that need improvement in the area of special education, $11 million ($4.8 million of this is reappropriated prior-year funding) for the California Collaborative for Education Excellence to provide support to county offices of education and school districts, and $4 million for eight regional county office of education leads. The budget also proposes some additional transparency regarding district expenditures to support all students, including special education students.

**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 $183.1 million in 2017-18, as a result of a decrease in the projected ADA, compared to the 2017 Budget Act. For 2018-19, the Governor's proposed budget reflects a decrease of $135.5 million to reflect a projected further decline in ADA for the budget year. The proposed budget also provides $133.5 million to support a 2.51 percent cost-of-living adjustment for categorical programs that are not included in 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.

**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 for K-14 facilities ($7 billion for K-12 and $2 billion for community colleges). The budget proposes approximately $640 million in bond authority in 2018-19 for new construction, modernization, career technical education, and charter facility projects.

**Charter School Facilities –** The budget proposes an increase of approximately $23.8 million in Proposition 98 funds for the Charter School Facility Grant Program to fund projected increased participation.

**Child Care and Early Education –** The Governor's budget increases funding for child care and preschool programs by $399 million (including Transitional Kindergarten), for a total of $4.4 billion in state and federal funds. This reflects an increase of nine percent from 2017-18. This proposal includes $60.7 million ($32.3 million non-Proposition 98 General Fund and $28.4 million Proposition 98 General Fund) to fund the full-year costs of rate and slot increases implemented mid-way through 2017-18 (related to the 2016-17 agreement) and other policy changes made in 2017-18, such as enactment of the emergency child care bridge program. The budget also increases the Standard Reimbursement Rate by 2.8 percent and makes the Regional Market Reimbursement Rate hold harmless provision permanent. Finally, the budget proposes $8 million for an additional 2,959 full-day Preschool slots beginning April 1, 2019.

**California Community Colleges Proposition 98 Budget Proposals:**

The Governor's budget includes a proposed Proposition 98 funding level of $9.2 billion for California Community Colleges (CCC) programs. This includes a year-to-year increase of $553 million in Proposition 98 funding for the CCCs, as compared to the revised Proposition 98 CCC funding level for 2017-18. The Governor's major funding proposals for community colleges are listed below, and will be reviewed and discussed in a future subcommittee hearing.

**New Funding Model –** The Governor proposes a new allocation formula, the Student-Focused Funding Formula, and provides $175 million to ensure no college receives less under the new formula than it would receive under current law. Under the proposed new formula, funding would be allocated as follows:

- About 25 percent based on the number of low-income students served (as measured by eligibility for College Promise Grant fee waivers, formerly known as the Board of Governor's Fee waiver, and federal Pell grants);

- About 25 percent based on performance outcome measures: (1) the number of degrees and certificates granted, and (2) the number of students who complete a degree or certificate in three years or less. This grant would also include additional funds for each Associate Degree for Transfer granted by a college. By comparison, the current apportionment funding is allocated based primarily on enrollment, with none based on performance.

- The remainder would be provided through a base grant where each district receives a grant based on enrollment, and additionally.

- There will be a hold harmless provision where each district will be held harmless to the level they received in 2017-18.

**Increases Apportionments for Growth and COLA** – The budget proposes an increase of $161 million in apportionments to cover a 2.51 percent cost-of-living-adjustment, and $60 million to fund one percent enrollment growth.

**Adjusts Prior Year and Current Year for Enrollment, Property Tax, and Fee Revenue Changes** – The Governor's budget reduces apportionments by $74 million in 2016-17 and $78 million in 2017-18 to reflect unused growth funding. Additionally, the budget adjusts 2016-17 and 2017-18 Proposition 98 General Fund for apportionments to account for updated estimates of local property tax and student fee revenue. These adjustments result in net Proposition 98 General Fund savings of $38 million in 2016-17 and $54 million in 2017-18.

**Creates Online Community College –** The budget includes $120 million to create a new fully online community college. The college would create and coordinate online courses and programs targeted toward working adults with a high school diploma but lacking a college degree or certificate. Of the funding provided, $100 million would support start-up costs, and $20 million would support ongoing operating expenses.

According to the Administration the college's initial focus would be to develop content and programs to provide vocational training, career advancement opportunities, and credentialing for careers in child development, the service sector, advanced manufacturing, health care and in-home supportive services, among other areas. Consistent with the Student-Focused Funding Formula, apportionment funding for this program will be based on enrollment, the number of underrepresented students enrolled, and student outcomes.

The budget also proposes to accelerate the expansion of courses available through the Online Course Exchange, which will expand access to fully online Associate Degrees for Transfer, and establish a minimum number of fully online transfer degree programs.

**Financial Aid Programs –** The budget provides $46 million to fund the fee waiver program established by Assembly Bill 19 (Santiago), Chapter 735, Statutes of 2017. AB 19 allows colleges to offer full or partial tuition waivers to all first-time, full-time students who take at least 12 units per semester for their first year of college. The Administration expects colleges to encourage students to take 15 units per semester, or 30 units per year, in order to qualify for AB 19 once guided pathways have been implemented.

The Administration proposes to consolidate the Community College Completion Grant and the Full-Time Student Success Grant into one program, and provides an additional $33 million, bringing total funding for the consolidated program to $124 million. Additionally, the Administration proposes to base the grant amounts on the number of units a qualifying student takes each semester or year.

**Apprenticeship Programs Adjustments –** The budget proposes a $17.8 million ongoing increase to cover additional costs of classroom instruction for apprenticeship programs, a 32 percent increase over 2017-18. The budget also includes one-time funding of $30.6 million to backfill shortfalls in the reimbursements for classroom instruction for programs from 2013-14 to 2017-18. The budget includes language that would allow apprenticeship programs to claim the credit/enhanced noncredit apportionment funding rate for their classroom instruction. Currently, apprenticeship programs claim reimbursements for classroom instruction at an hourly rate.

**Innovation Awards –** The budget proposes $20 million one-time to provide grants focused on enhancing equity.

**Adult Education Block Grant –** The Administration proposes an increase of $20.5 million for a COLA for the program, with $5 million for a data collection and accountability system.

**Deferred Maintenance –** The budget proposes $264.3 million one-time for deferred maintenance. Of the total, $184 million is from 2017-18 Proposition 98 funds, $81 million is from 2018-19 Proposition 98 funds, and $11 million is from settle-up funds (scored as a Proposition 2 debt payment).

**Infrastructure –** The budget proposes $45 million in Proposition 51 bonds for five new and 15 continuing CCC infrastructure projects.

**Categorical Programs –** While the Administration does not have a proposal at this time, the Administration expects the Chancellor's Office to consult with stakeholders to develop a proposal for consideration within the May Revision that would consolidate categorical programs.

**Creates an Intersegmental Online Education Learning Lab for Faculty –** The budget proposes $10 million General Fund (ongoing) aimed at improving the quality of online courses at the University of California (UC), California State University (CSU), and CCC. Under the Governor's proposal, the Office of Planning and Research would award a multiyear grant to a consortium of institutions. The consortium, in turn, would train faculty from all three segments on effective practices for teaching online. The consortium also would be charged with procuring or developing technology that faculty can use to better assess student learning in their online classes, as well as developing and curating a virtual library of exemplary online courses and course materials.

**<u>LAO Analysis and Recommendations</u>**

The LAO recently released "The 2018-19 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.

In respect to the calculation of the minimum guarantee, the LAO notes that the Governor's proposed guarantee level is unlikely to increase notably even with additional General Fund revenues. The LAO notes that while in most years, increases in General Fund revenue lead to increases in the

Proposition 98 minimum guarantee. These increases often reflect higher required Proposition 98 maintenance factor payments, however, under the Governor's proposal; the state pays off most of its maintenance factor obligation by the end of 2017-18. The Governor's budget also assumes the guarantee is already growing at the same rate as per capita personal income in 2017-18 and only slightly below this rate in 2018-19 and the LAO notes that under these conditions, increases in General Fund revenue tend to have only modest effects on the minimum guarantee. Given these factors, the LAO estimates the 2017-18 and 2018-19 guarantees likely would not increase significantly even with revenue increases of several billion dollars from the Governor's January budget level.

The LAO also notes that an area that the Legislature should monitor is the K-12 ADA estimates, which will be updated in March. The Administration estimates positive growth in ADA in 2017-18, which impacts the 2017-18 and 2018-19 minimum guarantee calculations. This positive growth resets a formula that provides a hold harmless to the minimum guarantee for reductions in ADA (negative growth is only reflected if the preceding two years also show declines). Using the LAO estimate for negative ADA growth in 2017-18 and 2018-19 would result in a reduction to the guarantee of approximately $400 million.

Both the LAO and the DOF will update their estimates of General Fund Revenues for the May revision of the budget.

**Subcommittee Questions**

1. LAO's Proposition 98 estimates released in November of 2017 are very similar to those in the Governor's budget. Are there any major differences in underlying factors and assumptions?

2. With some uncertainty as to how changes in the federal tax rules will impact state revenues, how sensitive is the Proposition 98 Guarantee to changes in revenue estimates, both increases and decreases?

3. The Proposition 98 Guarantee increases significantly from last year; however, the cost to the General Fund is relatively modest as property tax increases are offsetting General Fund growth. What assumptions are underlying the strong property tax estimates?

4. Can the Administration comment on what factors go into the ADA growth estimates in 2017-18? Do they anticipate changes at the May Revision?

**Staff Recommendation**

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

## Issue 2: Strong Workforce Program (Informational Only)

**Panel:**

- Natasha Collins, Legislative Analyst's Office
- Mollie Quasebarth, Department of Finance
- Christian Osmeña, California Community Colleges
- Matt Roberts, California Community Colleges Chancellor's Office

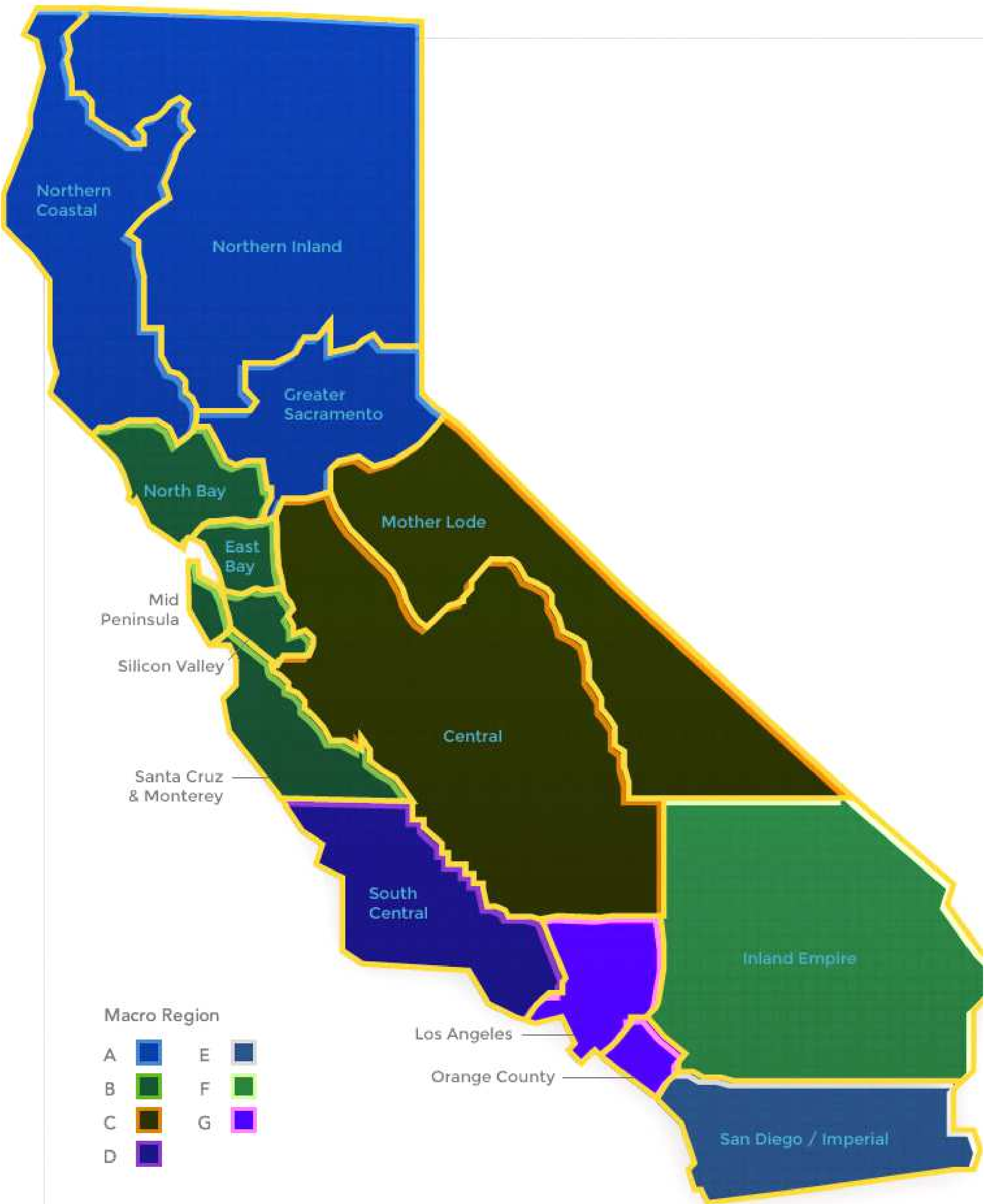
**Background**

**California Community Colleges Career Technical Education (CTE).** CCCs have historically provided CTE for students to gain the basic knowledge and skills necessary to actively participate as citizens and to enter the workforce. Approximately 27 percent of community college enrollment is in CTE courses. Programs range considerably, from short-term certificates in a particular field (e.g. Medical Assistant, Auto Mechanic, Early Child Development Specialist, Landscape Designer) to associate degrees in fields such as nursing. CTE courses and programs can be offered through credit, noncredit and noncredit career development and college preparation (CDCP) education.

**Economic Workforce Development Program (EWD).** The EWD provides grant funding to help community colleges become more responsive to the needs of employers, employees and students. Specifically, grants assist community colleges in collaborating with other public institutions to align resources, and foster cooperation across workforce education delivery systems, build articulated career pathways, and develop partnerships with the private sector. In 2015-16, the budget provided $25 million Proposition 98 General Fund for the EWD for the following grants:

| Grantees and Functions | Number of Grants | Amount Awarded (dollars in millions) |
|---|---|---|
| **Sector Navigators.** Statewide experts in their respective industries, fostered collaborative partnerships within each of the 10 priority industry sectors and the California Community Colleges. | 10 | $3.73 |
| **Deputy Sector Navigators.** Local experts in their respective industries, improved contacts between businesses and community colleges in each of the seven macroeconomic regions, enhancing alignment between career pathways and employer needs. | 65 | $13.2 |
| **Industry-Driven Regional Collaboratives.** Built networks of regional public, private and other community-based organizations to support college efforts to meet regional industry training and education needs. | 8 | $3.24 |
| **Centers of Excellence**. Provided expert consultation on occupational and economic trends and supported data collection. | 7 | $1.4 |
| **Capacity Building, Training and Support Technical Assistance.** Provided expertise in various areas of specialization. | 5 | $3.23 |
| **Total** | 95 | $24.8 |

Additionally, the EWD is the main program that supports the Doing What Matters for Jobs and the Economy framework. DWM provides a framework to assist colleges in closing the skills gap. Specifically, under the DWM framework and EWD, CCC defines 15 economic regions of the state, 7 macroeconomic regions, and identifies 10 priority industry sectors, which is displayed in map and described bullets below.



- 7 Macroeconomic Regions Comprised of the following regions:
    - A- Sacramento and Far North: Northern Inland, Northern Costal, Greater Sacramento
    - B- Bay Area: North Bay, East Bay, Mid-Peninsula, Silicon Valley, Santa Cruz and Monterey
    - C- Central: Mother Lode, Central
    - D- South Central: South Central
    - E- San Diego and Imperial: San Diego and Imperial
    - F- Inland Empire and Desert: Inland Empire
    - G- Los Angeles and Orange County: Los Angeles and Orange County

- Priority Industry Sectors:
    - Advanced manufacturing;
    - Advanced transportation and renewable energy;
    - Agriculture, water, and environmental technologies;
    - Energy, construction, and utilities;
    - Global trade and logistics;
    - Health;
    - Information and communication technologies/digital media;
    - Life sciences/biotech;
    - Retail, hospitality, and tourism; and
    - Small business.

Additionally, under DWM and EWD, the Chancellor's Office also established common performance measures designed to apply to all CCC workforce programs.

**K-14 CTE.** The CCC and K-12 systems have coordinated their CTE programs through some prior and existing efforts**.** For example, the 2013 and 2014 Budget Act provided a total of $500 million Proposition 98 for the California Career Pathways Trust (CCPT). Under this program, approximately $250 million for each of 2013-14 and 2015-16 was made available to school districts, county superintendents of schools, charter schools, and community college districts in the form of one-time competitive grants to establish or expand career pathway programs in grades nine through fourteen to prepare students for employment in industry sectors in their local or regional areas. Grant recipients also were required to commit to support programs for at least two years after state funding ended. Funding was provided for 79 implementation grants over the two-year period, and grantees included a mix of CCCs, LEAs, and other workforce partners collaborating on CTE pathways.

Additionally, the Career Technical Education Pathways Initiative, established in SB 1070 (Steinberg), Chapter 433, Statutes of 2012, was a categorical program that brought together community colleges, K–12 school districts, employers, organized labor and community partners to strengthen the connection between school and work. The Chancellor's Office and CDE awarded initiative grants to both community colleges and K–12 schools and districts that place a high priority on CTE. The budget provided $48 million each year for the initiative until it sunset, and was folded into the Strong Workforce Program in 2017-18.

**The Strong Workforce Program (SWP)**

The 2017-18 budget provided $248 million ongoing Proposition 98 General Fund for the Strong Workforce Program (an increase of $48 million over the initial year of the program in 2016-17 as CCPT funding was folded into the new program) to improve the availability and quality of CTE and workforce programs leading to certificates, degrees, and other credentials. The ongoing funding is consistent with recommendations of the Task Force on Workforce, Job Creation, and a Strong Economy, a group established by the Board-of-Governors of the Community Colleges (BOG) in late 2014. The Task Force developed 25 recommendation, and about 76 sub-recommendations regarding student success, career pathways, workforce data and outcomes, curriculum, CTE faculty, regional coordination, and funding.

AB 1602 (Committee on Budget), Chapter 24, Statutes of 2016, established the SWP, and required community colleges to coordinate their CTE activities within seven existing regional consortia. Each consortium, consisting of all community colleges in the region, is required to ensure that its offerings are responsive to the needs of employers, workers, civic leaders, and students. To this end, each consortium must collaborate with local workforce development boards, economic development and industry sector leaders, and representatives from civic and labor organizations within its region. Each consortium also must collaborate with LEAs, adult education consortia, and interested CSU and UC campuses to improve program alignment.

Consortia must meet at least annually to develop or update four–year program plans based on analyses of regional labor market needs. Each plan must include: regional goals aligned with performance measures under the federal Workforce Innovation and Opportunity Act (WIOA); a work plan, spending plan, and budget for regionally prioritized projects identifying the amounts allocated for one–time and ongoing expenditure; and a description of the alignment of the plan with other CTE and workforce plans in the area, including the regional WIOA plan. The Chancellor's Office reviews the plans and will be providing technical assistance to consortia that are not meeting their goals. The first set of plans was developed in the 2016-17 fiscal year and will be updated annually.

**Outcomes.** The Chancellor's Office posts regional plans on the CCC website and, beginning January 1, 2018, must annually submit a report to the Governor and the Legislature on performance outcomes, disaggregated for underserved demographic groups. The first report has not yet been released by the Chancellor's Office.

Currently, there are a variety of CTE data available, which are described below:

- **LaunchBoard:** Only available to educators is a statewide data system supported by the Chancellor's Office and hosted by Cal-PASS Plus, provides data on the effectiveness of CTE programs, as well as providing information on progress, employment, and earnings outcomes for both CTE and non-CTE pathways. This information is intended to facilitate local, regional, and statewide conversations about how to foster economic mobility.

- **DataMart:** Provides data to the public regarding student enrollment, student demographics, student services, outcomes on course completion and retention, number of awards, course characteristics on college, district and statewide level.

- **Centers of Excellence:** Provides customized data on regional and local high growth, emerging, and economically-critical industries and occupations and their related workforce needs.

- **Salary Surfer:** Provides comparative information about the earnings of recent California community college graduates who received an award in a specific program of study. Salary Surfer uses the aggregated earnings of graduates from a five-year period to provide an estimate on the potential wages to be earned two and five years after receiving a certificate or degree in certain disciplines.

- **CTE Outcomes Survey:** Provides information to colleges on employment outcomes for students who have participated in CTE programs—including whether students became employed within their field of study, if their community college coursework positively affected their earning potential, and why students dropped out of CTE programs.

According to the Student Success Scorecard, which provides information on student progress and success over six years, approximately 54 percent of students in 2010-11 completed a CTE degree, certificate, apprenticeship or transferred within six years. When looking at students who enrolled in CDCP courses, approximately 14 percent of students who started in 2010-11 CDCP courses complemented a degree, certificate or transferred within six years. Additionally, the Scorecard reports that students who completed higher level CTE coursework in 2013-14, and did not transfer or receive a degree or certificate, show a median earnings change of approximately 23 percent. However, these results were prior to the implementation of the Strong Workforce Program.

**Funding Allocation.** Under the Strong Workforce Program, the Chancellor provides 40 percent of program funds to the seven macroeconomic CTE regional consortia and 60 percent directly to community college districts. Both pots of funding are for supporting regionally prioritized initiatives aligned with their CTE program plans. CCC districts are prohibited from using the new funds to supplant existing support for CTE programs. The Chancellor may allocate up to five percent of the funds to a community college district for statewide activities to improve and administer the program.

For 2016–17, each region's and district's funding allocation reflected its share of: (1) the state's unemployed adults, (2) FTE students enrolled in CTE courses, and (3) projected job openings. Each of these factors determined one–third of that year's allocation. Beginning in 2017–18, unemployment and CTE enrollment each comprise 33 percent of the allocation, job openings comprise 17 percent, and successful workforce outcomes (as evidenced by the WIOA performance measures) comprise 17 percent. The performance funding metrics would include: number of CTE students who transfer to a four-year institution, number of CTE students employed after exiting community college system, rate of which CTE completers report they were employed in job related to field of studies, number of CTE students who improved their earnings or attained the regional living wage. The Chancellor's Office provides its recommended funding allocation to Department of Finance (DOF) and the Legislative Analyst's Office by August 30 of each year. The release of funds is subject to DOF's approval.

Based on information provided by the Chancellor's Office, for 2016-17, the regional share was approximately $72 million, the local share was approximately $114 million, $10 million of funding was for statewide activities, and $4 million was to help implement Strong Workforce Task Force recommendations and to achieve the outcomes for the Strategic Vision for Success with attention to CTE. Of the regional share of funding, the largest investments were for projects in advanced manufacturing ($11.3 million), all sectors ($10 million), information and communication technologies and digital media ($9.8 million), and health ($9 million). Of the local share of funding, the largest investments were for projects in advanced manufacturing ($18 million), all sectors ($15.4 million), information and communication technologies and digital media ($15.4 million), and health ($14 million).

**Workforce Policies.** AB 1602 requires the Chancellor's Office to submit a plan by July 1, 2017, to modify the program approval process to (1) reduce the time required to gain local and state approval for a new course or program to no more than one academic year and (2) ensure portability of approved courses and programs across colleges and districts. According to the LAO, the existing approval process is lengthy. To develop new CTE programs, faculty members typically work with local advisory committees that include industry representatives. New curriculum proposals require approval from a college, a district governing board, a regional consortium, and the Chancellor's Office before they can be implemented. Completing these steps often can take two years or longer.

In addition, AB 1602 directs the Chancellor's Office to eliminate barriers to hiring qualified instructors for CTE courses, including reevaluating the required minimum qualifications for CTE instructors. Currently, the BOG establishes minimum faculty qualifications and set for each discipline based on recommendations from the statewide Academic Senate. Generally, for academic disciplines (which include some CTE subjects), the minimum qualification is a master's degree. For many CTE areas, a master's degree is not generally expected (or available). For these disciplines, the minimum qualification is a bachelor's degree in any major and two years of experience in the occupational area of the assignment, or an associate degree and six years of experience. Each community college district may establish "equivalency" criteria for a degree, for example, allowing relevant work experience or industry certifications to satisfy a portion of the educational requirement. The statewide discipline qualifications and locally determined equivalencies apply to entire disciplines rather than individual courses. AB 1602 requires the Chancellor's Office to consult with various stakeholders, including the CCC Academic Senate and the California Workforce Development Board, in developing these policies. The BOG is scheduled to hear an item to revise minimum qualifications for apprenticeship instructors at its March 19-20, 2018 meeting.

**<u>Subcommittee Questions</u>**

1. Please provide an update on the SWP outcomes report that was due on January 1, 2018. When can the Legislature expect to receive a copy of the report? What are the preliminary findings of the report, and the impact that SWP has had on course and program offerings, and student performance outcomes?

2. How has the SWP impacted the relationships between the regions, community college districts, industry, and workforce groups? Can you provide some examples of the kind of work they are doing?

## 6100 DEPARTMENT OF EDUCATION

### Issue 3: K-12 Career Technical Education

**Panel:**

- Natasha Collins, Legislative Analyst's Office
- Debra Brown, California Department of Education
- Amber Alexander, Department of Finance
- Mollie Quasebarth, Department of Finance
- Christian Osmeña, California Community Colleges

**Background:**

Career Technical Education (CTE) is generally described as workforce-related training and education. In California's education system, CTE is provided through the K-12 system, primarily in high schools, through the California Community Colleges (CCC), and also through adult education providers.

**K-12 CTE.** The California Department of Education (CDE) defines career technical education as a *"….program of study that involves a multiyear sequence of courses that integrates core academic knowledge with technical and occupational knowledge to provide students with a pathway to postsecondary education and careers."* It further defines 15 industry fields for career technical education as noted in the table below:

| Industry Sectors | |
|---|---|
| Agriculture | Health Science and Medical Technology |
| Arts, Media, and Entertainment | Hospitality, Tourism, and Recreation |
| Building Trades and Construction | Information Technology |
| Business and Finance | Manufacturing and Product Development |
| Child Development and Family Services | Marketing, Sales, and Services |
| Energy and Utilities | Public Services |
| Engineering and Design | Transportation |
| Fashion and Interior Design | |

In 2005, the State Board of Education (SBE) adopted model curriculum standards for CTE, and in 2007 the board further adopted a framework for implementing the CTE curriculum in grades seven through twelve. In 2013, the board updated these standards and aligned them with the state's Common Core English language and mathematics standards, Next Generation Science standards, and history/social science standards. CTE standards are divided by each of the 15 sectors identified above and, according to the CDE, are intended to define the knowledge, concepts, and skills that students should acquire at each grade level. School districts are required by statute to offer to all otherwise qualified students in grades seven to twelve a course of study that provides an opportunity for those students to attain entry-level employment skills in business or industry upon graduation from high school. Offering CTE courses that comply with the CTE model curriculum standards meets these statutory requirements.

A formal CTE program has long been incorporated into the curriculum of many high schools. In recent years, CTE has largely been operated through Regional Occupational Centers and Programs (ROCPs), which provide services for high school students over 16 and some adult students. According to the CDE, approximately 470,000 students enroll in ROCPs each year. Students may receive training at schools or at regional centers. The provision of CTE by ROCPs varies across the state and services are provided under the following organizational structures: 1) a county office of education operates an ROCP in which school districts participate, 2) school districts participate in a joint powers agreement that operates an ROCP, or 3) a single school district operates an ROCP. Prior to 2008-09, ROCPs received funding through a categorical block grant (approximately $450 million Proposition 98 annually), based on hourly attendance. However under the policy of categorical flexibility, school districts could use ROCP funds for any purpose through 2012-13.

Commencing with the 2013-14 fiscal year, the state transitioned to funding K-12 education under the LCFF. This new formula eliminated most categorical programs, including separate ROCP funding, and instead provided school districts with a grade span adjusted per average daily attendance (ADA) amount based on the number and characteristics (low-income, English learner and foster youth students generate additional funds) of K-12 students. The high school grade-span rate included an additional 2.6 percent increase over the base grant to represent the cost of CTE in high schools; however, school districts are not required to spend this funding on CTE. In order to protect CTE programs as the state transitioned to LCFF, the Legislature and the Governor enacted a maintenance-of-effort requirement to ensure local educational agencies (LEAs) continued to expend, from their LCFF allocation, the same amount of funds on CTE as they had in 2012-13 through the 2014-15 fiscal year.

**CTE Incentive Grant Program.** In 2015-16, the Legislature and Governor responded to concerns that CTE programs needed additional support outside of LCFF in the short-term to ensure sustainability of quality programs by enacting the CTE Incentive Grant program. This grant program provided one-time Proposition 98 funding for each of the 2015-16 through 2017-18 fiscal years, with a local matching requirement. The funding amount and match requirement were adjusted each year, as follows:

- 2015-16: $400 million, match requirement 1:1 (grant funding : local match)
- 2016-17: $300 million, match requirement 1:1.5
- 2017-18: $200 million, match requirement 1:2

School districts, charter schools, county offices of education, joint powers agencies, or any combination of those could apply for these funds to develop and expand CTE programs. Matching funds could come from LCFF, foundation funds, federal Perkins Grant, California Partnership Academies, the Agricultural Incentive Grant, and any other fund source with the exception of the California Career Pathways Trust. Grantees were also required to provide a plan for continued support of the program for at least three years after the expiration of the three year grant. In addition, grantees were subject to the following requirements for eligible programs:

- Curriculum and instruction that aligns with the California Career Technical Education Model Curriculum Standards.

- Quality career exploration and guidance for students.
- Pupil support and leadership development.

- System alignment and coherence.
- Ongoing, formal industry and labor partnerships.
- Opportunities for after-school, extended day, and out-of-school work based learning.
- Reflection of regional or local labor market demands, and focused on high skill, high wage, or high-demand occupations.
- Leads to an industry recognized credential, certificate, or appropriate post-secondary training or employment.
- Skilled teachers or faculty with professional development opportunities.
- Data reporting.

The CDE, in conjunction with the SBE, determined whether a grantee continued to receive funds after the initial year based on the data reported by program participants.

Grantees are also required to annually report the following data aligned with the core metrics required by the federal Workforce Innovation and Opportunity Act and the quality indicators described in the California State Plan for Career Technical Education and by the federal Perkins IV. The data to be reported includes the following:

- The number of pupils completing high school
- The number of pupils completing CTE coursework
- The number of pupils obtaining an industry-recognized credential, certificate, license, or other measure of technical skill attainment
- The number of former pupils employed and the types of businesses in which they are employed
- The number of former pupils enrolled in a postsecondary educational institution, a state apprenticeship program, or another form of job training.

The numbers and types of grant recipients are shown below:

**CTE Incentive Grant Recipients**

| | 2015-16 | 2016-17 | 2017-18 |
|---|---|---|---|
| School Districts | 303 | 292 | 286 |
| County Offices of Education | 30 | 30 | 30 |
| Charters | 46 | 42 | 22 |
| Regional Occupational Programs | 14 | 14 | 14 |
| **Total Grantees:** | **393** | **378** | **352** |

Source: CDE

The CDE reports that there was considerable interest and applicants for the CTE Incentive Grant Program that ultimately did not end up receiving funding. While most grantees met the criteria for grant renewal, there were some areas where grantees chose not to renew, particularly charter schools, as seen in the chart above. One of the main reasons for not renewing was the increasing match requirement.

The CDE, with the assistance of county offices providing technical assistance, conducted a recent survey of grant recipients. With a 65 percent response rate, most respondents (74 percent) used the funds to add new or re-establish CTE programs. 79 percent used the grant funds for supplies and equipment and grantees reported considering student information and labor market information as the top two factors when allocating funds to CTE pathways. 90 percent report that CTE is embedded into their Local Control and Accountability Plans. Grantees have flexibility in expending funds across years and funding us available for expenditure until June 30, 2019.

While the majority of the funds were allocated to program applicants, one percent was available for technical assistance activities. The CDE identified the following county offices to provide regional technical assistance: Butte, Fresno, Los Angeles, Napa, Sacramento, San Bernardino, and Santa Barbara. Technical assistance provided is based on the required elements of the program (noted above) and professional development for specific industry sectors and regional needs.

**K-12 CTE Outcomes and Accountability.** While the CTE Incentive Grant had measurable outcomes for grant recipients, preparing students for college and careers more broadly is also part of the state's expectations for local educational agencies (LEAs) (school districts, county offices of education, and charter schools) under the state's multiple measure accountability system that was created along with LCFF. Under this system, the SBE adopted the college and career readiness indicator (CCI) for use beginning in the fall of 2017, based on 2016-17 data. This new indicator ranks the college and career readiness of graduating students, by assessing a student's attainment of the following, in addition to a high school diploma: CTE pathway completion; mastery of English language arts and mathematics standards; completion of Advanced Placement (AP) exams and/or International Baccalaureate (IB) exams; dual enrollment credit, and completion of A-G courses (courses that count towards the requirements for attending a California State University or a University of California). Indicator categories include "prepared", "approaching prepared", and "not-prepared" for college and careers. The CCI is one of several indicators by which the state tracks both the status of LEAs and progress made to determine the need for additional support. In 2017, the California School Dashboard, the online tool for displaying these indicators, will only show the status of LEAs on the CCI as there is only one year of data currently available. Change in status and performance levels will not be reported for any LEA, school, or student group until the fall 2018 Dashboard. While the CCI is not solely a measure of CTE, LEAs providing access to robust CTE programs will be able to more easily reach higher ratings. At this point, tracking of students into post-secondary education, and specifically CTE programs and employment is limited; however, the SBE has left open the possibility of adding additional metrics to the CCI to increase its' ability to determine "career readiness".

**Governor's Proposal:**

The budget proposes to provide $200 million in ongoing Proposition 98 funding for K-12 CTE programs. The funds would be distributed through the Strong Workforce Program operated by the Chancellor's Office of the CCCs. Funds would be used by K-12 local educational agencies (LEAs) to establish and support K-12 CTE programs that are aligned with industry needs.

The allocation to each consortia (made up of CCC districts and other local industry, workforce, and education partners, already established for the Strong Workforce Program) would be based on three factors: the unemployment rate in the region, the region's total ADA for students in grades seven through 12, and the proportion of projected job openings in the region. Funding would be further divided within each region to ensure that LEAs of all sizes are able to compete. The Administration proposes to create a subcommittee of individuals with K-12 education and workforce development expertise within each consortium. This subcommittee would award competitive grants to LEAs, in consultation with the consortium. Grantees must align their CTE efforts with the regional consortia plan and provide a 1:1 local match if they apply as an ROCP or program operated as a joint powers agreement, or a 2:1 match if applying on behalf of a single LEA. Programs generally must meet the quality requirements established under the CTE Incentive Grant and report similar outcome data.

The Governor also proposes an additional ongoing $12 million to establish K-12 Workforce Pathway Coordinators in each CCC district to provide technical assistance and create partnerships with local industry.

**LAO Analysis and Recommendations**

In their recently released report, "The 2018-19 Budget: Proposition 98 Education Analysis", the LAO notes that there are benefits to the original approach to CTE envisioned under LCFF, whereby the high school grade span rate reflects an increased rate intended to cover the costs of providing high education, including CTE. This funding structure reflects the expectation that all high schools must prepare their students for college and career and CTE can be part of this core curriculum for high school students rather than an add-on. The LAO recommends that the Legislature continue to use this approach rather than creating a new categorical program as proposed by the Governor.

However if the Legislature ultimately pursues creating a categorical program for CTE, the LAO recommends that the Governor's Strong Workforce approach is rejected and instead create a new program built off the existing CTE Incentive Grant Program. The LAO recommends that this new program include provisions to align some CTE courses with regional workforce needs, create shared data and outcomes across K-12 and CCC systems, and set clear outcome objectives and specific reporting requirements. The LAO also recommends that the program be limited to a few years to ensure the Legislature and Governor can evaluate program data before moving forward to a more permanent program. The LAO also suggest folding existing CTE categorical programs (the California Partnership Academies, the CTE Pathways program, Specialized Secondary programs, and the Agricultural Incentive Grant program) into the new CTE program.

**Staff Comments**

CTE in the K-12 system has also evolved to include a standards-based curriculum, increases in CTE courses that are A-G compliant, growing linkages with industries, and increased accountability for student outcomes. With the Governor's proposal, the funding for CTE in K-12 education would shift to be more tied to workforce needs and community college pathways, rather than broader CTE offerings. With the expiration of the CTE Incentive Grant, the Legislature may wish to consider the vision for and funding of K-12 CTE in 2018-19 and future years. The Governor's proposal, while providing ongoing funding for K-12 CTE, does raise a number of issues for Legislative consideration, as detailed below:

**State-level Oversight.** The proposal would shift funding of K-12 CTE programs from the CDE to the CCC. While the CCC and CDE have coordinated on CTE programs in the past, this would be a shift in the responsibility for the allocation of funding for a K-12 specific program to reside at the CCC. The Legislature may wish to evaluate what the Administration considers to be the benefits of this arrangement and whether there would be drawbacks, particularly given that the CDE houses the state-level technical expertise on these programs, and provides statewide curriculum standards-setting and curricular support. In addition, under the Strong Workforce Program, the CCC currently approves consortia plans and provides technical assistance in meeting goals. They would presumably play this same role for the K-12 system in addition to, or along with, pathway coordinators. The Legislature may wish to consider the alignment of CCC and K-12 CTE goals and desired outcomes to ensure that there is appropriate oversight and support of K-12 CTE.

**Local Governance and Accountability.** The Governor proposes for the actual selection and awarding of the grants to be done at the consortia level. Funds would be allocated to consortia based on ADA, a measure of unemployment, and a measure of job openings in the area. LEAs would apply for grants that rely on their programs alignment with recognized workforce needs in their areas. The Strong Workforce program consortia have recently established their governance structures under the program they were put in place to operate. The Legislature may wish to consider whether these governance structures are able to accommodate the needs of K-12 education, given they are currently just one of many members, and what changes would need to be made to ensure funding of K-12 CTE is consistent with school district needs for their students. The membership of the subcommittees that would award grants to the LEAs and the influence of the consortia governance on this process remain unclear in the proposal.

Expected outcomes for students in the K-12 system may not align with those of students in the CCC system. The focus at the K-12 level in some circumstances may more appropriately be on student completion of high-quality CTE sequences to inform future college and career decision making, as well as playing a role in student engagement, rather than the attainment of immediate skilled employment or living wages. Any program must take into account these and any other differences in the missions of the education segments.

**Transitioning from the CTE Incentive Grant.** The Legislature may also wish to consider how best to build off of the CTE Incentive Grant Program moving forward. For example, the CTE Incentive Grant Program provided technical assistance grants to county offices of education and the evaluation of this practice may inform the need for and use of grants for pathway coordinators at the CCC districts, as proposed by the Administration.

**Subcommittee Questions**

1. What is the benefit of moving funding for CTE K-12 education to the CCC system? How would the new program integrate with the role of the CDE as the state lead on K-12 CTE standards, curriculum, and industry sectors?

2. How is the K-12 system currently integrated in the Strong Workforce Program structure at the consortia level? How would this change under the Governor's proposal?

3. Are there lessons learned from the outcome data of the CTE Incentive Grant Program and the California Career Pathways Trust Grant (both on the technical collection of data and the content/data selected for collection) that should be applied to a new program?

4. How is the role of the K-12 workforce pathway coordinators different from the technical assistance provided by county offices of education under the Career Technical Education Incentive Grant Program?

**Staff Recommendation:** Hold Open.

## 6100 DEPARTMENT OF EDUCATION

### Issue 3: Mandates

**Panel:**

- Dan Kaplan, Legislative Analyst's Office
- Aaron Heredia, Department of Finance
- Debra Brown, California Department of Education

**Background:**

The concept of state reimbursement to local agencies and school districts for state-mandated activities originated with the Property Tax Relief Act of 1972, SB 90 (Dills), Chapter 1406, Statutes of 1972, known as SB 90. The primary purpose of the act was to limit the ability of local agencies and school districts to levy taxes, however it also included provisions to require the state to reimburse local governments when they incurred costs as the result of state legislation. In 1979, Proposition 4 (superseding SB 90) was passed by voters, amending the California Constitution to require local governments to be reimbursed for new programs or higher levels of services imposed by the state. In response to Proposition 4, the Legislature created the Commission on State Mandates (CSM) to hear and decide upon claims requesting reimbursement for costs mandated by the state.

In the area of K-14 education, school districts, county offices of education (COEs), and community colleges, collectively referred to as local educational agencies (LEAs), can file mandate claims to seek reimbursement. Charter schools have filed mandate claims in the past and the CSM disapproved the claims stating that a charter school is voluntarily participating in the charter program and therefore their activities are not mandates. In addition, a charter school is not considered a school district under the Government Code sections that allow for the claiming of reimbursement. However, charter schools are required, as a course of operation, to provide some of the same programs, or higher levels of service for which other education agencies may file mandate claims and receive reimbursement.

**Mandate Reimbursement Process.** A test claim must be filed within 12 months of the effective date of the activity. The CSM first determines whether an activity is a mandate. Generally, a new program or higher level of service for a local government may not be considered a reimbursable mandate if 1) it is a federally-required program or service; 2) it is the result of a voter-approved measure; 3) it is the result of an optional or voluntary activity; 4) it has offsetting saving or revenues designated for that purpose; or 5) the requirement was enacted prior to 1975. The test claim must include detailed information on the enacting statutes or executive orders, mandated activities, and costs incurred as a result.

If the CSM determines the program or service to be a reimbursable mandate, the next step is for the CSM to approve "Parameters and Guidelines" that identify the eligible claimants, activities, costs, and time-period as needed for LEAs to file claims. The State Controller's Office (SCO) then issues claiming instructions and LEAs file initial claims, followed by annual claims for reimbursement. The SCO reviews, approves, and audits a sample of claims. After the initial claims are filed for a reimbursable state mandate, the SCO aggregates these costs and provides a statewide cost estimate for adoption by the CSM. These statewide cost estimates are reported to the Legislature and used to estimate ongoing state mandate costs and the backlog of unpaid mandate claims.

The mandates reimbursement process has some identified shortcomings. The process often takes years for decisions to be reached, allowing potentially significant costs to accrue prior to initial claims and delaying a decision by the state to suspend or amend the requirements. Reimbursements under this process are based on actual costs; therefore LEAs may lack an incentive to perform required activities as efficiently as possible. In addition, reimbursement on an annual basis requires potentially significant bureaucratic workload for LEAs to keep required records for all of the various mandated activities. Also, depending on the amount of reimbursement available, not all LEAs may file a claim; those with less administrative capacity may simply absorb the costs of the mandate. The reverse is likely also true; LEAs with the necessary administrative resources may more aggressively pursue reimbursement, resulting in uneven funding for the same mandated activities.

In order to simplify the process, in 2004 the state created the Reasonable Reimbursement Methodology (RRM). Rather than requiring LEAs to submit detailed documentation of actual costs, RRM uses general allocation formulas or other approximations of costs approved by the CSM. Only three school mandates currently have approved RRMs.

**Payment of Mandates.** Over the years, as the cost and number of education mandates has grown, the state began to defer the full cost of education mandates for multiple years at a time, paying claims on an inconsistent schedule, mostly when one-time funds are available. After deferring payments for years, in 2006, the state provided more than $900 million in one-time funds for state mandates, retiring almost all district and community college mandate claims (plus interest) through the 2004-05 fiscal year. However on a regular ongoing basis, the state continues to defer the cost of roughly 50 education mandates, but still requires LEAs to perform the mandated activity by providing a nominal amount of money ($1,000) for each activity.

There have been some attempts to force the state to pay mandate claims. For example, Proposition 1A, approved by the state's voters in 2004, required the Legislature to appropriate funds in the annual budget to pay a mandate's outstanding claims, "suspend" the mandate (render it inoperative for one year), or "repeal" the mandate (permanently eliminate it or make it optional). The provisions in Proposition 1A, however, do not apply to K-14 education. In addition, in 2008, a superior court found the state's practice of deferring mandate payments unconstitutional, however constitutional separation of powers means the courts cannot force the Legislature to make appropriations for mandates.

More recently the state has had significant one-time Proposition 98 funding available and has made sizeable payments towards the mandates backlog. After 2013-14, the LAO estimated that the mandates backlog reached a high of approximately $4.5 billion. In each of the 2014-15 through 2017-18 Budget Acts (see chart below), the state provided additional discretionary funding that was applied to the mandates backlog. In each of these years, the funds were not apportioned for specific claims, but provided on an equal amount per average daily attendance (ADA) for K-12 and per full time equivalent student (FTES) for community colleges. Charter schools were also included in the per ADA allocation although they do not have mandate claims. This payment methodology acknowledges that all LEAs and community colleges were required to complete mandated activities, but for a variety of reasons, not all LEAs and community colleges submitted claims.

| K-14 Discretionary Payments in Recent Years (Dollars in Thousands) | | | | | |
|---|---|---|---|---|---|
| | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **Total** |
| **K-12** | | | | | |
| **2014-15 Budget Act** | 400,500 | | | | 400,500 |
| **2015-16 Budget Act** | | 3,205,137 | | | 3,205,137 |
| **2016-17 Budget Act** | | | 1,280,846 | | 1,280,846 |
| **2017-18 Budget Act** | | | | 876,581 | 876,581 |
| **Total K-12** | **400,500** | **3,205,137** | **1,280,846** | **876,581** | **5,763,064** |
| ***Per ADA (in whole dollars)***[1/] | ***$67*** | ***$529*** | ***$214*** | ***$147*** | |
| **CCC** | | | | | |
| **2014-15 Budget Act** | 49,500 | | | | 49,500 |
| **2015-16 Budget Act** | | 632,024 | | | 632,024 |
| **2016-17 Budget Act** | | | 105,501 | | 105,501 |
| **2017-18 Governor's Budget** | | | | 0 | 0 |
| **Total CCC** | **49,500** | **632,024** | **105,501** | **0** | **787,025** |
| ***Per FTES (in whole dollars)***[1/] | ***$45*** | ***$560*** | ***$93*** | ***$0*** | |
| **Total K-14 Mandate Payments** | **450,000** | **3,837,161** | **1,386,347** | **876,581** | **6,550,089** |
| 1/ The per pupil calculation uses prior year ADA and FTEs data. | | | | | |

Does not account for leakage.
Source: Department of Finance

This payment methodology has a significant limitation in its ability to fully pay off remaining mandate claims. The per ADA and FTES methodology results in "leakage", or the amount of the one-time payments that does not count against the mandate backlog because it was provided to LEAs or community colleges that did not submit claims or whose claims have already been paid off. As the state pays off more of the mandate backlog, the amount of leakage becomes more significant. With fewer LEAs that have remaining claims on the books, additional funding provided on a per ADA and per FTES basis has a diminishing return on reducing the backlog as the remaining claims become concentrated in those LEAs with high per-student claims.

**Remaining Mandates Backlog.** The LAO estimates that after the 2017-18 payments are applied to the mandates backlog, the remaining balance of unpaid claims totals approximately $871 billion for K-12 mandates. However, the SCO has not yet applied all available funding to claims, so actuals are not yet available. In addition, some mandates are currently involved in litigation and the SCO has not applied the CSM ruling on offsetting revenue pending completion of the lawsuit. The LAO takes into account pending litigation to reach the $871 million estimate. The estimation of the actual amount of the backlog is complicated by a variety of factors, mandates claims continue to accrue on an annual basis, there is a lag in the SCO application of new one-time funds towards claims, and as a result in the calculation of leakage, claims continue to be subject to audit, and some statewide mandate costs are involved in litigation.

**Mandates Block Grant.** As an alternative to the traditional mandates claims process and to help create more certainty for LEAs in the payment of mandates, in the 2012-13 budget, the state created two block grants for education mandates: one for school districts, COEs, and charter schools (for which some mandated activities apply) and another for community colleges. Instead of submitting detailed claims that track the time and money spent on each mandated activity on an ongoing basis, LEAs can choose to receive block grant funding for all mandated activities included in the block grant. The mandates block grant does not reflect the actual statewide costs estimates for each included mandate.

**Block Grant Funding and Participation.** The 2018-19 proposed budget includes a total of $269 million for the mandates block grants ($236 million for schools and $33 million for community colleges). This reflects a cost-of-living adjustment. Block grant funding is allocated to participating LEAs on a per-pupil basis, based on ADA or FTES. The rate varies by type of LEA and by grade span, due to the fact that some mandates only apply to high schools. The per-pupil rates are as follows:

- School districts receive $31.10 per student in grades K-8 and $59.71 per student in grades 9-12.
- Charter schools receive $16.30 per student in grades K-8 and $45.15 per student in grades 9-12.
- County offices of education (COEs) receive $31.10 per student in grades K-8 and $59.71 per student in grades 9-12 for students they serve directly, plus an additional $1.05 for each student within the county. (The $1.05 add–on for COEs is intended to cover mandated costs largely associated with oversight activities, such as reviewing district budgets.)
- Community colleges receive $29.15 per student.

Most school districts and COEs, and virtually all charter schools and community college districts, have opted to participate in the block grant. Specifically, in 2016-17, the LEAs participating in the block grant serve about 95 percent of LEAs, including charter schools, and 99 percent of ADA and 100 percent of community college districts and FTES.

**New Education Mandates.** New mandate claims continue to be filed on an ongoing basis and generally, once the CSM has adopted the statewide cost estimate, this amount is added to the mandates backlog. In addition, the state must make a determination about whether to add new mandates to the block grant and correspondingly increase the mandates block grant and by what amount. Finally, if the state is not going to suspend the mandate, generally a minimal appropriation of $1,000 is provided in the annual budget act towards the costs of the mandate.

**<u>Governor's Proposal</u>:**

The Governor proposes to provide $1.8 billion for school districts, county offices, and charter schools in one–time discretionary Proposition 98 funds. These funds would offset any existing mandate claims for LEAs. Similar to prior years, this funding would be allocated on a per ADA basis. LEAs can use their funds for any purpose, however the Governor includes language suggesting that school districts, COEs, and charter schools dedicate their one–time funds to implementation of Common Core State Standards, technology, professional development, induction programs for beginning teachers, and deferred maintenance. In addition, the Governor is proposing to add "employee benefits" to the list of intended uses. The Governor's budget also reflects a COLA for the K-12 and CCC mandates block grants as discussed in the narrative above.

When distributing the $1.8 billion, the Governor also proposes to first offset an LEA's allocation with the balance of any payments due to the state for a Medi-Cal billing settlement. LEAs are currently able to receive federal reimbursements for a portion of the cost of administering the Medi-Cal program (for example: providing referrals, facilitating applications, providing transportation.) The California Department of Health Care Services administers the reimbursements. The federal government reviewed the reimbursement program in 2013 and as a result of the review; a new reimbursement methodology was agreed to which applies to claims as far back as 2009-10. After several years, the state is now making payments to the federal government based on reviews of old claims – approximately $222 million total. The recouping of these payments from the LEAs is reflected in the Governor's one-time funding proposal.

**LAO Analysis and Recommendations**

The LAO's recent report, *The 2018-19 Budget: Proposition 98 Education Analysis*, analyzes the mandates backlog. The LAO continues to have concerns, as in past years, that the Administration is not effectively paying down the mandates backlog. The LAO notes that because many LEAs no longer have claims, paying off mandates by providing a per-ADA payment to all LEAs would be an exceptionally costly way to eliminate the mandates backlog. The LAO continues to recommend that the Legislature take a more strategic approach to reducing the mandates backlog, such as providing one-time payments to all LEAs with the requirement that those who received funds wrote off all remaining claim balances.

In regards to the Governor's proposal, the LAO estimates that roughly $287 million of the $1.8 billion proposed would apply to the reduction of mandate claims due to leakage and the amount of funding that would instead be used to repay the General Fund for payments made on behalf of LEAs related to Medi-Cal billing practices.

**Estimates of K-12 Backlog (In Millions)**

| | |
|---|---|
| **2017-18 Backlog** | **$871** |
| **Governor's Proposed Discretionary Funding** | **$1,757** |
| Funds Counted Toward Backlog | $287 |
| Funds Not Counted Toward Backlog[a] | $1,469 |
| **2018-19 Backlog** | **$583** |

Source: Legislative Analyst's Office
Includes (1) $220 million deducted as part of a recent agreement with the federal government over Medi-Cal billing practices and
(2) $1.2 billion provided to districts in excess of their mandate backlogs.

Finally, the LAO suggests that the language-related to the intended uses of one-time funds include a specific reference to retirement liabilities to encourage LEAs to consider the use of these funds to assist with related long-term cost pressures.

**Staff Comments**

Significant progress has been made in paying down the mandates backlog over the past few years with the additional benefit that LEAs have received unrestricted one-time resources as the economy has recovered and they build back programs for their students. The Legislature may wish to consider whether to continue to provide unrestricted funds that count towards paying off the mandate backlog, or whether, since the percentage of leakage means that the majority of those funds do not reduce the mandates backlog, they should be instead specifically targeted to priority areas.

**Subcommittee Questions**

1. When will the DOF have actuals for the amounts due from each LEA related to Medi-Cal billing practices? When will the one-time funds be disbursed to LEAs?

2. Where there other options for repaying Medi-Cal claims that the Administration considered?

**Staff Recommendation:** Hold open pending May Revision funding projections.