



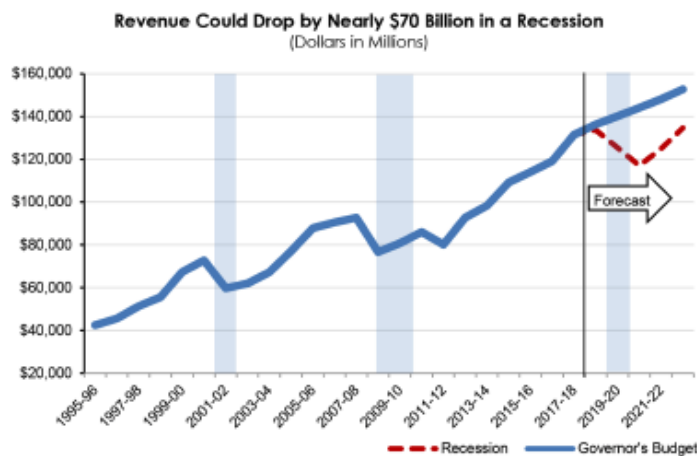
## GOV. NEWSOM RELEASES HIS MAY REVISION TO THE JANUARY BUDGET PROPOSAL FOR 2019-20 FISCAL YEAR

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Today, Gov. Gavin Newsom released the May Revision to the 2019-20 State Budget. Just like recent reports indicated the state's revenues were above projections by several billion dollars, the May Revision reflects higher revenue estimates of \$3.2 billion through 2019-20 compared to the January budget, with most of these increases going towards constitutionally required reserves, debt repayment and schools, while demonstrating a commitment to the causes championed during the gubernatorial campaign.

At the news conference, he framed his proposed budget as one that prepares for uncertain economic times, while paying down debts and also making major investments on issues that had not been prioritized before. Consequently, Gov. Newsom's budget seeks to achieve a balance between meeting some of the state's priorities with limited ongoing resources, while recognizing the volatility of the state's predominant revenue stream. This "boom and bust" trend in the state's revenues prompted the passage of Proposition 2 by California voters in November 2014 to set aside money in the state's reserve. By the end of 2020-21, the state could have \$16.5 billion in the constitutional Rainy Day Fund, which are reserves available for future budget emergencies and could allow the state to reach its constitutional target of 10 percent of General Fund revenues two years ahead of schedule. It is projected that the Rainy Day Fund balance will be \$18.7 billion by 2022-23.

It is important to note the state's economy is five years past the traditional recovery period following an economic recession and warns of the uncertainty created by the national political landscape and the recent changes to reduce federal taxes. The May Revision economic forecast recognizes slower growth in the economy. Without predicting when the next recession could occur, the administration continues to emphasize the importance of preparing for the next downturn that could result in close to \$70 billion in reduced funding and approximately \$40 billion in budget deficits over three years.



## Overview

Gov. Newsom's budget proposes a total budget plan of \$147 billion. The total state budget plan, including special funds, equates to \$213.5 billion. This includes continued investments in public education. The governor's budget proposes to fund the Proposition 98 minimum guarantee with \$81.1 billion in 2019-20.

Other highlights from the May Revision include:

- **Homelessness:** An additional \$150 million for a total of \$650 million in one-time funds to assist local governments in supporting immediate efforts to address homelessness. In total, the May Revision includes \$1 billion to prevent and mitigate the homelessness crisis.
- **Fire prevention:** Provides funding to improve California's emergency readiness, response, and recovery capabilities.
- **Proposition 98 Rainy Day Fund:** Of particular importance to schools, the administration is proposing a first-time appropriation of \$389 million in Proposition 98 funding towards the Public School System Stabilization Account that is required as part of Proposition 2 approved by the voters in 2014. While current law requires a cap on school district reserves be applied in fiscal years immediately succeeding those in the balance of the Account when it is equal to or greater than three percent of the total K-12 share of the Proposition 98 minimum guarantee (approximately \$2.1 billion), the Department of Finance does not anticipate this deposit will result in the school reserve cap being triggered in 2020-21.

## K-12 education budget

Proposition 98 is significantly impacted by the volatility of the state revenues and, as a result, the Proposition 98 guarantee funding sees a modest growth over the three-year budget cycle relative to the January estimates, with increases of \$78 million in 2017-18, \$278 million in 2018-19 and \$389 million in 2019-20 for a total Proposition 98 funding level of \$81.1 billion in the next fiscal year.

Other changes to the education budget include the following:

- **Local Control Funding Formula:** Enacted in June 2013, Gov. Brown ensured the LCFF targets were fully funded in the 2018-19 Budget Act – two years ahead of schedule. As a result, future state budgets would only guarantee a Cost-Of-Living-Adjustment for the LCFF base, supplemental and concentration grants. The Gov. proposes a **\$1.9 billion** increase to the LCFF, which reflects a 3.26 percent COLA. This investment brings the total amount of more than \$63 billion towards LCFF in 2019-20.
- **Special education funding:** Proposes **\$696.2 million in ongoing Proposition 98 funds** to support expanded special education services and school readiness supports at Local Education Agencies with high percentages of both students with disabilities and low-income, foster youth and English learners (unduplicated students under LCFF). This is an augmentation

of \$119.2 million more than was proposed in the January budget, and the increased funding is proposed on an ongoing basis instead of one-time resources. Eligible LEA's may use these grants to fund special education and school readiness services not currently included in an individualized education program. This funding is intended to supplement services for students currently receiving special education services and for preventative services that may reduce the need for additional services in future years. At this point, the governor does not propose any of this funding to go towards equalization of special education funding through the AB 602 formula. The revised budget also includes a requirement that charter schools improve their supports for students with disabilities.

- **Cost of Living Adjustment** is decreased from 3.46 percent to 3.26 percent at the May Revision for the categorical programs that remain outside of LCFF, including special education, child nutrition and preschool programs. The COLA for school districts and charter schools are provided within the increases for LCFF.
- **One-time general funds for CalSTRS employer contribution rate:** Unlike past years where LEAs received one-time discretionary grants that could be used for any local purpose, the January budget proposed directing \$3 billion in one-time non-Prop. 98 general fund to CalSTRS to reduce pension costs for K-12 schools and community colleges. Of this amount, a total of \$700 million would be provided to buy down the employer contribution rates in 2019-20 and 2020-21. The May Revision augments this allocation by \$150 million in one-time non-Proposition 98 General Fund to reduce employer contributions from 18.13 percent to 16.7 percent in 2019-20, and from 19.1 percent to 18.1 percent in 2020-21. The remaining \$2.3 billion would be paid toward the school employers' long-term unfunded liability, with an estimated reduction in the out-year contribution rate of approximately half a percentage point. This is a shift from the prior administration, who was unwilling to address the increased cost pressures school districts are facing related to rising health care costs and the higher pension contributions.
- **Professional development funds for administrators' trainings:** As a result of persistent advocacy from ACSA, there is a new proposal to allocate approximately **\$13.9 million in ongoing Title II federal funds** for professional learning opportunities for K-12 public school administrators to improve their capacity to support the diverse needs of California's student population. This funding is intended to be aligned with the statewide system of support and will be made available through a competitive grant program for institutions of higher education and nonprofit organizations who partner with county offices of education with experience in providing professional development to administrators.
- **Teacher Service Credit Scholarship Program:** A new proposal of **\$89.8 million in one-time non-Proposition 98 general funds** to provide up to \$20,000 in loan forgiveness grants for an estimated 4,500 newly credentialed teachers who commit to working in high-need schools for at least four years. The California Student Aid Commission will administer this program with consultation with the Commission on Teacher Credentialing with the intent to prioritize the funds for teachers in hard-to-staff subject areas, such as special education and STEM, as well as for school sites with the highest rates of non-credentialed or waiver teachers.

- **Teacher and paraprofessional training funds:** A new proposal to allocate **\$44.8 million in one-time non-Proposition 98 general funds** to be allocated over a four-year period to provide training and resources for teachers and paraprofessionals to build their capacity around inclusive practices, social emotional learning, computer science, and restorative practices as well as subject matter competency, including STEM. Training and resources developed will be incorporated into the statewide system of support and will be made available through a competitive grant program for providers with expertise in these areas.
- **Classified School Employees Summer Assistance Program:** The May Revision builds on a \$50 million one-time appropriation in the 2018 Budget Act by increasing an appropriation of **\$36 million in one-time Proposition 98 General Funds** to provide an additional year of funding for the Classified School Employees Summer Assistance Program, which provides a state match for classified employees who choose to save money from their paychecks to receive income during summer months.
- **Broadband infrastructure:** A new proposal to provide \$15 million in one-time non-Proposition General Funds for increasing broadband connectivity supports for districts impacted by the digital divide.

**Charter Schools:** The May Revision builds on previous efforts to improve charter school transparency and increases alignment in governance and accountability requirements aligned to school districts. While State Superintendent of Public Instruction Tony Thurmond has convened a Charter Schools Task Force whose role will be to examine the fiscal impact of charter schools on school districts, those recommendations will not be made available until July 1. In the interim, the May Revision includes the following policy proposals to protect the rights of families who choose to enroll their children in a school of their choice:

- Prohibits charter schools from discouraging students from enrolling in a charter school or encouraging students to disenroll from a charter school on the basis of academic performance or student characteristic, such as special education status.
- Prohibits charter schools from requesting a student’s academic records or requiring that a student’s records be submitted to the charter school prior to enrollment.
- Creates a process for families of prospective and current charter school students to report concerns to the relevant authorizer.
- Requires the Department of Education to examine the feasibility of using data from the California Longitudinal Pupil Assessment Data System to identify charter school enrollment disparities that may warrant inquiry and intervention by corresponding authorizers.

It is also worth noting there are several proposals from the January budget that are not changed in the May Revision:

- **K-12 School Facilities:** The bond authorization for 2019-20 remains at \$1.5 billion to support school construction projects.

- **Career Technical Education funding:** The May Revision maintains the funding structure adopted in the 2018 Budget Act to fund CTE through the existing \$150 million ongoing Proposition 98 allocation for the CTE Incentive Grant Program and \$150 million in ongoing Proposition 98 funds for the K-12 Strong Work Force Program administered by the Community College Chancellor’s Office. The May Revision does not propose new augmentations for either program.
- **Adult Education program:** While not specifically mentioned in the summary, the budget continues support for Adult Education with approximately \$500 million in Prop. 98 funds in addition to the COLAs provided in past years and the 3.26 percent COLA in 2019-20.
- **Statewide System of Support:** As a result of the increased number of school districts which were identified to receive support under the California School Dashboard, the May Revision continues to propose an additional \$20.2 million in Prop. 98 funds for county offices of education to strengthen their support for school districts.

### Early Childhood Education

In January, the governor proposed \$10 million in one-time funds for the creation of a long-term strategic plan that will provide a framework for a more coherent and comprehensive early learning and care system, with the goal of making recommendations for how California will be able to achieve universal preschool and increased access to subsidized child care.

Earlier this week, Gov. Newsom announced his “Parents’ Agenda,” a series of budget proposals aimed at addressing the affordability and child care needs of California families. In an effort to signal collaboration with the California Legislative Women’s Caucus, the budget package includes the following proposals championed by the Caucus:

- Proposes \$130 million in ongoing funds, with \$80 million coming from Proposition 64 (2016) funding, for child care programs for income-eligible families.
- Eliminates the state sales taxes on newborn and toddler diapers and menstrual products.
- Doubles the proposed increased Earned Income Tax Credit for families with children under 6 from his January budget, up from \$500 to \$1,000, for an additional \$210 million towards this proposal.
- Expands paid family leave by two weeks, from 6-weeks to 8-weeks, for bonding and caregiving, starting July 1, 2020. This expansion adds an additional month of paid leave for two-parent families, allowing up to a combined four months of leave after the birth or adoption of their child.
- Allocates \$25 million in 2019-20, \$20 million in 2020-21, and \$15 million in 2021-22 in Proposition 56 funds for developmental and trauma screenings for children and adults.

- Increases funding to \$89.6 million in General Funds for home visiting services, with an anticipated 18,500 CalWORKs recipients benefitting from these additional supports.

**California State Preschool Program:** Maintains the January proposal to increase 30,000 full-day, full-year slots for eligible low-income four-year-olds. Of these, the first 10,000 slots will be released by April 1, 2020, while the other 20,000 slots will be released at a later time. The goal is to fund a total of 200,000 slots by 2021-22. Given the limited capacity of school districts, the governor proposes that additional slots would be provided by not-for-profit providers.

**Full-day kindergarten:** Building upon the \$100 million General Fund provided in the 2018 Budget Act to eligible school districts to construct new or retrofit existing facilities for full-day kindergarten programs, the budget proposes a **\$600 million one-time non-Proposition 98 general fund** for a similar purpose. This is \$150 million less than the amount proposed in January. This funding would be made available over a three-year period, with a targeted eligibility during the first two years to schools that will transition from part-day to full-day kindergarten programs. The revised proposal also increases the state share of the facility grant program from 50 percent to 75 percent to provide a greater fiscal incentive for districts to convert more classrooms to full-day programs. The grant program continues to prioritize the available funds towards school districts with high proportions of students who qualify for free and reduced price meals and those who qualify for financial hardship.

**Child Savings Accounts:** The January proposal included \$50 million in one-time general fund for the creation of a Child Savings Account pilot program to incentivize families to save money for children starting in kindergarten to support their future post-secondary education plans. The May Revision identifies the California Student Aid Commission as the administrator of this pilot program.

### ACSA perspective and analysis

The May Revision results in good news for the K-12 education community, as we see modest increases to special education funding and additional funds for the one-time investments in professional development for teachers, classified and administrators. As a result, the K-14 education will once again be perceived as a “winner” in the governor’s proposed budget. The state faces additional cost pressures on the non-Proposition 98 side, with limited available resources to begin to address the hundreds of billions of unmet need. This unfortunate reality could surface as the education community amplifies the call for more adequate and long-term investments in K-12 public education.

It is important to remember that this is just a proposal, and there is another month before the 2019-20 state budget is finalized. The governor’s proposed budget will face both policy and budget committee scrutiny in the coming month. Over the next two weeks, the Senate and Assembly will pass budgets reflecting the priorities of the supermajority Democrats in the respective houses. A budget conference committee will be created through which the governor and Democratic leaders will then negotiate an acceptable budget. It will be during this phase that slight modifications to the governor’s budget will be discussed and agreed to by both camps. It is yet to be seen whether the new governor will be open to much movement on the creation of any new or expanded programs – since Gov. Brown made the enactment of LCFF and reducing the state debt as two of his top priorities and resisted new programmatic spending obligations. The Legislature will act in time to meet the June 15<sup>th</sup> constitutional deadline and send a budget to the governor for approval.

On the K-12 side, two main issues that will result in a robust discussion between the Legislature and the governor are how to allocate new increased funding to support students with disabilities and the funding mechanism for CTE. While there is strong bipartisan support for Assembly Bill 428 (Medina) to increase funding for special education through the AB 602 formula and for preschool slots for students with exceptional needs, the Newsom Administration has proposed a different funding mechanism to address the needs of students with disabilities. On the CTE front, there is bipartisan support for Assembly Bill 1303 (O'Donnell) to designate the \$150 million from the K-12 Strong Work Force Program towards the **CTE Incentive Grant Program**, with an additional augmentation of \$150 million per year for a grand total of \$450 million for CTE in ongoing Proposition 98 funds.

ACSA will focus our budget advocacy to urge the Legislature and the governor to set a multi-year plan to establish new LCFF targets beyond what's in the May Revision. The vehicle for these conversations is Assembly Bill 39 (Muratsuchi), legislation co-sponsored by ACSA and other education groups that states the legislature's intent to increase LCFF funding with the goal of reaching the national average. Questions also remain on where **home-to-school transportation** fall in the list of priorities for both the legislature and local educational agencies since this categorical program remained outside of LCFF and never received increased funding during Gov. Brown's Administration.

While there are hundreds of bills making their way through the legislative process and being heard in policy committees, it is worth noting that more than 65 of them are seeking an earmark with ongoing and one-time funding for specific purposes. The bills are subject to a budget appropriation and would only become law if funding is provided in the final budget act. Some of these key requests from the Assembly and Senate include, but are not limited to, the following:

- \$400 million to require ethnic studies as a graduation requirement per AB 331 (Medina).
- \$300 million for Proposition 39 energy efficiency projects per AB 1028 (Gonzalez).
- \$300 million for the Low Performing Student Block Grant per AB 575 (Weber).
- \$200 million ongoing for a College Readiness Block Grant.
- \$114 million for bilingual and biliteracy education programs per AB 1012 (Gomez Reyes).
- \$112 million ongoing to fund the After School Education and Safety (ASES) Program.
- \$100 million to require one mental health professional for every 600 students in every K-12 school per AB 8 (Chu)

In regards to proposals for one-time funding between the Assembly and Senate, close to half a dozen proposals continue to seek funding to address the teacher shortage and improve the teacher pipeline from recruitment, to induction and ongoing professional development.

On the non-education side, it will not be a surprise if the California Legislature and the governor continue to direct their attention to the national political landscape, as there are several policies with significant fiscal implications that could negatively impact the state. The Legislature is also worried about California's housing affordability and health care costs. Specifically, the Assembly is calling for a \$1 billion increase from the state's budget surplus to expand Medi-Cal to undocumented young adults, low-income women and children, as well as fund other related health care services.



In closing, public education is in the strongest position it has been in a decade and our students are the beneficiaries of the good work we've done in our schools, our communities, and inside the State Capitol. But ACSA acknowledges that there is more work to be done. As a major stakeholder, ACSA will be actively engaged in the budget discussions with the Legislature and the administration to ensure our best interests are upheld. Throughout this legislative season, ACSA will keep you apprised of all budget negotiations until the budget is completed by the June 15<sup>th</sup> constitutional deadline.

ACSA welcomes our members' feedback and questions on these and other issues.