



GOV. NEWSOM RELEASES JANUARY BUDGET PROPOSAL FOR 2019-20 FISCAL YEAR

For questions or comments, contact Martha Alvarez, ACSA Legislative Advocate, at malvarez@acsa.org

Within days after being sworn-in Gov. Gavin Newsom released his January Budget Proposal for the 2019-20 fiscal year, delivering the Administration's revenue projections and priorities for the Gov.'s first year in office.

At his 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 Prop. 2 by California voters in November, 2014 to set aside money in the state's reserve. By the end of 2019-20, the state could have \$15.3 billion in the constitutional Rainy Day Fund, which are reserves available for future budget emergencies.

To demonstrate his commitment to the causes championed during the gubernatorial campaign, key investments include:

- \$1.8 billion for early childhood education and childcare.
- \$1 billion to double the existing Earned Income Tax Credit by investing in a new "Working Families Tax Credit".
- \$105 million (on top of \$200 million approved last year) for wildfire prevention.
- \$40 million for a second year of free community college tuition for Californians.
- An adjustment of the state trust fund reserve rules to extend California's paid family leave program beyond the current six weeks to as long as six months with partial pay for new parents.
- \$140 million to expand Medi-Cal coverage to young adults between 19 and 25 who are undocumented.
- Subsidized premiums for Californians who can't afford health insurance, paid for by a reinstatement of the Affordable Care Act penalty, in this state only, for those who choose not to be covered.

Below is ACSA's initial review of the Gov.'s budget proposal.

K-12 EDUCATION FUNDING OVERVIEW

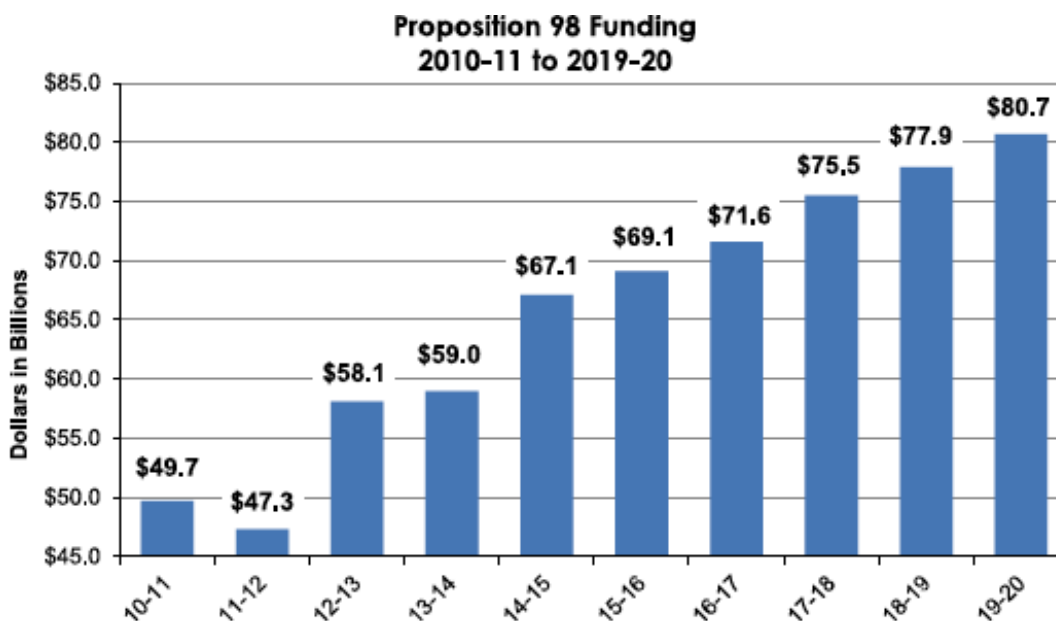
In the budget summary, the Newsom administration signals key policies and priorities that are aimed at improving student outcomes, including:

- Ensuring school districts and charter schools are held accountable for the success of all students.
- Improving access to data so that parents, teachers, administrators, and policymakers can make informed decisions.
- Empowering communities to partner with local school boards to prioritize the allocation of resources.
- Supporting Local Educational Agencies so they can be fiscally stable and can target resources to student populations most in need of support.

- Encouraging state and Local Educational Agencies to adopt early education and school readiness as priorities, providing significant investments to yield exponential returns for students and schools.

To support these goals, Gov. Newsom’s budget proposes a **General Fund budget plan of \$144 billion**, a 3.3 percent increase from the current fiscal year. As a result, this year’s investments in K-12 public education are comparable to the year-over-year augmentations schools have received since the November 2016 passage of Prop. 55, the temporary income taxes. The budget proposes to fund the **Prop. 98 minimum guarantee at \$80.7 billion**, a \$2.9 billion increase compared to the 2018-19 funding levels for schools and community colleges. This translates to \$12,003 in ongoing K-12 per-pupil expenditures, or an average increase of \$435 per pupil over the level provided in 2018-19. The Department of Finance notes this is nearly \$5,000 higher in per-pupil expenditure than just seven years ago.

It is worth noting that the Prop. 98 funding level for the 2017-18 and 2018-19 fiscal years declined from the 2018-19 Budget Act levels by \$120.1 million and \$525.7 million, respectively, as a result of declining statewide enrollment. Despite this lower funding level, the budget proposes to maintain a \$44 million over-appropriation to the Prop. 98 minimum guarantee in 2017-18.



As part of the \$80.7 billion provided through the Prop. 98 minimum guarantee, the budget includes the following proposal for K-12 public education.

LOCAL CONTROL FUNDING FORMULA: Enacted in June 2013, 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 (COLA) for the LCFF base, supplemental and concentration grants. The Gov. proposes a **\$2 billion** increase to the LCFF, which reflects a 3.46 percent COLA. This investment brings the total amount to \$63 billion towards LCFF in 2019-20.

ONE-TIME GENERAL FUNDS FOR PENSION LIABILITIES: Unlike past years where Local Educational Agencies (LEAs) received one-time discretionary grants that could be used for any local purpose, this budget proposes using **\$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. Based on current assumptions, *employer contributions would decrease from 18.13 percent to 17.1 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.

SPECIAL EDUCATION: While the 2018-19 Budget Act included \$167 million in one-time investments to increase the availability of inclusive early education and care for children 0 to 5 years old, Gov. Brown resisted calls from education groups and members of the Legislature to address the insufficiency of funding for special education. Gov. Newsom proposes **\$576 million in Prop. 98 funds**, of which \$186 million are one-time in nature, to support expanded special education services and school readiness supports at LEAs with high percentages of both students with disabilities and low-income, foster youth and English learners (unduplicated students under LCFF). Eligible local educational agencies 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.

CALIFORNIA STATE PRESCHOOL: The budget includes **\$125 million in non-Prop. 98 General Fund** to expand the State Preschool Program by increasing access to subsidized full-day, full-year slots for low-income four-year-olds. The goal is to fund a total of 200,000 slots by 2021-22. Given the limited capacity of school districts, the Gov. proposes that additional slots would be provided by not-for-profit providers. To allow non-local educational agency providers to draw down full-day, full-year reimbursement from a single funding source, and to provide them with flexibility to make better use of their contract funding, the budget shifts \$297.1 million Prop. 98 funds for part-day State Preschool programs at non-local educational agencies to non-Prop. 98 General Fund.

UNIVERSAL 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 an additional **\$750 million one-time non-Prop. 98 General Fund** for a similar purpose.

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 budget proposes an additional \$20.2 million in Prop. 98 funds for county offices of education to strengthen their support for school districts.

SCHOOL ACCOUNTABILITY AND DATA: The Budget proposes **\$350,000 one-time Prop. 98 funds** to merge the California School Dashboard, the LCAP electronic template, and other school site and school district reporting tools (including the School Accountability Report Card) into a single web-based application to: (1) allow the public to access a single platform for this information, (2) streamline these systems, and (3) eliminate duplicative and outdated information. Furthermore, to improve coordination across educational data systems and better track the impacts of state investments on achieving educational goals, the Budget provides **\$10 million one-time non-Prop. 98 General Fund** to plan for and develop a longitudinal data system. This proposal is consistent with one of the key recommendations from the 2018 Getting Down to Facts Studies 2.0.

K-12 SCHOOL FACILITIES: As a result of the passage of Prop. 51 in November 2016 to authorize \$7 billion in state general obligation bonds for K-12 schools, the budget proposes approximately **\$1.5 billion in bond authority** for 2019-20 to support school construction projects. This amount is \$906 million higher over the prior year.

COST-OF-LIVING-ADJUSTMENTS (COLA): The proposed budget includes an increase of \$187 million in Prop. 98 funds to support a **3.46 percent COLA** for the categorical programs that remain outside of LCFF, including

special education, child nutrition, foster youth, American Indian Education Centers, and the American Indian Early Childhood Education Program. The COLA for school districts and charter schools are provided within the increases for LCFF.

ADULT EDUCATION PROGRAM: While not specifically mentioned in the Gov.'s budget summary, the budget continues support for Adult Education with approximately \$500 million in Prop. 98 funds.

LOCAL PROPERTY TAX ADJUSTMENTS: Proposes a decrease of \$283 million in Prop. 98 funds for school districts and county offices of education in 2018-19 as a result of higher offsetting property tax revenues. In addition, a decrease of \$1.25 billion Prop. 98 funds for school districts and county offices of education in 2019-20 as a result of increased offsetting local property tax revenues.

ACSA PERSPECTIVE AND WHAT'S NEXT

Despite the uncertainty of how the recent federal tax reform will impact California's state revenues, the Gov. continues to make investments in public education, both in terms of supporting LCFF implementation and paying down past debts. He is also staying the course in funding Career Technical Education (ECC) through a proposed new structure and staying committed to funding Adult Education. The Gov. and his staff have been very clear that he is not supportive of any initiatives outside of his own priorities, particularly in light of the budget constraints.

It is important to remember that this is just a proposal, and there are more than six months to go before the 2018-19 state budget is finalized. The Gov.'s proposed budget and, more specifically, his commitment to fiscal restraint and resistance to new policy priorities from the Legislature will face both policy and budget committee scrutiny in the coming months. Over the next five months leading up to the constitutional deadline of June 15th, the state Legislature will initiate the formal and public deliberation process to discuss the Gov.'s budget proposal and craft their own alternatives. In his last year in office, it is unlikely that the Gov. will be open to much movement on the creation of any new programs and the enactment of universal preschool, in particular, could face considerable resistance from his administration.

Last month, Assembly Budget Chair Phil Ting (D – San Francisco) unveiled his "Assembly Blueprint for Responsible Budget Priorities," which focuses on strengthening California's fiscal health and making responsible investments in Californians. Assemblymember Ting proposes several budget investments for 2019-20:

Assembly One-Time Investment Priorities:

- Build the state reserves to 20 percent and pay down debts.
- Help schools acclimate to rising retirement costs with infusion of one-time general fund monies for the purpose of subsidizing school employers' pension contributions to CalSTRS or CalPERS over a specified period.
- Fund infrastructure and deferred maintenance.
- Address Unfunded Employee Liabilities.

Assembly Ongoing Funding Priorities:

- Protect communities from wildfires, prepare for future disasters and assist in recovery.
- Continue the Low Performing Student Block Grant.
- Create new child care slots and continue CalWORKs grant increases to reduce poverty.
- Expand early childhood education and after school programs.
- Bolster UC and CSU enrollment.

- Invest in programs to expand affordable housing and prevent homelessness.
- Provide universal access to health care.

The Assembly Democrats have been anticipating a change in leadership with a new Gov. could result in new opportunities to discuss additional investments in **childcare early childhood education**. With this goal in mind, in 2017, Assembly Speaker Anthony Rendon (D – Paramount) established a Blue Ribbon Commission on Early Care and Education to improve services for children 0-3, and to develop options for establishing universal pre-kindergarten for all four-year-olds. While a report with comprehensive recommendations is expected to be released in March 2019, the legislature has started to promote a legislative package. Assembly Bill 123, authored by Assembly member Kevin McCarty (D – Sacramento), would establish the Targeted Universal Preschool by expanding access to full-day, full-year preschool for all 4-year-olds living in high-poverty neighborhoods. AB 124 proposes to place on the November 2020 ballot a \$500 million bond to fund preschool facility improvements and AB 125 proposes to boost reimbursement rates for preschool programs that contract with the state. These bills are a work in progress and will be amended to include details in the near future.

Unlike its Assembly counterparts, the Senate has not released highlights of potential budget proposals. In the 2018-19 budget, the Senate was successful in negotiating one-time Prop. 98 funds be used to fund their priorities for professional development for classified school employees and the Classified School Employee Summer Assistance Program.

For ACSA and other key education stakeholders, one of the chief outstanding questions to respond to is where should increased Prop. 98 funding be allocated now that the LCFF funding targets were fully reached. Co-sponsored by ACSA and other education groups, Assembly member Al Muratsuchi (D – Torrance) introduced AB 39 to establish new LCFF funding targets 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. In regards to **Special Education funding**, it is expected that Assembly member Patrick O'Donnell (D – Long Beach) will re-introduce AB 3136, a legislative proposal in 2018 that sought to increase funding for special education via the existing AB 602 formula and dedicate funding for preschool-aged children with exceptional needs.

There are members of the Legislature who would also like to push for an additional \$150 million to expand the funding committed in the 2018-19 Budget Act for the **CTE Incentive Grant Program**. Last year, the Legislature successfully leveraged bipartisan support in both houses to secure \$150 million of ongoing Prop. 98 funds each for the CTE Incentive Grant Program and for the Strong Workforce Program administered by the California Community Colleges.

As a major education stakeholder, ACSA will be actively engaged in the budget discussions with the administration to ensure students' best interests are upheld. Throughout this legislative season, ACSA will keep you apprised of all budget negotiation discussions until the budget is completed by the June 15th constitutional deadline.

The full budget can be found at <http://www.ebudget.ca.gov/FullBudgetSummary.pdf>