

GOVERNOR UNVEILS 2015-16 STATE BUDGET

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Overview

On January 9, 2015, Governor Brown released his proposed 2015-16 State Budget. The Governor characterized the budget as one that “is finally balanced – more precariously than I would like – but balanced.” The Governor went on to state in his transmittal letter, “Over the next four years – and beyond – we must dedicate ourselves to making what we have done work, to seeing that the massive changes in education, health care, public safety and environment are actually implemented and endure.” However, he was also quick to curtail calls for additional spending, stating in his press conference “if we don’t rein things in, then down the road there will be drastic cuts.” With these comments the Governor has set the tone for what will be difficult budget negotiation given that the Proposition 98 formula provides a significant \$8 billion in new revenue while the non-Prop 98 side of the budget remains relatively static.

The January Budget is predicated on revenue estimates that project continued improvement in the state’s economy over the next several years and reflects significant revenues from one-time capital gains. State revenue is expected to be at a level of \$108 billion in 2014-15, and \$113.4 billion in 2015-16. The Budget reflects an increase in revenue for 2013-14 of \$500 million over forecast, revenue for 2014-15 at greater than \$2.5 billion greater than the amount forecast in the prior year budget, and revenue for 2015-16 at \$1 billion higher than the amount forecast in the 2014-15 Budget Act. Revenues for Personal Income and Corporation taxes are up almost \$2.3 billion and \$2 billion, respectively. The revised revenue estimate for 2013-14 is the first forecast to exceed the pre-recession revenue peak of \$102.6 billion, achieved in 2007-08.

Budget Driven by Increased Capital Gains Revenue

Because of the large amount of capital gains, the administration is careful to acknowledge that most of the additional general revenue gains are the result of an upward revision in capital gains growth fueled by “robust growth in stock prices during the second half of 2014”. Last June, in the 2014-15 enacted budget, 2014 capital gains were expected to be \$105.2 billion, a 32% increase over 2013. Now, the administration is predicting 2014 capital gains will be \$115.4 billion, a 44% increase over 2013. Moreover, the Governor is predicting that the strong performance of the stock market over the past several years will continue to produce above-normal capital gains in 2015. Accordingly, the Governor’s budget now assumes that 2015 capital gains will be \$103.4 billion in 2015: \$14 billion higher than the estimate used last June to build the 2014-15 Budget.

Recognizing that this spike in personal income tax revenue due to above-average capital gains cannot continue indefinitely, the Governor is careful to propose less than \$5 billion of these new education expenditures for ongoing purposes. The spike in GF revenue and additional deferral buy-down expenditures in 2013-14 and 2014-15 allows the Governor to significantly increase Local Control Funding Formula (LCFF) gap funding in 2015-16 (to 31.1%) for K-12 school districts. However, because of the volatility of these revenues it is important for districts to treat these revenue increases as one-time.

On-going vs. One-time Revenue - As I indicated last Friday, the Governor and DOF are quite concerned that this most recent spike in personal income tax revenue due to above-average capital gains cannot continue indefinitely. As a consequence, the Governor’s budget attempts to protect the state from the volatility of these one-time revenues by proposing that only \$5 billion

of the \$7.8 billion in new education expenditures be used for “ongoing purposes.” As far as the K-12 budget is concerned, only the following new expenditures are considered ongoing:

- LCFF Gap Funding for Districts and Charters - \$4 billion
- Adult Education Block Grant (K-14) - \$500 million
- County Office LCFF 1.58% COLA - \$109,000
- Charter School Growth - \$59.5 million
- Special Education Growth - \$15.3 million
- Categorical Program (Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program) 1.58 % COLA - \$71.1 million
- School District and County Office enrollment growth - \$197.6 million in 14-15
- Full-Day State Preschool w/ wraparound care - \$14.8 in P. 98 funding and \$18.8 million for non-98 funding

With the exception of higher current-year enrollment growth, all of these above expenditures are 2015-16 only. All other K-12 expenditure growth in the Governor’s Budget proposals are considered “one-time”, including the following 2015-16 expenditures that are funded, principally, with 2015-16 ongoing revenue:

- Mandate Reimbursement - \$1.08 billion
- Career Technical Education Grants - \$250 million
- K-12 technology grants - \$100 million
- Energy Efficiency Grants - \$320.1 million
- County Office LCFF/LCAP Technical Assistance - \$20 million

Other Significant Education Program Changes

School Facilities

Because the Governor was unwilling to place a bond on the 2014 statewide ballot, there is currently no bond authority remaining in the state’s core school facilities new construction and modernization programs. The Budget proposes the following recommendations for the design of a new program:

Expand Local Funding Capacity - While school districts can pass local bonds with 55-percent approval, assessed valuation caps for specific bond measures and total caps on local bonded indebtedness have not been adjusted since 2000. In order to provide greater access to local financing, the Governor is proposing that these caps should be increased at minimum by the rate of inflation since 2000.

Restructure Developer Fees - Current law authorizes the governing board of any school district to levy fees against construction within its boundaries to fund school facilities. The administration believes that there are three things that determine the amount of fees a district can levy, which range from a fraction of project costs to 100 percent of the costs. The budget proposes that a new program should establish one developer fee level for all districts and cap the amount of fees that can be levied for specific projects at a level between the existing Level II and Level III fees (50 to 100 percent of project costs), subject to local negotiation.

Target State Funding for Districts Most in Need – The new facilities proposal indicates that State funding for a new program should be targeted in a way that: (1) limits eligibility to districts with such low per-student assessed value they cannot issue bonds at the local level in amounts

that allow them to meet student needs, (2) prioritizes funding for health and safety and severe overcrowding projects, and (3) establishes a sliding scale to determine the state share of project costs based on local capacity to finance projects. The administration intends to establish a state-level fund to allocate dollars for these “high need” projects. The current budget does not develop such a pot (using non-Prop 98 revenues) and hopes to be able to do so after the May Revise. This policy would place almost complete responsibility on districts to fund school construction and modernization projects moving forward.

Adult Education

How the Governor would roll out the new adult education program was also a much anticipated element of the budget. The administration feels that the manner in which educational services have been provided was inefficient and over-lapping. In developing the new programmatic approach, the administration believes that strengthening the link between the state’s education and workforce systems is crucial to California’s growing economy. The 2013 Budget Act provided \$25 million Proposition 98 General Fund for two-year planning grants to consortia of community college districts and school districts in 70 regions. The primary program components include:

\$500 Million Program Aligned to Regional Need - The 2015-16 Budget provides \$500 million Proposition 98 General Fund for the Adult Education Block Grant. The block grant will fund programs in elementary and secondary basic skills, citizenship and English as a second language (ESL) for immigrants, education programs for adults with disabilities and short-term CTE programs linked to occupations with high employment potential, and programs for apprentices. The program offerings are to be aligned with the economic needs of each region, and that they provide clear pathways to in-demand jobs, as determined by regional labor market information.

Consortiums Control of Funding - In order for adult education programs to be well coordinated and linked with the economic needs of their region, the Administration proposes that each consortium designate an allocation board responsible for planning and allocating block grant funds. Each consortium will form an allocation committee consisting of seven members who represent community colleges, K-12 districts, other adult education providers, local workforce investment boards, county social services departments, correctional rehabilitation programs, and one public member with relevant expertise. Each allocation committee will coordinate with regional partners to ensure various adult education funding streams are integrated, such as block grant funds, other K-12 and community college resources, Workforce Innovation and Opportunity Act allocations, and other federal funds. Each allocation committee will determine how to allocate block grant funds for direct instruction, support services, and administration of its consortium (which will be capped at 5 percent).

Hold Harmless for Districts in First Year - The Chancellor of the Community Colleges and the Superintendent of Public Instruction will jointly approve allocations of funds, with an emphasis on providing funding to those regions with the greatest adult education needs. Funding allocations approved by the Chancellor and Superintendent will be distributed to providers as determined by their allocation committees. In the initial year, to ease the transition, funding will be provided directly to K-12 school districts in the amount of the K-12 districts’ maintenance of effort for adult education which will be jointly determined by the Chancellor and the Superintendent. Further allocations will be distributed according to the local allocation committees.

Career Technical Education

Prior to the adoption of the LCFF, the state provided more than \$500 million annually to support a collection of CTE categorical programs, most notably the Regional Occupational Centers and Programs (ROC/Ps). The 2013 Budget Act collapsed almost all of this previous categorical funding into the Local Control Funding Formula in the form of a 9-12 grade span adjustment, with requirements on districts in their Local Control and Accountability Plans to describe how they intend to meet the career technical education needs of their students consistent with state adopted standards.

In the 2015-16 Budget, the administration has addressed this concern. The Budget proposes \$250 million in one-time Proposition 98 funding in each of the next three years to support a transitional CTE Incentive Grant Program. Unlike the existing Career Pathways Trust Program, school districts, county offices of education and charter schools receiving funding from this new transitional program will be required to provide a dollar-for-dollar match, and priority for these state funds will be given to local educational agencies applying in partnership with other local educational agencies to offer regional programs. To maintain eligibility for funding under the CTE Incentive Grant Program, recipients will need to demonstrate positive results across a specific outcome measures, including high school graduation rates, CTE course completion rates, pupils obtaining industry-recognized credentials and certificates, the number of pupils achieving gainful employment in relevant occupations, and the number of pupils progressing to postsecondary education.

Common Core Funding Offset Mandate Payments

The Budget proposes more than \$1.1 billion in discretionary one-time Proposition 98 funding for school districts, charter schools and county offices of education to further their investments in the implementation of Common Core. These new dollars will also help support implementation of newly adopted English Language Development standards and California's Next Generation Science standards, as well as make the investments necessary to support new responsibilities required under the evolving accountability structure of the Local Control Funding Formula. Of this amount, \$20 million will be provided to county offices of education, distributed on the basis of countywide ADA and the number of school districts within the county office's jurisdiction. The balance of this funding will be distributed to school districts and charter schools on the basis of ADA. All of the funds provided will offset any applicable mandate reimbursement claims for these entities, which builds off of the approach in the 2014 Budget Act when \$400.5 million in one-time funding was provided for both general purpose activities and mandates reimbursement. The administration argues that this combined two-year investment will substantially reduce the outstanding mandates debt owed to local educational agencies consistent with the Administration's goal to pay down debt. While this claim will no doubt be debated these funds do provide a much needed infusion of revenue dedicated to Common Core implementation.

Technology

The Budget proposes \$100 million in one-time Proposition 98 funding to support additional investments in internet connectivity and infrastructure. This builds on \$26.7 million in one-time Proposition 98 funding that was provided in the 2014 Budget Act to assist local educational agencies most in need of help with securing required internet connectivity and infrastructure to implement the new computer-adaptive tests administered under Common Core. The administration indicates that while it is anticipated that last year's funding will address the needs of most schools that could not support the computer-based field tests, there are a significant number of schools that could only support these tests by shutting down other non-essential

access to online activity. This second installment of funding will further upgrade internet infrastructure to reflect the increasing role that technology plays in classroom operations to support teaching and learning.

Teacher Preparation

State oversight of the educator preparation system, under the control of the Commission on Teacher Credentialing (CTC), is currently not robust enough to verify that preparation programs are meeting standards and producing fully prepared teachers. The current accreditation process relies primarily on self-reports of program compliance, sometimes thousands of pages in length, coupled with brief site visits. This system does not provide an efficient or effective way to identify and improve or eliminate weak programs or identify strong programs so that others can emulate them. Furthermore, the current Teacher Performance Assessment, which all teacher candidates must pass before they begin teaching, is outdated and not aligned to current teacher performance standards. There is also no assessment to determine if a person is prepared to be a school principal.

To address these issues, the Budget proposes \$5 million non-Proposition 98 General Fund (over a two-year period) to: (1) convene an Accreditation Advisory Panel to provide recommendations to the Commission on streamlining preparation standards, (2) enhance existing data systems and develop new data systems to organize and retrieve information from assessments and program surveys, (3) develop candidate and employer surveys that shed light on the nature and quality of preparation, and (4) increase transparency and access to information about the quality and effectiveness of educator preparation programs. The Budget also proposes an additional \$5 million non-Proposition 98 General Fund (over a two-year period) to update the Teacher Performance Assessment and develop an Administrator Performance Assessment to verify educator quality and to assist with determining the effectiveness and quality of preparation programs.

What Now?

As the Governor stated in his press event in response to a question about the push from many legislators to increase spending in health and social service programs “for most people, more money is better than less money.” The 2015-16 Budget is now pitting K-14 education against growth in the health and human services side of the budget – with schools receiving the lion’s share of the new revenue. This battle will only intensify as budget hearings progress through the spring. We will continue to monitor the various elements of the budget as it moves through the legislative process.