

The 2017-18 May Revision

Despite lagging state revenue expectations, Governor Jerry Brown’s 2017-18 May Revision contains increased funding for schools. In fact, ongoing funding for education increases by nearly \$1.4 billion.

In January, there was a mixture of hope and confusion when the Governor announced lower revenue projections and the Legislative Analyst’s Office immediately announced higher projections. In the May Revision, the Administration’s new forecast for 2017-18 splits the difference. The hoped-for higher revenues have not materialized in the current year. However, the Governor has increased the 2017-18 revenue forecast and reflects an increase in the Proposition 98 minimum guarantee. At the same time, the Governor also proposes modification to the provision of Test 3B, which would lower the Proposition 98 minimum guarantee.

Delving deeper into the details of the May Revision it was revealed that local education agencies (LEAs) will not receive the \$1 billion in one-time discretionary funding proposed in the May Revision until May 2019.

Looking to the future, the Governor cautions that the state must continue to plan and save for “tougher times ahead,” specifically pointing to the unknowns at the federal level that could “send the state budget into turmoil.”

Proposition 98

The May Revision proposes a \$1.1 billion increase for 2017-18 from the January proposed Proposition 98 funding to \$74.6 billion. The current-year minimum guarantee is maintained at the 2016-17 Governor’s Budget level of \$71.4 billion. The May Revision also proposes to fully eliminate the current-year, one-time deferral of \$859 million that was proposed in January.

In order to increase Proposition 98 funding and eliminate the deferral in this economic climate, the Governor proposes to suspend the statutory Proposition 98 Test 3B supplemental appropriation in 2016-17, in addition to the 2018-19 through 2020-21 fiscal years.

Although the May Revision summary asserts that funding reduced through this mechanism will be automatically added to the maintenance factor obligation, which ensures that school funding is restored in the long term, there are still some unanswered questions about this strategy and the outlook for future Proposition 98 funding.

Cost-of-Living Adjustment

The statutory cost-of-living adjustment (COLA) is revised upward from 1.48% in January to 1.56% in May. This minimally increases funding for categorical programs including Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers, and American Indian Early Childhood Education.

Local Control Funding Formula

The Governor’s 2017-18 May Revision continues implementation of the Local Control Funding Formula (LCFF) and provides an additional \$661 million above the January State Budget proposal, for a total of \$1.4 billion.

LCFF TARGET ENTITLEMENTS FOR SCHOOL DISTRICTS AND CHARTER SCHOOLS

The target base grants by grade span for 2017-18 are minimally adjusted upward from 2016-17, resulting from the statutory 1.56% COLA being applied.

In addition to the base grants, school districts and charter schools are entitled to supplemental increases equal to 20% of the adjusted base grant (which includes class-size reduction [CSR] and career technical education funding [CTE]) for the percentage

of enrolled students who are English learners, eligible for the free and reduced-price meals program, or in foster care (the unduplicated pupil percentage). An additional 50% per-pupil increase is provided as a concentration grant for the percentage of eligible students enrolled beyond 55% of total enrollment.

The LCFF target entitlement is the full funding level for each LEA, in today’s dollars, that the state intends to provide at some point in the future under the formula. It is not the amount an LEA will receive in 2017-18, which is based on the difference, or “gap,” between the current-year LCFF funding level and the LEA’s target entitlement multiplied by the proportion of the gap that can be funded with the LCFF increase.

The 2017-18 transitional kindergarten (TK)-3 grade span adjustment (GSA) for CSR is also 1.56% higher from 2016-17 at \$748 per average daily attendance (ADA), as well as the grade 9-12 GSA at \$227 per ADA, in recognition of the need for CTE courses for students in the secondary grades.

| Grade Span | 2016-17 Target Base Grant Per ADA | 1.56% COLA | 2017-18 Target Base Grant Per ADA |
|------------|-----------------------------------|------------|-----------------------------------|
| TK-3       | \$7,083                           | \$110      | \$7,193                           |
| 4-6        | \$7,189                           | \$112      | \$7,301                           |
| 7-8        | \$7,403                           | \$115      | \$7,518                           |
| 9-12       | \$8,578                           | \$134      | \$8,712                           |

LCFF TRANSITION ENTITLEMENTS AND GAP FUNDING

The difference between a district’s or charter school’s current funding and its target entitlement is called the LCFF gap, and it is this gap that is funded with the additional dollars dedicated each year for implementation of the LCFF. For 2017-18, the May Revision proposal calls for a \$1.4 billion

increase to LCFF allocations. This is estimated to close 43.97% of the gap remaining to full implementation of the LCFF.

Pupil transportation and Targeted Instructional Improvement Grants continue as separate add-ons to the LCFF allocations and do not receive a COLA.

K-3 Grade Span Adjustment

The K-3 GSA program requirements are unchanged in the May Revision; however, the revised gap funding of 43.97% should be used to measure progress toward the 24:1 target for 2017-18.

One-Time Discretionary Funds

The Governor’s May Revision includes an additional \$750 million in one-time discretionary funds, in addition to the \$287 million that was part of the January Budget proposal, for a total of more than \$1 billion. As in prior years, these funds offset LEAs outstanding mandate claims. However, for 2017-18, these funds come with a catch: They are not scheduled to be disbursed until May 2019. The Governor’s intent of holding onto the funds is to ensure that Proposition 98 is not over appropriated as a result of lower-than-expected revenues in the 2017-18 fiscal year.

As a result of the lack of receipt in the 2017-18 fiscal year, and some uncertainty around receipt during the 2018-19 fiscal year, it is recommended that LEAs exclude this revenue from their budget, as well as multiyear projections.

Community-Funded School Districts

School districts with property tax revenues that exceed the LCFF levels will continue to retain their local tax growth. Minimum state aid allocation will continue to be reduced by the ongoing cuts incurred by these districts during the recession.

County Offices of Education

As of 2014-15, the LCFF for county offices of education (COEs) was fully implemented and the basic funding amounts that drive COE LCFF entitlements in 2017-18 will remain unchanged from 2016-17 levels. The May Revision adjusts COE funding to account for changes in ADA and COLA. No additional COE funding is provided to fund review of school districts Local Control and Accountability Plans.

Special Education

With the exception of the 1.56% COLA, the Governor’s May Revision does not include any measurable funding increase for special education programs.

It does, however, include a summary of actions taken by the Department of Finance (DOF) as a result of the Governor’s Budget and the Administration’s desire to solicit stakeholder feedback on recent reports on special education finance in California. The May Revision states, “given the scope of the feedback and the complexity of this program area, the Administration will spend additional time in the coming months examining these issues to chart a path forward that will maximize resources to serve students while increasing transparency and accountability.”

Child Care and Early Childhood Education

The May Revision upholds last year’s child care and preschool agreement by providing funding increases for provider reimbursement rates and additional state preschool slots.

The Governor proposes an additional \$67.6 million to fund a full 10% increase to the Standard Reimbursement Rate over the 2015-16 rate and increases to the Regional Market Rate to the 75<sup>th</sup> percentile of the 2016 survey, beginning on January 1, 2018.

Additionally, the May Revision proposes to increase full-day preschool slots by 2,959 and provides a COLA for both child care and preschool.

Finally, the May Revision proposes reductions in California Work Opportunity and Responsibility to Kids (CalWORKs) Stages 2 and 3 of \$18.1 million and \$12.8 million, respectively, to reflect caseload adjustments.

Career Technical Education

The May Revision makes no changes to the Governor’s 2017-18 Budget proposal to provide \$200 million for CTE Incentive Grant funding, representing the final installment of the three-year grant program. Governor Brown notes, “commencing with 2018-19, schools will support the full cost of these programs within their LCFF allocations.”

School Facilities and Proposition 39

In his January Budget, Governor Brown offered his support for the sale of Proposition 51 bonds contingent upon increased transparency and accountability in the State School Facility Program. He proposed developing and implementing an up-front grant agreement and subsuming the audit of state-funded facilities projects into the annual K-12 independent audit process. The May Revision simply restates the Governor’s January position. The State Allocation Board is scheduled to take action on the proposed grant agreement at its June 2017 meeting.

Teacher Workforce

To help address California’s teacher shortage, last year’s Budget appropriated funds to recruit teachers and assist aspiring teachers in completing requirements to enter the profession. Building on last year’s actions, the May Revision proposes to optimize federal funds to support these efforts. Without much detail, the Governor suggests that California can leverage the flexibility of the Every

Student Succeeds Act to “direct additional federal resources” toward teacher recruitment and retention efforts, with a particular focus on “high need” teaching fields.

Federal Programs

Congress recently passed a federal spending package to complete fiscal year 2017 (through September 2017). Consequently, federal education funding for low-income, English learner, and special education students, along with funding to support educator preparedness and professional development, will be coming into clearer view when the California Department of Education completes its evaluation of how much California can expect to receive.

Dartboard Factors

The School Services of California, Inc., (SSC) Financial Projection Dartboard factors presented below are developed by SSC with input from independent state agencies and private economic consulting firms based on the latest information available. These factors are provided to assist school agencies to prepare their budgets and multiyear projections.

| Factor                          |                      | 2016-17       | 2017-18       | 2018-19       | 2019-20       |
|---------------------------------|----------------------|---------------|---------------|---------------|---------------|
| LCFF Planning Factors           |                      | SSC Simulator | SSC Simulator | SSC Simulator | SSC Simulator |
| Statutory COLA                  |                      | 0.00%         | 1.56%         | 2.15%         | 2.35%         |
| Ten-Year Treasuries             |                      | 2.20%         | 2.67%         | 2.90%         | 3.05%         |
| California Consumer Price Index |                      | 2.50%         | 3.11%         | 3.19%         | 2.86%         |
| Lottery                         | Unrestricted per ADA | \$144         | \$144         | \$144         | \$144         |
|                                 | Restricted per ADA   | \$45          | \$45          | \$45          | \$45          |

POCKET BUDGET 2017-18

A Summary Analysis of the May Revision Proposal for the 2017-18 State Budget for California’s Schools

Prepared by



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