Governor’s Proposals for the 2020-21 State Budget and K-12 Education

January 10, 2020
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Preface

During the Great Recovery, California enjoyed unprecedented growth in funding largely due to restoration of past reductions, growth in the economy, and passage of Propositions 30 and 55. To open his press conference, Governor Gavin Newsom disabused California’s naysayers, those with “California Derangement Syndrome,” that the best days are behind us.

Governor Newsom’s press conference preamble, as he called it, highlighted the state’s job growth, bond rating, rainy day fund, state surplus, and payments to the Wall of Debt. He gave credit to Governor Jerry Brown for setting the tone and tenor on many of these items and continues these as priorities. In the world of education, Newsom also honors Governor Brown by continuing the Local Control Funding Formula (LCFF), but also goes his own way when it comes to local versus state control of funds for new programs.

Over the fall, the education community braced against the news that the cost-of-living adjustment (COLA) might be significantly less than what was projected just months before. There was hope that Governor Newsom would provide flexible funding above a meager COLA, perhaps with a “super” COLA, for the LCFF. Instead, Governor Newsom proposes several new or continued categorical programs, all with laudable goals, but few that provide immediate relief when the cost to keep local educational agencies (LEAs) afloat hovers around 4%.

As we enter the 2020–21 State Budget deliberations, a key focus will be on whether California is slowly or quickly moving into a new education funding era.

Overview of the Governor’s Budget Proposals

On Friday, January 10, 2020, just after 10:30 a.m., Governor Newsom released his second proposed State Budget for the upcoming 2020–21 fiscal year stating that “Building a strong fiscal foundation now is the best way the state can prepare for the future and continue to build a ‘California for All’.” Gone are the days of the five minute budget press conferences by former Governor Jerry Brown. Consistent with his inaugural State Budget presentation, Governor Newsom went into great detail and spent nearly two hours presenting the Budget through his Twitter account followed by an additional hour of answering questions from reporters.

The Governor led by explaining that he is proposing a $157 billion General Fund Budget for the upcoming fiscal year, a 2.23% increase over the current year. The total State Budget proposed by the Governor measures at $222.2 billion. Governor Newsom emphasized that the 2020–21 Budget is structurally balanced. He uses a significant amount of one-time funds as a way to provide flexibility during times of economic uncertainty. In fact, this strategy, along with continued economic growth, allowed the Governor to propose extending nearly $2 billion in programs that were due to expire on December 21, 2021, to July 1, 2023. Being fiscally prudent, examples of proposed flexibility are found in the education budget where nearly 60% of the $3 billion in available new revenue is proposed for new or the extension of one-time investments.
Economic Outlook

Acknowledging eleven years of economic expansion, the State Budget proposal forecasts “constrained growth” for the state over the next four years. Governor Newsom noted in his press conference that while the economy is not contracting, our continued growth is. Nevertheless, the state’s General Fund continues to enjoy stronger than estimated revenue from the “Big Three” taxes. The 2020–21 revised revenue forecast is over $5 billion more than the 2019–20 State Budget Act projection. Personal income tax is up by $1.2 billion, corporation tax is up by $700 million, and revenue from the sales and use tax is projected to be $1.1 billion over the 2019 Enacted Budget estimates.

Governor Newsom continues to build additional reserves beyond the $16 billion currently set aside in the Rainy Day Fund. An additional $1.9 billion transfer is proposed in the budget year and an additional $1.4 billion over time, bringing the Rainy Day Fund to $19.4 billion by 2023–24. This unprecedented level of state savings and Governor Newsom’s prudent budgeting approach, which mimics the days of his immediate predecessor, can help the state weather a future economic storm should it come.

The Economy and Revenues

Economic Outlook

Following the footsteps of his predecessor, Governor Newsom cautions that the opportunities for continued economic growth is expected to slow as both the nation and the state have reached full employment. The economic stimulus from the 2017 federal tax policy changes has run its course, interest rates are very low, the stock market is at an all-time high, and growing risks from trade tensions between the U.S. and China as well as military escalation in the middle east all create instability in the global economies of California’s trade partners. In particular, California faces unique structural risks in its aging population and housing shortage.

The State Budget proposal includes constrained job growth realized unevenly across the state and acknowledges an increase in payroll jobs resulting from rule changes on independent contractors, moving most onto company payrolls. The Budget assumes that personal income growth will be 4% through the projection period. Growth in real wages and personal income are necessary to sustain healthy consumption and overall economic activity.

While the State Budget identifies rising economic risk related to the housing shortage, the UCLA Forecast from December 2019 focuses on continued trade tensions with China, subprime auto loans, certification of the Boeing 737 Max, and trillion-dollar deficits. As the world’s fifth largest economy, California is especially reliant on import-export business and decreasing imports will have an impact. When combined, the economists at UCLA state that the likelihood of a recession is 32%, but share that a temporary economic slowdown in the second half of 2020 is far more likely.
Revenues

The 2020–21 State Budget assumes higher overall revenues for fiscal years 2017–18 through 2019–20, exceeding the 2018–19 State Budget projections by more than $5.05 billion. Over the three-year period, personal income tax, sales and use tax, and corporation tax are expected to beat earlier estimates.

Over the long term, the forecast calls for continued increases in the state’s “Big Three” taxes.

<table>
<thead>
<tr>
<th>“Big Three” Revenue Forecast</th>
<th>Fiscal Years</th>
<th>Average Year-Over-Year Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Tax</td>
<td>$98.6</td>
<td>$101.7</td>
</tr>
<tr>
<td>Sales and Use Tax</td>
<td>$26.1</td>
<td>$27.2</td>
</tr>
<tr>
<td>Corporation Tax</td>
<td>$14.1</td>
<td>$15.3</td>
</tr>
</tbody>
</table>

Proposition 98

Accepted by state voters in 1988, Proposition 98 sets in the State Constitution a series of complex formulas that establish the minimum funding level for K–12 education and community colleges from one year to the next. This target level is determined by prior-year appropriations that count toward the guarantee and (1) workload changes as measured by the change in average daily attendance (ADA), and (2) inflation adjustments as measured by the change in either per capita personal income or per capita state General Fund revenues, whichever is less. While gains experienced over the last several years continue with the 2020–21 State Budget proposal, these gains represent the minimum required by law.

Current- and Prior-Year Minimum Guarantee

The Proposition 98 minimum guarantee has increased from the 2019 State Budget Act for both 2018–19 and 2019–20 due largely to an increase in property tax revenue in 2018–19 and increased General Fund revenues in both years.

For the current year, Governor Newsom’s State Budget proposal acknowledges an increase of $517 million from the 2019–20 State Budget Act—raising the Proposition 98 guarantee to an estimated $81.6 billion, up from $81.1 billion. The 2018–19 year reflects a more modest increase of $301.5 million, raising the minimum guarantee from $78.1 billion to $78.4 billion.

2020–21 Minimum Guarantee

For 2020–21, the Governor’s State Budget proposes a Proposition 98 guarantee of $84 billion, an increase of $3 billion year over year. As expected, given the continued declines in enrollment, the guarantee is projected to be based on Test 1—funding based on education’s proportion of the General Fund in 1986–87.
Cost-of-Living Adjustment and Average Daily Attendance

The estimated statutory COLA for K–12 education programs in 2020–21 is 2.29%, and is applied to the LCFF base grant targets, as well as other education programs that are funded outside of the LCFF. Those programs include Special Education, Child Nutrition, Preschool, Foster Youth, American Indian Education Centers, the American Indian Early Childhood Education program, and the Mandate Block Grant.

Note that while the COLA is lower than estimated in the 2019–20 enacted State Budget, it is higher than that projected by the Legislative Analyst’s Office in its *Fiscal Outlook*, which was released in November 2019.

Statewide, ADA is expected to continue declining. The State Budget proposal reduces Proposition 98 funding in 2019–20 due to an ADA decline greater than projected in the 2019–20 State Budget Act, and in 2020–21 from a further projected ADA decline in 2020-21.

Local Control Funding Formula

The Governor’s 2020–21 State Budget proposal includes an increase of $1.2 billion in Proposition 98 for the LCFF reflecting the 2.29% COLA. This brings LCFF funding to $64.2 billion.

LCFF Target Entitlements for School Districts and Charter Schools

The target base grants by grade span for 2020–21 are increased over 2019–20 by 2.29% to reflect the estimated statutory COLA:

<table>
<thead>
<tr>
<th>Grade Span</th>
<th>2019–20 Target Base Grant Per ADA</th>
<th>2.29% COLA</th>
<th>2020–21 Target Base Grant Per ADA</th>
</tr>
</thead>
<tbody>
<tr>
<td>TK–3</td>
<td>$7,702</td>
<td>$176</td>
<td>$7,878</td>
</tr>
<tr>
<td>4–6</td>
<td>$7,818</td>
<td>$179</td>
<td>$7,997</td>
</tr>
<tr>
<td>7–8</td>
<td>$8,050</td>
<td>$184</td>
<td>$8,234</td>
</tr>
<tr>
<td>9–12</td>
<td>$9,329</td>
<td>$214</td>
<td>$9,543</td>
</tr>
</tbody>
</table>

The Transitional Kindergarten (TK)–3 grant increase for the class-size reduction (CSR) grade span adjustment is $819 per ADA in 2020–21, and the grade 9–12 base grant per ADA is increased by $248 in recognition of the need for Career Technical Education (CTE) courses provided to students in the secondary grades.

School districts and charter schools are entitled to supplemental grant increases equal to 20% of the adjusted base grant (including CSR and CTE funding) for the percentage of enrolled students who are English learners, eligible for the free or reduced-price meals program, or in foster care. An additional 50% per-pupil increase is provided as a concentration grant for each percentage of eligible students enrolled beyond 55% of total enrollment.
Special Education

Following the investment in the 2019–20 State Budget for Assembly Bill (AB) 602 equalization ($152 million) and one-time flexible funding to school districts based on the number of preschoolers with disabilities ($493 million) plus the call for policy reform to improve outcomes for students with disabilities—the 2020–21 State Budget continues to provide investments in special education. Governor Newsom’s Budget for 2020-21 proposes to use all of last year’s $645 million to fund special education base grant increases this year and to use a three-year rolling average of LEA ADA, while still allocating funds through Special Education Local Plan Areas (SELPAs). All but one hundred LEAs will receive an increase in base funding through this funding and those LEAs will be held harmless.

Similarly to the 2019–20 State Budget, the Budget proposes $250 million one-time funding to school districts based on the number of preschoolers ages three to five years with exceptional needs served. In a departure from the flexible nature of these funds in the current year, the Budget would require the funds to be allocated to increased or improved services. The Budget proposes $4 million one-time Proposition 98 General Fund for dyslexia research, training, and a statewide conference.

Long term, the 2020–21 State Budget calls for a multiyear approach and one-time funding to study the current SELPA governance and accountability structure and improved accountability for special education service delivery and student outcomes. Going forward, the Administration plans to create a new funding formula to support equity, more inclusive practices, and early intervention; make changes to governance and accountability; pursue reforms related to family and student engagement; and incorporate recommendations from the Master Plan for Early Learning and Care.

Teacher Investments

The State Budget proposal includes over $900 million in one-time Proposition 98 funds to address California’s persistent educator shortage and crisis in the following programs:

- $350 million to expand the existing Educator Workforce Investment Grant program to provide training to support students with disabilities and English learners, as well as to develop educator capacity in the areas of multitiereed system of supports, social-emotional learning and restorative justices practices, non-discriminatory and anti-bullying supports for marginalized student groups, and computer science and STEM fields

- $193 million for the Workforce Development Grant Program, as well as $175 million to expand the Teacher Residency Program, which address teacher shortages in high-need subjects and areas

- $100 million to provide $20,000 stipends for teachers who participate in the California Teacher Credential Award Program and complete four years of teaching in a high-need subject at a high-need school

- $64.1 million to expand the Classified School Employees Credentialing Program to support classified staff who aspire to become credentialed teachers
Community Schools and School Nutrition

Community Schools

In reinforcing efforts to serve the whole child, the 2020–21 State Budget proposes to invest $300 million in one-time Proposition 98 funds to establish Community School grants accessible by LEAs that employ the community school model. Such efforts would include student wrap-around services like mental health and social services; training in student mental and behavioral health, trauma-informed care, and restorative justice; family and community engagement such as home visits; extended learning time; and expanded learning opportunities.

School Nutrition

The Governor proposed to increase funding for school nutrition by an ongoing $60 million Proposition 98 appropriation and proposes a $10 million Proposition 98 fund to train school food service workers in promoting healthier and more nutritious meals. Additionally, a new Farm to School Grant Program is proposed to be created in the Department of Food and Agriculture, which will provide grants to schools for access to healthy food. This new grant is proposed to be funded with $10 million in non-Proposition 98 funds to start and $1.5 million annually thereafter.

Computer Science

The Governor reminded us that he is particularly interested in making sure students are able to access computer science education. With that in mind, he is investing $15 million in one-time funds for grants that LEAs may access to support training approximately 10,000 K–12 teachers to earn a supplementary authorization on their credential to teach computer science. In addition, the Statewide System of Support will gain a computer science component as $2.5 million in one-time funds is proposed for one county office of education to serve as a repository for computer science resources for professional development, curriculum, and best practices.

Early Childhood and Preschool

Early childhood investments continue to be a top priority for Governor Newsom. This is perhaps most strongly signaled by his sweeping proposal to establish a Department of Early Childhood Development under the Health and Human Services Agency, and shift all but the California State Preschool Program from the Department of Education into the new department, beginning in July, 2021. The new department is intended to integrate early childhood funding, programs and services including child care, home visiting, and early health programs. As it relates to programs affecting public agency providers, the Governor’s State Budget proposals includes the following investments:

- $75 million in Proposition 98 funding to expand the Inclusive Early Education Expansion program that provides one-time grants to construct or modernize preschool facilities that serve children with disabilities
- Increases the provider reimbursement rates for General Child Care and State Preschool by a 2.29% COLA
• Proposes future changes in the State School Facility Program if voters approve the $15 billion statewide school bond (Proposition 13) to provide facility grant enhancements to expand preschool programs on school campuses

School Facilities

The State Budget proposal does not include any significant new initiatives for school facilities. It acknowledges the Public Preschool, K–12, and College Health and Safety Bond Act (Act), which will appear on the March 2020 ballot as Proposition 13 and reforms the School Facility Program (SFP).

Similar to his first budget last year, the Governor’s 2020–21 State Budget proposal includes the sale of an additional $1.5 billion in bonds for 2020–21 to support the SFP—funding that will go to address the backlog of school districts and charter schools waiting for state funds to become available.

Lastly, the Budget for 2020–21 proposes diverting a portion of the funds allocated for school districts to retrofit and construct facilities to support full-day kindergarten programs. As part of the 2019–20 Adopted Budget, $300 million was allocated to encourage school districts to increase access to students in kindergarten—particularly through the conversion of part-day to full-day programs—by retrofitting existing or constructing new kindergarten facilities. The Budget proposal looks to dedicate an unspecified portion of these funds to support the construction of preschool facilities on school campuses. Assuming passage of Proposition 13, the Administration would also introduce language to provide new construction and modernization per pupil grant enhancements for the construction or modernization of facilities to expand preschool programs.

System of Support

The 2019 Dashboard released last month identified 333 school districts to work with their county offices of education (COEs) for differentiated assistance. This work is part of the statewide system of support that has evolved over the last several years, which is intended to help persistently low performing LEAs identify and address root causes for their lack of progress. The 2020–21 State Budget proposal reinforces the statewide system of support with a one-time $300 million investment to establish Opportunity Grants and expand the capacity of the California Collaborative for Educational Excellence. The grants are for the lowest-performing schools and school districts to pair with federal Title I resources to provide integrated and intensive interventions to close achievement gaps.

CalSTRS and CalPERS Payments

While the Governor makes reference to the $3.15 billion (one-time, non-Proposition 98) California State Teachers’ Retirement System (CalSTRS) and California Public Employees’ Retirement System (CalPERS) investment that was made on behalf of employers as part of the enacted 2019–20 State Budget, he does not propose to provide any additional CalSTRS and CalPERS relief for LEAs in his 2020–21 State Budget blueprint.
Discretionary Funds

For the second consecutive year, Governor Newsom’s State Budget does not propose any one-time Proposition 98 discretionary funding for school districts, charter schools, or COEs.

Federal Programs

Late December 2019, President Donald Trump signed the spending bill for fiscal year 2020 that increased education funding nationally by $1.3 billion to bring it to $72.8 billion. Included in this increase are $600 million for Head Start and $400 million each for Title I and special education. California receives approximately 10% of these national figures. Because the federal fiscal year runs October through September, these changes affect the next school year.

In Closing

In closing, Governor Newsom is making his mark and distinguishing himself in his proposed 2020–21 State Budget. While respecting Brown’s education reform by maintaining LCFF at “full funding” through providing the COLA, he is creating and maintaining several one-time education programs under his watch. While many of these programs are intended to improve LEA operations over the long term, Governor Newsom provides minimal, immediate relief from the myriad cost pressures that LEAs face.

Remember that the Governor’s Budget proposal marks the beginning of the process, not the end. We expect the Legislature to push back on the Governor’s priorities and propose their own. As the various proposals are considered by legislative committees, we can expect both confrontation and compromise. We continue to watch the evolving dynamic between a Governor hitting his stride in the second year and a well-established legislative leadership with a strong Democratic supermajority.

We look forward to continuing to see the vision Governor Newsom has for the state of California and wish him well as we all continue this journey together.

—SSC Staff