May 11, 2017

MEMORANDUM

TO: Scott Day, Associate Executive Director
Lori Easterling, Manager, Legislative Relations

FROM: Daniel Koen, Interim Legislative Advocate

RE: Governor’s May Revision 2017-18 Budget

The following is a summary of the May Revision changes to the Governor’s Proposed 2017-18 Budget. Please note, these are only highlights and further details will be forthcoming. As always, please keep in mind the final budget will be negotiated through the Legislative Process.

Proposition 98 Guarantee

With the May Revision, the Proposition 98 guarantee is projected to grow to $74.6 billion in 2017-18. For K-12, this is an average increase of approximately $4,058 per student from 2011-12, the lowest level of funding during the Great Recession.

This projected growth in Prop 98 funding is based on the current assumption of a $2.5 billion increase in state revenue for 2017-18; the continued modest expansion of the economy; and maintenance of existing federal fiscal policy.

K-12 Budget Adjustments

Local Control Funding Formula

✓ The May Revision increases funding for the LCFF by an additional $661 million, building on the almost $770 million provided in the Governor’s January Budget. This totals a $1.4 billion increase in funding for 2017-18, bringing the LCFF formula to 97 percent of full implementation.

✓ Due to the projected increase in revenue, the May Revision fully eliminates the current-year, one-time $859 million deferral proposed in the January Budget.

✓ To achieve the current proposals, including elimination of the proposed deferral for the current year and possible recapture of alleged past over appropriations, the Administration
proposes to suspend the statutory Proposition 98 Test 3B supplemental appropriation in 2016-17, as well as the 2018-19 through 2020-21 fiscal years. The Administration’s proposal includes automatically adding any funding reduced through this mechanism to the maintenance factor obligation for future years. We are seeking further clarification concerning this proposal.

One-Time Discretionary Funding

✓ The Governor’s January Budget proposed almost $290 million in discretionary, one-time Proposition 98 funding. The May Revision adds almost $750 million to this amount, providing more than $1 billion in one-time discretionary funding that may be used for, but is not limited to, spending on professional development, teacher induction, instructional materials and technology.

✓ All of this one-time discretionary funding will offset any applicable mandate reimbursement claims, reducing the State’s outstanding mandated debt owed to LEAs to $1.3 billion.

State Categorical Programs: COLA and Growth

✓ The May Revision increases the cost-of-living factor, applied to selected categorical programs, from 1.48% in the Governor’s January Budget to 1.56%.

✓ The May Revision also includes an increase of $2.4 million for selected categorical programs, based on updated estimates of ADA growth in those programs.

Average Daily Attendance (ADA)

✓ The May Revision adds $2.4 million in 2016-17 and $74.1 million in 2017-18 for district, charter school, and county office funding due to a smaller than anticipated drop in overall ADA growth between those two years.

Special Education Funding and Administration

✓ The Governor’s January Budget raised the possibility of altering the way special education is funded and administered. After holding stakeholder meetings, and given the complexity of the issues involved, the May Revision states 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.”

Preschool “Pause”
✓ The Governor’s Budget proposed “pausing” an increase in provider reimbursement rates and the addition of over 2,950 full-day State Preschool slots. The May Revision eliminated the proposed “pause” on the increased reimbursement rate and creation of the additional slots.

Proposition 39

✓ The May Revision decreases the amount of energy efficiency funds available to K-12 schools in 2017-18 by just over $46 million, to $376 million, to reflect reduced revenue estimates.

School Facilities

✓ The May Revision reiterates the Administration’s position that it will support the expenditure of Proposition 51 funds when both the grant agreement and audit requirements are in place to ensure that these funds are spent appropriately.

Community Colleges

The significant May Revision adjustments to the community college budget include:

✓ Chancellor’s Office State Operations – Instead of the previous two Vice-Chancellor’s positions that were included in the January Budget Proposal, six positions are being proposed with $618,000 General Fund dollars and $454,000 in reimbursement authority to support a second deputy Chancellor.

✓ Increased Operating Expenses – Net increase of $160 million Prop. 98 General Fund dollars to support increased operating expenses in areas such as, employee benefits, facilities, professional development, converting faculty from part-time to full-time, and other general expenses.

✓ Apportionments – An increase of $34.1 million Prop. 98 General Fund dollars including:

  • $28.5 million increase reflecting amounts earned back through three years of declining enrollment;
  • $23.6 million increase reflecting unused prior-year enrollment growth;
  • $3.5 million increase in cost-of-living adjustments from 1.48 percent to 1.56 percent;
  • $21.5 million decrease in enrollment growth from 1.34 percent to 1 percent

✓ Deferred Maintenance and Instructional Equipment – $92.1 million increase in one-time Prop. 98 General Fund and settle-up dollars for deferred maintenance, instructional equipment, and specified water conservation projects.
✓ **Full-Time Student Success Funding** - $1.9 million increase in Prop. 98 General Fund dollars for the increased estimate of eligible Cal Grant B and Cal Grant C recipients in 2017-18 and to align the grant amounts with the statewide annual academic year average of $600 per full-time student.

✓ **Equal Employment Opportunity Program** – $1.8 million increase from Employment Opportunity Funds to promote equal employment opportunities in hiring and promotion.

✓ **Categorical Program Cost of Living Adjustment** – $229,999 increase in prop. 98 General Fund dollars for the change in the cost-of-living adjustment from 1.48 percent to 1.56 percent for the Disabled Student Programs and Services Program, the Extended Opportunities Programs and Services program, the Special Services for CalWORKs Recipients Program, and the Child Care Tax Bailout Program.

✓ **Proposition 39** – $5.8 million decrease in the amount of energy efficiency funds available to community colleges in 2017-18 reflecting reduced revenue estimates.

✓ **Local Property Tax Adjustment** – $68.2 million increase in Prop. 98 General Fund dollars in 2016-17 reflecting decreased offsetting local property tax revenues.

✓ **Student Enrollment Fee Adjustment** – $24.8 million decrease in Prop. 98 General Funds from increased offsetting student enrollment fee revenues.

**California State University**

✓ **Redirection of Funds to Cal Grant Program** – A reduction of $4 million in ongoing General Fund revenue, with the monies redirected to fund increased costs of the Cal Grant program.

✓ **Transportation Research, Education and Training** – An increase of $2 million in the State Transportation Fund for transportation research and transportation-related education and training pursuant to SB 1.

**University of California**

✓ **Implementation of Commitments Related to Cost Structure** – A set-aside of $50 million in the General Fund, the release of which is conditioned on certification by the Director of Finance that the UC has achieved the commitments made in its agreement with the Governor related to activity-based costing, enrollment of transfer students, and other issues.

✓ **Redirection of Funds to Cal Grant Program** – A reduction of $4 million in ongoing General Fund revenue, with the monies redirected to fund increased costs of the Cal Grant program.
Transportation Research – An increase of $5 million in the State Transportation Fund for transportation research pursuant to SB 1.

Please note these are only highlights and further details will be forthcoming. As always, please keep in mind, this is only a “proposal” and must be negotiated through the Legislative process.

cc: Joe Nuñez
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