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

Sources: School Services of California, Inc., KCSOS, Dave Walrath, and Michael Hulsizer
New Governor, New Priorities, New Uncertainty

- **A New Governor**
  - Proposes to leave the LCFF and LCAP structure in place
  - Is not looking to put additional dollars into underfunded retirement plans (PERS and STRS)

- **New Priorities**
  - Shades of a more traditional “categorical” funding model…
  - Resume Building?

- **New Uncertainty**
  - Will the May Revise and/or June Budget look the same?
The Economy
Gross Domestic Product

- Gross domestic product (GDP) is the monetary value of all the goods and services produced nationally, representing the most comprehensive measure of U.S. economic activity.
- For the third quarter of 2019, GDP increased 2.1%.

Real GDP: Percent Change from Preceeding Quarter

Source: U.S. Bureau of Economic Analysis, December 20, 2019
Seasonally adjusted annual rates
Risks to the National Economy

- Automobile industry beginning to simulate the mortgage-backed securities causing the last recession
  - Rolling over balances on previous auto purchases
- Economy at full employment, stimulus will not promote job growth
- Public debt as percentage of GDP will increase from 79% in 2019 to 95% in 2029

![Graph showing Federal Debt Held by the Public as a percentage of Gross Domestic Product]

Source: Congressional Budget Office.
The Education Budget
As expected, Governor Newsom has several progressive initiatives outside of the K-12 budget.

- $1 billion to shift the state's involvement to house unsheltered individuals
- $12 billion over the next five years to create a comprehensive approach to California’s investments to protect the state’s environment, address the effects of climate change, and promote resiliency.
- New initiatives related to health care to increase price transparency, address hospital cost trends by region with a particular focus on increases driven by consolidation, and reduce unnecessary administrative costs by increasing the use of technology and value-based reimbursements.
Proposition 98—Past, Current, and Future

The 2020–21 minimum guarantee is projected to be $84 billion

- A $2.4 billion (2.9%) increase from last year’s revised State Budget
- The minimum guarantee increased $0.6 billion from the 2019 budget act for the last two years due to increases in property taxes
- Resulting in a total of $3 billion in additional funding for 2020-2021

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018–19</td>
<td>$78.4 Billion</td>
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<tr>
<td>2019–20</td>
<td>$81.6 Billion</td>
</tr>
<tr>
<td>2020–21</td>
<td>$84.0 Billion</td>
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</tbody>
</table>
Proposition 98 Funding Over Time

2008–09 to 2020–21

- **2020 – 2021 Statutory COLA**: 2.29%

Source: 2020–21 Governor’s Budget, page 68
2020–21 Local Control Funding Formula

The State Budget proposes $1.2 billion towards the LCFF to fund the 2.29% statutory COLA.

- 2020–21 LCFF growth provides an average increase in per-pupil funding of an estimated $231 per ADA, or 2.14%.
  - The lower 2.14% increase takes into consideration that no COLA is provided for Targeted Instructional Improvement Grant, Transportation, or Economic Recovery Target funds.

- This is lower than the 3% COLA projected at adoption of the 2019-20 State Budget.

- In other words, under the governor’s proposal, we are projected to get .86% less money than what the current KHSD multi-year budget was built on.
A Myriad of Categorically Funded Programs

- $645 million – Special Education: Increase base rates
- $250 million – Preschool age children with disabilities
- $900 million – Educator recruitment and training
  - $350 million: Educator Workforce Investment Grant
  - $193 million: Workforce Development Grant Program
  - $175 million: Teacher Residency Program
  - $100 million: Teacher Stipends (high need subject areas)
  - $64.1 million: Expand Classified School Employees Credentialing Program
  - $18 million: California Collaborative for Educational Excellence
- $0.6 million – Online statewide LCAP portal
- $300 million – Opportunity Grants for the lowest performing schools
- $300 million – Community School grants
- $18.8 million – STEM and computer science training for teachers
  - $15 million: Preparation of 10,000 K-12 teachers to earn a supplementary credential to teach computer science
  - $2.5 million: County offices: computer science resources for professional development
  - $1.3 million: Develop a new UC Subject Matter Project in computer science
- $80.5 million – Enhance student food services programs
  - $60 million: Increase funding for food service programs
  - $10 million: Training for school food service workers to promote healthier and more nutritious meals
  - $10 million: Fam to School Grant Program
Special Education—Base Rates

For the 2020–21 fiscal year, the Budget proposes to use the $645 million from the 2019–20 State Budget to add to the existing AB 602 base funding

- With the information currently available, increases would equal between $640 and $680 per ADA

- Most LEAs will see an increase in base funding

  - If this proposed funding makes it to the final state budget, our initial estimates are KHSD will see a $2 M to $4 million increase in funding

- In the future… development of a new special education funding formula to support equity, more inclusive practices, and early intervention services

- Like the 2019–20 State Budget, Governor Newsom proposes to provide one time funding of $250 million to school districts based on the three-, four-, and five-year-old preschoolers with disabilities
Addressing California’s Educator Shortage

Educator Workforce Investment Grant Program

- MTSS
- Special Education
- Social-emotional & restorative practices
- English learner support
- LGBTQ & marginalized student support
- Computer science, technology, and STEM

$350 million

Competitive
Addressing California’s Educator Shortage

Meet demands in high-need subjects and areas

- **Workforce Development Grant Program**
  - Addresses teacher shortages
  - $193 million

- **Teacher Residency Program**
  - Provides one-year intensive mentorship and clinical training
  - $175 million

- **Credential Award Program**
  - Provides $20,000 teacher stipends
  - $100 million

High Need Subjects at a High Need School

- $193 million
- $175 million
- $100 million
School Employer Pension Relief

There is currently no proposal to provide additional pension relief for K-14 schools.

<table>
<thead>
<tr>
<th>Year</th>
<th>CalPERS Contribution Rate*</th>
<th>CalSTRS Contribution Rate to Fully Fund Remaining Unfunded Liability through 2045</th>
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<tbody>
<tr>
<td>2019–20</td>
<td>19.721%</td>
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<tr>
<td>2020–21</td>
<td>22.80%</td>
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<tr>
<td>2021–22</td>
<td>24.90%</td>
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</tr>
<tr>
<td>2022–23</td>
<td>25.90%</td>
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Remember that CalSTRS employer contribution rate increases are in statute and are being phased in over a seven-year period (2014–15 through 2020–21).

Starting in 2021–22, the funding plan provides the CalSTRS Board limited authority to adjust the employer contribution rate to fully fund the remaining unfunded liability through 2045, but are limited to 1% annual adjustments.
For Your Consideration…
Mulityear Projections

How much fiscal relief does $3 billion provide?

2019–20
- Proposition 98 increase $3 billion
- $1,959,000,000 to LCFF (3.26%)
- $645,800,000 Special Education Relief
- $2,604,800,000 ongoing

2020–21
- Proposition 98 increase $3 billion
- $1,200,000,000 to LCFF (2.29%)
- $1,200,000,000 ongoing
New revenues only cover three-quarters of the costs committed to servicing the salary schedule.

Commitments do not include any increases to health and welfare benefit costs, increases related to special education, or any other general fund expenditure increases...
## Per-ADA Growth in Revenues and Expenditures

### 2019-20
- **Base Growth**: $273
- **Special Education Contribution**: $325
- **Step & Column**: $148
- **PERS Rate Increase**: $29
- **STRS Rate Increase**: $68
- **LCFF Growth Revenues**: 3.26% COLA

### 2020-21
- **Base Growth**: $193
- **Special Education Contribution**: $231
- **Step & Column**: $150
- **PERS Rate Increase**: $109
- **STRS Rate Increase**: $109
- **LCFF Growth Revenues**: 2.29% COLA

### 2021-22
- **Base Growth**: $234
- **Special Education Contribution**: $280
- **Step & Column**: $152
- **PERS Rate Increase**: $54
- **STRS Rate Increase**: $25
- **LCFF Growth Revenues**: 2.71% COLA

### 2022-23
- **Base Growth**: $250
- **Special Education Contribution**: $299
- **Step & Column**: $157
- **PERS Rate Increase**: $18
- **STRS Rate Increase**: $25
- **LCFF Growth Revenues**: 2.82% COLA

**Legend:**
- SC Growth
- Special Education Contribution
- Step & Column
- PERS Rate Increase
- STRS Rate Increase
- LCFF Growth Revenues
- Expenditures

**Note:** COLA stands for Cost of Living Adjustment.
*Note - We may be asking the Board to adopt a resolution in June, when the Board approves the budget to commit a percentage of our annual budget to reserves instead of a fixed dollar amount (current resolution commits $40 million to reserves/EFB)
SB 328 was signed into law on October 13, 2019

- Requires LEAs that operate high schools to begin the school day no earlier than 8:30 a.m.
- Effective July 1, 2022, or the expiration of a collective bargaining agreement that is operative on January 1, 2020, whichever is later

SB 328 exempts rural school districts, but rural is yet to be defined

- Expectation is this will be defined during the 2020 legislative year
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<thead>
<tr>
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<tbody>
<tr>
<td>New Construction</td>
<td>$1,532.2 million</td>
<td>$1,606.0 million</td>
<td>$517.6 million</td>
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<tr>
<td>Modernization</td>
<td>$2,099.0 million</td>
<td>$2,181.8 million</td>
<td>$660.3 million</td>
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<tr>
<td>Charter School</td>
<td>$3.0 million</td>
<td>$8.9 million</td>
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<tr>
<td>CTE</td>
<td>$256.4 million</td>
<td>-</td>
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California voters should anticipate two statewide education funding initiatives in 2020:

- Proposition 13 (March 2020) is the result of AB 48 (Chapter 530, Statutes of 2019) and asks voters to approve a $15 billion facilities bond for school and community college districts, the University of California, and the California State University.

- As of November 2019 polling by the Public Policy Institute of California (PPIC), 48% of likely voters support the initiative, while 36% oppose.

- Mail-in ballots will start arriving in voters’ mailboxes in less than three weeks.
The Road Ahead

- The Governor’s State Budget proposal marks the beginning of the process, not the end.
- The Legislature is expected to push back on Governor Newsom’s priorities and propose its own.
  - As the various proposals are considered by legislative committees, we anticipate confrontation and compromise and, as a result, the May revise may look very different from the Governor’s January proposal.
- We will bring a KHSD budget proposal to the Board at the first board meeting in June incorporating any changes from the May Revise.
Questions?