

Santa Clara County Office of Education CBO Meeting

State Budget Outlook and Hot Topics



Presented by:

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February 11, 2016



2016-17 Governor's Budget

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- The Governor's Budget assumes modest growth in 2016-17
- For the current year, revenues are revised up by \$2.5 billion
 - This is consistent with prior years in which the May Revision presented a conservative revenue forecast
- For 2016-17, the Governor's Budget did not increase revenues commensurate with the current year upward revision
 - At the May Revision, 2016-17 revenues were assumed to grow 4.5%
 - At the January Budget release, 2016-17 revenues are now assumed to grow 2.6%, or about \$3 billion

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Focus on Recession

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- In his press conference, Governor Brown warned of the impact of the next recession
 - He did not predict when it would occur, but guaranteed that it would come nevertheless
 - The Governor's Budget outlines a scenario of a loss of \$55 billion by 2019 if the downturn begins in 2017
 - To guard against state cuts during a recession, the Governor proposes \$10.2 billion for the state reserve in 2016-17, \$2 billion more than required by Proposition 2
- The Legislative Analyst's Office (LAO) also emphasizes that value of building the reserve, stating that it is "the key to weathering the next recession"

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Recession vs. Stock Market Decline

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- Neither the Department of Finance (DOF) nor the LAO is forecasting a recession in 2016-17
 - Employment continues to grow
 - Gross Domestic Product (GDP) is increasing modestly
 - Wages may turn up as labor markets tighten
- However, a falling stock market has profound implications for California's General Fund
 - The Dow Jones is off 1,500 points, or about 8.5%, since mid-December when the DOF staff built the Governor's Budget; most of this decline took place in the first few weeks of January

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Stock Market and Capital Gains Income

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- About two-thirds of state General Fund revenues come from the personal income tax
- The top 1% of tax payers account for about half of the personal income tax
 - Therefore, they account for about one-third of General Fund revenues
 - Most of their income is derived from capital gains
 - The Governor's Budget assumes that 10% of General Fund revenues will be from capital gains
 - Taxpayer behavior is very difficult to predict
- A falling stock market could significantly reduce capital gains income and therefore total General Fund revenues

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Why Is the Market in Decline?

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- Stock prices reflect expectations of future earnings
- Earnings expectations could be lower due to a number of factors
 - Rising interest rates as the Federal Reserve unwinds its zero interest rate policy
 - The slowdown in China and weak economies in the European Union and Japan lessen their appetite for imports
 - The strong U.S. dollar makes U.S. exports more expensive worldwide



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Proposition 98 Implications

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- According to the Governor's Budget, Proposition 98 – the minimum funding guarantee for K-12 education and community colleges – will be based on Test 3 in 2016-17
 - Test 3 is equal to the change in per capita General Fund revenues, plus 0.5%, estimated at 2.88%
 - The Governor's Budget provides \$2.4 billion in new Proposition 98 funds in 2016-17
- The May Revision could reduce Test 3 if the stock market remains weak or falls further
 - Current year revenues could rise slightly in May while the budget year forecast is lowered, resulting in a downward revision to Test 3

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What to Watch

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- Generally, we carefully monitor General Fund revenue collections as reported by the DOF in its monthly *Finance Bulletin* to provide a clue as to the likely direction of the May Revision
- This year, it may be more important to follow the performance of the Dow Jones and the S&P 500, given the recent market selloff
- A recession may not be needed to bring about a drop in state revenues in 2016-17
 - Highly progressive tax rates, especially following Proposition 30, amplify the importance of high income taxpayers on total collections
 - The interactions with Proposition 98 may result in an unanticipated drop in 2016-17

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2016 Political Issues and Hot Topics in School Finance

Likely and Potential Legislation

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2016 Legislative Year

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- The Legislature returned from its break on January 4, 2016
- Bills introduced in 2015 that didn't make it out of their first house are now dead – for example, last year's facilities bond bill, Senate Bill (SB) 114
- Legislators have until February 19 to introduce bills for the year
 - Thousands of bills will be introduced, with hundreds likely affecting education and employment
 - Since the legislative year has just started, only a few hundred bills have been introduced to date
 - ◇ That number will likely skyrocket to nearly 2,000 by the introduction deadline
 - But some issues are certain to be hot topics this year – some with the State Budget and others through the regular legislative process

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Early Childhood Education

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- Aligned with a national push, California legislators are interested in continuing the expansion of early childhood education (ECE)
- Transitional kindergarten (TK) was created in 2010 to accompany an age eligibility change for kindergarten
 - Since then, ECE proponents have sought to expand TK
 - While a push for Universal TK was unsuccessful, a 2015-16 State Budget trailer bill allow school districts to offer TK to four year olds, but no funding will be provided until the child turns 5 years old
- Alternatively, ECE proponents have pushed for additional preschool slots
 - The 2015-16 State Budget included additional preschool slots and “intent language” to expand full-day, full-year preschool to all low-income children

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ECE – Early Education Block Grant

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- In his 2016-17 State Budget proposal, instead of additional resources through new state preschool slots, Governor Brown proposed a \$1.6 billion Early Education Block Grant (EEBG)
 - No new funds for growth, when districts are in the process of expanding their TK programs
 - DOF is seeking input from education stakeholders over the next few months:
 - Which children should have priority for service?
 - What minimum standards should the state require?
 - How can local educational agencies (LEAs) utilize private providers and should they have a role?
 - How should future funding augmentations be distributed?
 - How should the state ensure that EEBG funding is supporting positive child outcomes?

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Adult and Career Technical Education

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- **Adult Education**
 - Trailer bill language proposes to require Adult Education Regional Consortium to consider input from students, teachers, administrators, classified staff, and local bargaining units
 - Funding level is unchanged from 2015-16
 - Source of funding will change, but districts will receive no less in 2016-17 than received in the current year
 - Funding in 2016-17 comes solely through the local plan
- **Career Technical Education Incentive Grant**
 - Three-year bridge funding commencing in current year
 - \$400 million at 1:1 match
 - SBE approved the first round of funds, with a preliminary total of \$91.5 million, and a second round will be approved in March

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Friedrichs Case and its Implications

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- The *Friedrichs v. California Teachers Association* (CTA) case addresses the constitutionality of nonmember “fair share” fees and fees used to fund political activities
- The U.S. Supreme Court heard the case on January 11 and Supreme Court watchers generally believe Friedrichs will prevail
 - Decision expected by early summer
- Last year, a proposal was being discussed that would grant union representatives 30 minutes with public employees to discuss the benefits of union membership
 - This mandatory union orientation proposal was nearly identical to one imposed on In-Home Support Services care providers earlier this year, which was also a result of a Supreme Court case ruling

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Friedrichs Case and its Implications

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- The proposal also would require existing contracts to be reopened for purposes of negotiating employer programs for current employees during which bargaining unit representatives can provide information on the benefits of union membership
- Potential legislation to require employee orientation concerning union membership is in the works
 - For a bill to take effect immediately, it would require Republican legislators
 - Otherwise, the policy would have to make its way into a trailer bill, which would be effective July 1
 - If neither path is taken, a bill would become effective January 1, 2017

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Teacher Shortage

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- A top priority for CTA, several bills have been introduced with the intent to help address the current teacher shortage:
 - SB 62 (Pavley, D-Agoura Hills), which would reinstate the “Assumption Program of Loans for Education” program, a student loan forgiveness program for new teachers; teachers would have to agree to teach for at least four years in schools with large numbers of low-income students, in a rural school, or in one with a large number of teachers on emergency permits
 - SB 915 (Liu, D-La Cañada Flintridge) would re-establish the California Center on Teaching Careers (CalTeach) to help recruit teachers, identify sources of financial aid, and place them in schools with the highest demand for new teachers
 - SB 933 (Allen, D-Santa Monica) would create a “California Teacher Corps” and give matching grants to local districts to create or expand year-long teacher training programs known as “residencies,” based on the model of medical residencies

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School-Based Mental Health

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- **Several bills have already been introduced to address mental health**
 - **Likely dual purpose of addressing comprehensive needs of the student and working towards school safety**
- **AB 1644 (Bonta, D-Alameda) would expand eligibility to preschool and TK students for funding under the school-based early mental health intervention and prevention service grants and allow charter schools to access these funds**
 - **Would also create a four-year pilot program to provide outreach, free regional training, and technical assistance for LEAs in providing mental health services at school sites**
- **Other bills to watch: AB 1576 (Eggman, D-Stockton) and SB 884 (Beall, D-San Jose), which are currently legislative intent bills, but could be amended to include full proposals down the line**

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Reserve Cap

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- **SB 799 (Hill, D-San Mateo) was unveiled in August 2015 to reform the reserve cap, but the bill stalled in the legislative process**
- **In its current form, SB 799 makes positive changes to the cap:**
 - **Cap of 17% of unassigned General Fund balances and Special Reserve Fund for Other than Capital Outlay Projects**
 - **Requirement for adoption of board policy on fund balances**
 - **Require county offices of education to adopt policy on appeal procedures**
 - **Exempt small (under 2,501 average daily attendance) and basic aid districts**
- **In the Assembly Rules Committee, but no plan to move the bill until June, according to the author's office**
 - **California School Boards Association (CSBA), the sponsor of SB 799, continues to place a high priority on amending the reserve cap**

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LCFF Carryover and Proposition 30

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- **Supplemental and Concentration Grant Carryover Legislation**
 - No legislation introduced to date that would restrict the use of carryover funds from this source
 - **Proportionality Conundrum – implementation phase vs. full implementation requirement (handout)**
 - School Services of California's calculations confirmed by State Board of Education (SBE) staff
- **Proposition 30 Revenue Assumptions and Multiyear Projections**
 - Revenue assumptions are included in DOF's gap closure percentage
 - Especially evident in the small gap closure in 2018-19

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Adequacy Report

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- **CSBA's Adequacy Report**
 - ***California's Challenge: Adequately Funding Education in the 21st Century***
 - 2007 Getting Down to Facts data: \$42 billion
 - California to the national average: \$23 billion
 - Development of personalized learning plans for every student
 - New revenue sources: increasing the size of the pie
 - Inform and lead the public

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State Facilities Bond

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- State Facilities Bond Update
 - Already qualified for November 2016 ballot: \$9 billion K-12 and community colleges bond utilizing the current school facilities program to allocate funds
 - Governor Brown has criticized the current program
 - California's Coalition for Adequate School Housing (CASH) and the California Building Industry Association have to mutually agree to remove bond from November 2016 ballot
 - 55% of likely voters identified the issue of school facilities to be very important when asked to rank various issues that will likely appear on the November 2016 General Election ballot

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Thank you!



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TOM TORLAKSON

STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

July 17, 2015

Dear County and District Superintendents and Charter School Administrators:

AMENDMENT TO CALIFORNIA *EDUCATION CODE* 48000(c)

I would like to inform you that the laws applicable to transitional kindergarten (TK) pupils have recently changed as a result of the enactment of Assembly Bill (AB) 104, the Education Omnibus Trailer Bill. The new law, which is effective July 1, 2015, permits local educational agencies (LEAs) and charter schools for the first time the option to grant early admission, **at the beginning of the school year**, for pupils who are otherwise too young to attend a TK program. This letter updates information I provided on this topic in a letter dated November 14, 2014.

Specifically, AB 104 amended the California *Education Code (EC)* to add subsection (B) to *EC* 48000(c)(3):

(B) (i) For the 2015–16 school year and each school year thereafter, a school district or charter school may, at any time during a school year, admit a child to a transitional kindergarten program who will have his or her fifth birthday after December 2 but during that same school year, with the approval of the parent or guardian, subject to the following conditions:

(I) The governing board of the school district or the governing body of the charter school determines that the admittance is in the best interest of the child.

(II) The parent or guardian is given information regarding the advantages and disadvantages and any other explanatory information about the effect of this early admittance.

(ii) Notwithstanding any other law, a pupil admitted to a transitional kindergarten program pursuant to clause (i) shall not generate average daily attendance for purposes of Section 46300, or be included in the enrollment or unduplicated pupil count pursuant to Section 42238.02, until the pupil has attained his or her fifth birthday, regardless of when the pupil was admitted during the school year.

Thus, pupils who will turn five years old **after** December 2 (the “cut-off” date for a child to be admitted to a TK program)—but before the end of that same school year—may be permitted to attend TK at any time during the school year, **including at the beginning of the school year**, at the discretion of the LEA or charter school that operates a TK and/or kindergarten program. As required by subsection (B) above, the governing board of the LEA and charter school that

operates a TK and/or kindergarten program must make a determination that early admittance is in the best interest of the child and must provide the child's parent or guardian with information regarding the advantages and disadvantages of early admission to TK and any other explanatory information about the effect of early admission.

TK pupils who gain early admittance pursuant to the provisions of *EC 48000(c)(3)(B)* as set forth above may not generate average daily attendance (ADA) for the purpose of Local Control Funding Formula funding (LCFF) until they attain the age of five. In addition, for the purpose of determining each LEA's and charter school's unduplicated percentage for the LCFF supplemental and concentration calculation, enrollment, and unduplicated pupil count (e.g., Free and Reduced Price Meal Eligible, English Learner, or Foster Youth), data for TK pupils that gain early admittance will be excluded. Once a pupil who was admitted early to TK turns five, the LEA or charter school may then, and only then, allow the pupil's attendance to generate ADA and be included in the ADA reported to the California Department of Education (CDE) for the purpose of LCFF funding.

As an example, a child who will turn five on January 4, 2016, may be admitted by an LEA or charter school to attend TK at the beginning of the 2015–16 school year if the LEA's, or charter school's governing body determines that early admittance is in the best interests of that child and the parent or guardian is provided the information referenced above. However, that LEA or charter school (that operates a TK program) would not be permitted to use that pupil's attendance to generate ADA until January 4 of 2016, the date that pupil turns five. Further, that pupil's enrollment or unduplicated pupil count data would not be included in the LEA's or charter school's unduplicated percentage for the LCFF supplemental and concentration calculation as their fifth birthday occurs after the Fall Census Day for the 2015–16 fiscal year but not on or before December 2, 2015.

Whether to take advantage of this new law and allow younger-aged children (children whose fifth birthday is **not** from September 2 through December 2) to attend TK is a decision entirely left to the LEA or charter school that operates a TK program. Should an LEA or charter school that operates a TK program choose to implement the new law, then it would be incumbent upon the LEA and charter school to ensure that it meets all legal requirements. As a reminder, all LEAs, and charter schools that operate a TK and/or a kindergarten program are required to offer a TK program for children who will have their fifth birthday between September 2 and December 2, but a child's attendance in a TK program is optional on the part of the child's parent or guardian.

For further information on TK, please visit the CDE's Transitional Kindergarten Frequently Asked Questions Web page at <http://www.cde.ca.gov/ci/gs/em/kinderfaq.asp>.

If you have any questions regarding TK or kindergarten, please contact Kathleen Halvorson, Education Programs Consultant, Early Education and Support Division, by phone at 916-323-4629 or by e-mail at khalvorson@cde.ca.gov.

Sincerely,
Tom Torlakson