

Changes in Law 2019: School Finance

Healthy 2019-20 K-12 budget based on continued revenue growth. The first state budget under Governor Gavin Newsom was finalized in June when he signed **AB 74** (Ting) and a number of budget trailer bills with additional spending, implementation language and modifications. While the 2019-20 budget for schools contains mostly good news, and Proposition 98 growth allowed the Governor and Legislature to fund some new priorities, concerns of an economic downturn in the short- to mid-term are rising. Slower Prop 98 growth, or cuts, would lead to significant consequences for schools given projected increased costs, including pension contributions and relatively high COLAs.

Broad highlights of the 2019-20 Budget for schools include:

- \$81.1 billion for Prop 98 (\$71.1 billion for K-12)
- \$3.15 billion (one-time, non-Prop 98) for school employer CalSTRS and CalPERS liabilities
- \$1.96 billion for LCFF to provide 3.26% COLA (total LCFF \$62.9 billion)
- \$645.3 million for special education
- \$389 million transfer to Public School System Stabilization Account (PSSSA)
- \$300 million (one-time, non-Prop 98) for new or retrofitted full-day kindergarten facilities
- \$180 million to provide 3.26% COLA to some categorical programs outside of the LCFF
- \$148.5 million to address teacher/administrator shortage and training
- \$50 million for After School Education and Safety (ASES)
- \$50 million for Mental Health Student Services Act (Prop 63 funds)
- \$36 million (one-time) for Classified School Employees Summer Assistance Program
- \$20.2 million for county offices to provide technical assistance to school districts
- \$10 million (one-time, non-Prop 98) to plan for and develop Cradle-to-Career data system
- \$7.5 million for broadband infrastructure & \$8.5 million to K-12 High-Speed Network (non-Prop 98)
- Significant investments in early childhood

Budget includes some pension relief for school employers. School advocates have been highlighting the impacts of pension costs on local budgets due to rising school employer contribution rates for CalSTRS and CalPERS. Governor Newsom and the Legislature, through **SB 90** (Committee on Budget), provide a total of \$3.15 billion of non-Prop 98 funds to CalSTRS and CalPERS to buy-down school employer rates in 2019-20 and to make payments toward the long-term unfunded liabilities of employers in both pension systems. The bulk of the funding, about \$2.24 billion, is targeted to the CalSTRS system, with about \$904 million going for CalPERS. The actual and projected changes in school employer rates, with reductions in red, are reflected in the following tables:

CalSTRS

Fiscal Year	Without Additional Payments	Budget Act
2018-19	16.28	16.28
2019-20	18.13	17.1 (-1.03)
2020-21	19.1	18.4 (-0.7)
2021-22	18.4*	18.1* (-0.3)
2022-23	18.4*	18.1* (-0.3)
2023-46	18.4*	18.1* (-0.3)

CalPERS

Fiscal Year	Without Additional Payments	Budget Act
2018-19	18.062	18.062
2019-20	20.733	19.721 (-1.012)
2020-21	23.6*	22.7 (-0.9)
2021-22	24.9*	24.6 (-0.3)
2022-23	25.7*	25.4 (-0.3)
2023-24	26.4*	26.1 (-0.3)
2024-25	26.6*	26.3 (-0.3)
2025-26	26.5*	26.2 (-0.3)

Preparing for a fiscal downturn remains a key priority, and the 2019-20 budget includes the first transfer to the Prop 98 reserve. Based on numerous actions in the budget, the state is projected to close fiscal year 2019-20 with over \$19 billion in total general fund reserves. A small portion of those reserves, about \$390 million, are in the PSSSA following the first mandatory transfer to this Prop 98 reserve. The criteria for such transfers are fairly strict - it must be a Test 1 year, recession-era maintenance factor must be paid off, and Prop 98 growth must exceed prior year funding adjusted for growth and inflation. The \$390 million counts toward satisfying the 2019-20 Prop 98 minimum funding obligation, but is not allocated to schools this year. These funds will be available in any future year in which Prop 98 funding is less than the prior year amount adjusted for growth and inflation, meaning the funds are likely to be available in the event of an economic downturn. In addition to these reserves, the state spent about \$9 billion to pay down some unfunded liabilities and eliminate debts and deferrals.

For the first time in many years, the budget provides a significant investment in special education. The 2019-20 budget includes additional funding of nearly \$650 million for special education, which is a welcome change after many years of little other than COLA for special education. While this signals that special education is a priority for Governor Newsom and some legislators, it is not clear that everyone is on the same page in terms of ongoing funding and the need for program or fiscal reforms. Ongoing funding in this amount (or more) will be contingent on the passage of special education reform in the 2020-21 budget, whatever that may mean. In any case, most of the additional funding (about \$493 million) in the 2019-20 budget is targeted to the Special Education Early Intervention Preschool Grant Program, which allocates money on a per-pupil basis for 3, 4 and 5-year-olds with IEPs (excluding those enrolled in TK or kindergarten). The specific amount per-pupil will be determined by dividing the total amount of funding by the number of eligible preschoolers. In addition, the budget includes more than \$150 million to equalize SELPA funding, providing sufficient funding to bring all SELPAs up to the Statewide Base Target Rate (STR), which is about \$557 per ADA. Almost 100 SELPAs will receive some of this funding, more than 30 will not.

Additional funding for State Preschool and child care, as well as Full-Day kindergarten facilities grants. The 2019-20 budget expands and simplifies eligibility criteria for State Preschool, provides \$27 million to annualize the nearly 3,000 full-day preschool slots for LEAs, and add more than \$30 million to add new preschool slots for non-LEAs with the goal of reaching 10,000 new slots. A number of separate actions amount to more than \$500 million for child care programs, including \$263 million for a child care infrastructure grant program and nearly \$200 million for workforce development grants. The budget also includes \$300 million for a full-day kindergarten facilities grant program, with the funding allocated over a three year period. Eligibility is prioritized for financial hardship districts and for districts converting from part-day to full-day programs, participation will not impact eligibility for state bond funds, and the state-to-local match will increase to 75/25 from 50/50. Most of the funding described above is outside of Prop 98.

Student mental health issues are addressed in the budget, with more action likely to come next year. \$50 million in Prop 63 funding will be utilized to provide competitive grants for partnerships among county mental health departments and LEAs to provide student support services. The grants are to be used to provide services on school campuses to the extent practicable, and include suicide prevention and drop-out prevention services, outreach to high-risk youth, and the development of service plans that can be sustained over time. We expect a good deal of discussion of these issues in the Legislature next year, and perhaps additional funding in the 2020-21 budget.

Funding sufficiency for K-12 public schools, and the possibility of initiatives on the November 2020 ballot to raise revenues. While the 2019-20 budget continues modest growth for school funding, the issue of providing sufficient resources for educating California's 6 million students remains unaddressed. Whether or not the LCFF targets and funding amounts support a high quality education for all students is part of that issue. We have provided separate client updates on possible November 2020 ballot measures that could raise revenues for schools, including a "split-roll" initiative which would assess business/corporate property at fair market rate for local property tax purposes (but leaves residential property and homeowner taxes untouched), and a high-income earner and corporate tax increase proposal to raise money only for K-12

schools. One, both or neither of these measures may attain the signatures and support necessary to actually appear on the ballot in 2020, and there is also the possibility of the Governor and Legislature placing a different measure on the ballot themselves. We will be following this issue carefully and will provide updates in the coming months.

The Governor signed the following school finance bills:

School Finance

AB 74 (Ting) - Budget Act of 2019

This bill, the main Budget Act bill for 2019, makes appropriations for the support of the state government for the 2019-20 fiscal year, and takes effect immediately.

Chapter 23, Statutes of 2019

AB 114 (Committee on Budget) - Education finance: education omnibus budget trailer bill

AB 114 makes amendments and corrections to statutory provisions that are necessary to implement the 2019 Budget Act, including specifying the data set used to calculate grants under the Special Education Early Intervention Preschool Grant and exempting the payments the state makes to the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of local educational agencies (LEAs) from the LEA's routine restricted maintenance account contribution calculation for 2018-19. The bill also extends the Ethnic Studies Model Curriculum deadline for submission by the Instructional Quality Commission to on or before December 31, 2020, and the deadline for adoption by the State Board of Education to on or before March 31, 2021.

Chapter 413, Statutes of 2019

AB 945 (McCarty) - Local government: financial affairs: surplus funds

This bill, commencing January 1, 2020, authorizes a local agency to invest and deposit the agency's surplus funds in deposits at specified types of financial institutions whether those investments are in certificates of deposit or another form. The bill, from January 1, 2020 until January 1, 2026, also increases to 50% the percentage of funds that can be so invested by a city, district, or other local agency that does not pool money in deposits or investments with other local agencies with a different governing body.

Chapter 619, Statutes of 2019

SB 75 (Committee on Budget and Fiscal Review) - Education finance: education omnibus budget trailer bill

This bill is the main education budget trailer bill, and makes various changes and allocates approximately \$1.2 billion in K-14 education programs. Among other appropriations and policies, it establishes the Special Education Early Intervention Preschool grant program, to provide grants to LEAs based on their number of three and four year olds with exceptional needs with Individualized Education Plans (IEPs).

Chapter 51, Statutes of 2019

SB 76 (Committee on Budget and Fiscal Review) - Education finance: constitutional minimum funding obligation: inflation and cost-of-living adjustments

SB 76 makes a number of changes to budget actions taken last year related to Proposition 98 certification and calculations. Specifically, the bill includes a cap on the cost-of-living adjustment (COLA) for the Local Control Funding Formula (LCFF) continuous appropriation in future years, if the COLA for LCFF and other K-14 programs exceeds growth in the Proposition 98 guarantee. SB 76 also eliminates the Prop 98 Cost Allocation Schedule created in the 2018-19 budget, and instead, if the Director of Finance determines that the state has appropriated funds in excess of the state's minimum funding obligation for the fiscal year being certified, allows the excess funds to count toward satisfying the minimum funding obligation in other fiscal

years. The bill prohibits the state from making a downward adjustment to the Prop 98 funding level after the fiscal year is over, and requires an upward adjustment if the calculation results in a higher Prop 98 guarantee for a prior year.

Chapter 52, Statutes of 2019

SB 90 (Committee on Budget and Fiscal Review) - Public employees' retirement

This bill makes necessary changes to implement the 2019-20 budget related to supplemental pension payments. Specifically, SB 90 appropriates approximately \$1.6 billion General Fund to address the school employer's share of the CalSTRS unfunded liability, \$660 million General Fund in 2019-20 to address the school employers' share of the CalPERS unfunded liability, \$500 million General Fund in 2019-20 to reduce the CalSTRS and CalPERS school employer contribution rate by approximately 1.03 percent, and \$350 million in 2020-21 to reduce the CalSTRS and CalPERS school employer contribution rate by approximately 0.7 percent.

Chapter 33, Statutes of 2019

Capitol Advisors Group has produced a series of comprehensive client briefs detailing new education laws that were passed by the Legislature and signed into law by Governor Newsom in 2019. Each brief is organized by subject area and includes an executive summary highlighting major changes we think you should know about. Bills signed by the Governor take effect on January 1, 2020, unless the bill specifically states otherwise (i.e.: budget bills).