

**State Budget Update: The Governor’s 18-19 Budget Proposal**

Governor Brown released his proposal for the 2018-19 State Budget on January 10. This is his sixteenth and final State Budget proposal as he completes the last year of his historic fourth term.

Governor Brown’s budget proposal is based on a revenue forecast that is \$4.7 billion higher over the three-year budget period (2016-17 to 2018-19) than was assumed in the 2017-18 State Budget Act. The additional funds allow the governor to fully fund the Rainy Day Fund, which voters approved in 2014 and to fully implement the Local Control Funding Formula two years ahead of schedule.

The initial 2018-19 budget does not consider the impact of the recent federal tax law changes, but the May Revision, which incorporates the latest revenue projections through April, will. Still, Department of Finance staff caution that the effect of the new federal tax structure may not be known until 2019 or later.

**Budget Highlights**

*Local Control Funding Formula*

As noted above, the governor proposes to close 100% of the gap between current funding and LCFF targets, with a 2.51% COLA<sup>1</sup>, in 2018-19. The gap funding/target calculations will no longer apply in 2018-19 and instead every Local Education Agency (LEA) will receive the same fully-funded base grant rates as follows:

	TK-3	4-6	7-8	9-12
<b>LCFF Base Grant Rate</b>	\$8,141 <sup>2</sup>	\$7,484	\$7,707	\$9,163 <sup>3</sup>

In addition, LEAs will continue to receive Supplemental and Concentration Grants:

- **Supplemental Grant:** an additional 20% for the percentage of high-need students<sup>4</sup>
- **Concentration Grant:** an additional 50% for each high-need student enrolled beyond 55% of total enrollment.

For greater transparency, the governor proposes for the first time to require LEAs to show how their budget expenditures align with the strategies detailed in their Local Control and Accountability Plans (LCAPs) for serving students who generate these supplemental grants.

*One-Time Funds*

With revenues coming in higher than projected in the adopted 17-18 budget, the governor proposes a one-time grant of \$300 per prior year ADA to be used for any discretionary purpose.

*SB 740*

The governor proposes adding \$28.3 million to the SB 740 program. However, this increase does not address the shortfall in this year’s program due to oversubscription to the increased funding of up to \$1,117 per ADA. If these funds are used first to backfill current year grants (as the law effectively requires), the impact of the new funds will be diminished for FY18-19.

In releasing his budget proposal, as he has done each year since the beginning of the economic recovery, Governor Brown stressed that an economic downturn is inevitable saying in his budget message, “we must remain vigilant and not let rosy statistics lull us into believing that economic downturns are a relic of the past.”

Charter Schools must also be cautious in light of increasing operating expenses (e.g. salaries, health and welfare, pension costs<sup>5</sup>, Special Education, etc.) that will outpace revenue increases especially as we enter the new COLA-only environment that fully-implemented LCFF brings; we cannot continue to expect the large increases we’ve become accustomed to as the state worked to close the LCFF funding gap.

ExED will continue to monitor state budget developments as the budget process moves forward, with hearings in the Legislature in the spring, the release of the May Revision, and the final negotiations in advance of the June 15 deadline for state budget adoption.

<sup>1</sup> The 2.51% COLA will also be applied to state SPED funding, SB 740, state Child Nutrition, and the Mandate Block Grant.

<sup>2</sup> Includes K-3 Class Size Reduction Adjustment

<sup>3</sup> Includes 9-12 Grade Span Adjustment

<sup>4</sup> Unduplicated Pupils - English Learners, Low Income, Foster Youth

<sup>5</sup> The STRS contribution will increase to 16.28% in 18-19 and PERS will increase to 18.1%.