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## FISCAL REPORT

*PUBLIC EDUCATION'S POINT OF REFERENCE FOR MAKING EDUCATED DECISIONS*

### Governor's Proposals for the 2021–22 State Budget and K–12 Education



[BY SSC TEAM](#)

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#### **Preface**

Given where we were some nine months ago, Governor Gavin Newsom's State Budget—and specifically the education budget—offers us a collective sigh of relief, if not feelings of jubilation. The economy has recovered from the pandemic much faster than originally anticipated and state revenues are much more robust than what was projected just six months after the 2020 Budget Act was enacted. As a result, public education funding has increased year-over-year, allowing Governor Newsom to meet the state's yearly obligations to K–12 and community college agencies while proposing sizeable investments across a plethora of priorities mostly aimed at continuing to combat COVID-19 and its devastating impact on student learning. These state investments are augmented by a significant infusion of federal aid from the second tranche of COVID-19 relief funds from Washington, D.C. that will put money in the hands of local educational agencies (LEAs) for use across a myriad educational programs and \$1 billion to protect and stabilize the child care and early learning system while it continues to meet the needs of parents and young children across California.

Unsurprisingly, the Governor's 2021–22 State Budget proposes investments and innovations to address the immediate and longer-term impacts of the pandemic on student learning and achievement. He is calling on state partners in the California Legislature to act swiftly to enact and appropriate funds for his Safe Schools for All plan that incentivizes K–12 school agencies to offer and provide in-person instruction for the state's youngest and most vulnerable students. He calls on the Legislature to act expeditiously to help K–12 agencies accelerate or expand learning opportunities in an effort to recover from the loss of learning spawned by COVID-19. And these proposals are accompanied by investments in teacher training and preparation that not only continue to address the state's teacher shortage crisis but aim to improve pedagogy in this new era of instruction and learning.

#### **Overview of the Governor's Budget Proposals**

Recognizing the vast change in economic fortunes from the 2020 State Budget Act as a result of the historic health pandemic, the State's Budget went from a planned \$5.6 billion surplus to a \$54.3 billion deficit in the same year. With revenue growth surpassing original expectations early in the pandemic, the Governor's Budget Proposal forecasts a dramatic restoration of funding including growth in programs, reserves, and a cost-of-living adjustment (COLA). The state's General Fund continues to enjoy stronger than estimated revenue from the "Big Three" taxes. The 2021–22 Budget Proposal includes revenue forecasts over \$4.2 billion more than the 2020–21 May Revision. Personal income tax is up by \$5 billion, corporation tax is down by \$312 million, and revenue from the sales and use tax is projected to be \$583 million down from Enacted Budget levels. When compared against pre-recession expectations, revenues in the Governor's 2021–22 proposal exceed last year's by \$2.8 billion. Personal income tax is higher by \$4.5 billion, corporation tax is up by \$629 million, and revenue from the sales and use tax is projected to be lower by \$2.3 billion respectively.

## **The Economy and Revenues**

### **Economic Outlook**

With federal stimulus 2.0 approved by Congress and signed by the President just before the new year, concerns persist about food insecurity, eviction moratoriums, and the looming commercial real estate crash—all of which provide a dramatic contrast when compared to the situation for those at the upper end of the economic spectrum, who have far better weathered the pandemic. The Governor's Budget focuses on restoring programs that were negatively impacted in the prior year budget, paying down debt obligations, and addressing the needs of California's most vulnerable as the nation and state move toward exiting the pandemic.

The roll-out of COVID-19 vaccinations started last month but it will take substantial time to provide multiple doses for over 330 million people across the nation. Many believe that this will cause a slower economic recovery in the fourth quarter of 2020 and first quarter of 2021. However, higher than normal personal savings and lower personal debt rates leave the economy well situated to launch into robust recovery in the second quarter of 2021. Precursor metrics, such as business-to-business shipping via domestic train cargo has increased substantially and purchasing manager confidence is at a historic high. As the world's fifth largest economy, California is especially reliant on import-export business and while both measures have been negatively impacted in the recession, exports have been more so, widening the trade deficit.

As we monitor micro- and macro-economic trends, we continue to follow potential risks to the rate of recovery as we move into the second quarter of the new year and beyond.

### **Proposition 98, the Supplemental Payment, and the Public School System Stabilization Account**

In 2021–22, the Proposition 98 Minimum Guarantee increases to \$85.8 billion. This includes the state’s annual constitutional obligation to fund K–12 and community college districts. In addition, the Governor’s Budget proposes a one-time non-Proposition 98 supplemental payment of \$2.3 billion. Recall that the 2020 State Budget Act included a requirement for the state to make one-time supplemental payments equal to 1.5% of General Fund revenues, up to \$12.4 billion, beginning in 2021–22 and then subsequently increasing the minimum guarantee, beginning in 2022–23, to 40% of General Fund revenues when K–14 education funding is determined by Test 1. The Governor’s Budget proposes to repeal the supplemental payment obligations in their entirety and instead proposes a 2021–22 one-time payment of \$2.3 billion in recognition of the exorbitant costs LEAs have borne as a result of COVID-19 and distance learning.

Annually, the state “trues up” K–14 state spending for the prior and current fiscal years to ensure that it continues to meet its legal obligations. The minimum guarantee for both 2019–20 and 2020–21 increase from their June 2020 Enacted State Budget levels by \$1.9 billion and \$11.9 billion, respectively, to \$79.5 billion and \$82.8 billion.

Due to economic conditions and other factors, the Governor’s Budget assumes that the state is required to make a deposit into the Public School Systems Stabilization Account (PSSSA)—or education’s rainy day fund—totaling \$3 billion. Specifically, the proposal projects required deposits in fiscal years 2020–21 and 2021–22 of \$747 million and \$2.2 billion, respectively. The total balance in the PSSSA would trigger the condition that caps the amount that school districts can maintain in their local reserves beginning in fiscal year 2022–23.

### **Deferrals**

The 2020–21 Enacted Budget included almost \$13 billion in K–12 deferrals—\$1.9 billion of Local Control Funding Formula (LCFF) funding from June 2019–20 to July in 2020–21, and an additional approximately \$11 billion from 2020–21 to 2021–22.

The Governor’s Budget proposal pays down \$9.2 billion of the K–12 LCFF deferrals, which effectively eliminates the ongoing deferrals scheduled for February 2022 through May 2022. Note that this pay down does not impact the deferrals currently scheduled for February through June 2021. The repayment schedule for these deferrals remains, with LEAs receiving these apportionments from July through November 2021.

### **Cost-of-Living Adjustment and Average Daily Attendance**

The proposed COLA for the LCFF in 2021–22 is 3.84%—a compounded amount that encompasses a 2.31% COLA for 2020–21 and an additional 1.5% for 2021–22—and is applied to the LCFF base grants. The other education programs that are funded outside of the LCFF—Special Education, Child Nutrition, Preschool, Foster Youth, American Indian Education Centers, the American Indian Early Childhood Education program, and the Mandate Block Grant—will only receive the 1.5% COLA designated for 2021–22, as well as community colleges.

Statewide, average daily attendance (ADA) is expected to continue declining. The Governor’s Budget Proposal acknowledges that in-person instruction will likely continue to be a challenge due to health and safety concerns and, therefore, there will be continued need to offer alternative instruction models. The Governor’s Budget proposal does not, however, include an ADA hold harmless for 2021–22, though it does note that school districts in declining enrollment have the statutory ability to utilize higher, prior-year ADA.

### Local Control Funding Formula

The 2021–22 Governor’s Budget proposal includes an increase of \$2 billion in Proposition 98 for the LCFF reflecting the 3.84% COLA. This brings LCFF funding to \$64.5 billion.

#### LCFF Target Entitlements for School Districts and Charter Schools

The target base grants by grade span for 2021–22 are increased over 2020–21 by 3.84% to reflect the unfunded COLA of 2.31% in 2020–21, and an estimated statutory COLA of 1.5% in 2021–22:

Grade Span	2020–21 Base Grant Per ADA	3.84% COLA	2021–22 Base Grant Per ADA
TK–3	\$7,702	\$296	\$7,998
4–6	\$7,818	\$300	\$8,118
7–8	\$8,050	\$309	\$8,359
9–12	\$9,329	\$358	\$9,687

The Transitional Kindergarten (TK)–3 grant increase for the class-size reduction (CSR) grade span adjustment is \$832 per ADA in 2021–22, and the grade 9–12 base grant per ADA is increased by \$252 in recognition of the need for Career Technical Education (CTE) courses provided to students in the secondary grades.

School districts and charter schools are entitled to supplemental grant increases equal to 20% of the adjusted base grant (including CSR and CTE funding) for the percentage of enrolled students who are English learners, eligible for the free or reduced-price meals program, or in foster care. An additional 50% per-pupil increase is provided as a concentration grant for each percentage of eligible students enrolled beyond 55% of total enrollment.

#### LCFF Fiscal Accountability

Assembly Bill 1835 (Weber, D-San Diego) worked its way through the legislative process last year and would have required LEAs to annually identify and report unspent LCFF supplemental and concentration grant funds and also clarified that those unspent funds needed to continue to be used to increase or improve services for unduplicated pupils in future years. The bill was vetoed by Governor Newsom wherein he noted that there was a simpler way to address the bill's objectives and that he would direct the Department of Finance to propose language as part of the 2021–22 budget process—the Governor's Budget proposal delivers on this promise.

The proposal includes language that will require LEAs to maintain supplemental and concentration grant funds to increase and improve services to unduplicated pupils until the funds are fully spent for those purposes and not allow the monies to be carried over in an unrestricted fashion—to be used for other General Fund purposes—from one fiscal year to the next. In addition, further requirements will be placed on county offices of education (COEs) when reviewing Local Control and Accountability Plans as it pertains to the continued use of these funds.

### **Special Education**

Building on last year's investment and simplification of the special education base formula, Governor Newsom proposes \$300 million in ongoing funds for the Special Education Early Intervention Grant. The intent is to increase the availability of evidence-based services for infants, toddlers, and preschoolers.

Special Education Early Intervention Grants were provided in the 2019–20 State Budget to LEAs based on the number of preschoolers being provided special education and outside of the special education base funding formula. It is unclear at this time whether all grant details would remain the same under this proposal.

### **Student Learning During COVID-19**

As detailed in previous Fiscal Report articles, Governor Newsom proposes to use at least \$2 billion to encourage schools to reopen for in-person instruction (see "[Newsom Proposes Incentive Grants to Reopen Schools](#)" in the December 2020 *Fiscal Report* and "[Newsom's Reopening Schools Proposal—More Details Emerge](#)" in the January 2021 *Fiscal Report*). Under the Governor's Safe Schools for All proposal, grants would be available as early as February for LEAs that continue offering or begin offering in-person instruction for elementary school students and vulnerable students in all grades, defined as students with disabilities, foster youth, homeless youth, and students without access to technology for online learning. LEAs that open by February 16 are eligible to receive grants of at least \$450 per ADA as long as specified requirements are met, with additional funds for LEAs that receive LCFF supplemental and concentration grant funds. A summary, from the Administration, of the reopening grant proposal is available [here](#).

In addition, the proposal sets aside \$4.6 billion in one-time Proposition 98 General Funds for unspecified interventions to address learning loss, such as an extended school year or summer school. This investment would be targeted for students from low-income families, English language learners, youth in foster care,

and homeless youth. We will provide additional details about this proposal when available.

### **Educator Investments**

The Governor's Budget proposal includes over \$540 million in one-time Proposition 98 funds in educator investments which recognizes the extraordinary challenges teachers, administrators, and classified staff have, and will continue to experience during the COVID-19 pandemic. These challenges are addressed by committing proposed investments in educator effectiveness, professional development, and the continuance of programs that provide pathways to the teacher pipeline. Specifically, \$315.3 million is proposed to support educator professional learning and teacher effectiveness. An additional \$225 million in continued support and expansion of existing teacher pipeline programs such as the Teacher Residency program and the Classified School Employee Credentialing program.

### **Early Childhood Education**

Governor Newsom proposes budget-year investments to begin implementing the state's Master Plan for Early Learning and Care, which was released on December 1, 2020. Specifically, his 2021–22 Budget proposal provides \$250 million in one-time Proposition 98 funds to incentivize LEAs over multiple years to provide expanded TK and cover the upfront costs associated with it. Additionally, Governor Newsom proposes a one-time Proposition 98 investment of \$50 million to provide training for TK and kindergarten teachers in providing inclusive instruction for students with disabilities; support for English learners; and to help address the social-emotional needs of students, including training in trauma-informed practices, restorative practices, and implicit bias.

To address the facilities impact of TK expansion and to promote the conversion of part-day TK and kindergarten programs to full-day, the budget includes \$200 million in one-time non-Proposition 98 General Funds to construct or retrofit existing facilities.

Finally, the proposal includes a 1.5% COLA to provide reimbursement rates for general childcare and state preschool.

### **Community Schools/Mental Health/School Climate Surveys**

Recognizing that the COVID-19 pandemic has exacerbated poverty, basic needs, and mental health issues for students and their families, Governor Newsom proposes several investments to support community school programs, respond to mental health needs, and expand school climate surveys.

### **Community Schools**

Building on the \$45 million investment in federal funds from the 2020 State Budget Act, the Governor proposes \$264.9 million in one-time Proposition 98 funding to support LEAs in expanding their existing networks of community schools and to establish new community schools with priority given to those in high-poverty communities. The investment is consistent with the Governor leveraging the infrastructure of community schools as a way to provide wraparound services to students and their families.

### **Mental Health**

The Governor proposes \$400 million (mix of federal funds and non-Proposition 98 General Fund) in one-time funds to implement an incentive program that would build infrastructure, partnerships, and capacity to increase the number of students receiving preventive and early intervention behavioral health services from schools.

Additionally, the Administration proposes to use \$25 million (one-time) from the Mental Health Services Fund to expand the Mental Health Student Services Act Partnership Grant Program, which funds partnerships between county behavioral health departments and schools.

The Governor also proposes a third investment of \$25 million in ongoing Proposition 98 funding for innovative partnerships with county behavioral health to support student mental health services. The funding would be provided to LEAs to match funding in county Mental Health Services Act spending plans dedicated to the mental health needs of students.

### **School Climate Surveys**

The Administration proposes to provide a COE with a one-time investment of \$10 million in Proposition 98 funding to support the widespread access and use of school climate surveys. The COE chosen will use the funding to support the development of surveys that assist LEAs in assessing community needs stemming from COVID-19 and distance learning, provide grants to LEAs to implement enhanced survey instruments and support start-up costs for conducting annual school climate surveys, and provide trainings to LEAs on interpreting the data derived from the surveys.

### **Federal Programs**

In his 2021–22 State Budget summary, the Governor makes reference to the \$900 billion Coronavirus Response and Relief Supplemental Appropriations Act that was signed into law by President Donald Trump on Sunday, December 27, 2020.

The relief package earmarks \$82 billion for education providers that will be allocated similarly to the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The \$82 billion includes the following:

- \$54.3 billion for the Elementary and Secondary School Emergency Relief (ESSER) Fund
  - California is estimated to receive approximately \$6.8 billion of this funding
- \$22.7 billion for the Higher Education Emergency Relief Fund
  - California is estimated to receive approximately \$2.9 billion of this funding
- \$4.1 billion for the Governor’s Emergency Education Relief (GEER) Fund (\$2.75 billion is mandated as emergency assistance to non-public schools)
  - California is estimated to receive approximately \$400 million of this funding

The federal relief bill stipulates that at least 90% of the ESSER funding received needs to be allocated to LEAs in proportion to their Title I, Part A funding, while the state has direction over how to spend the remaining 10% of those dollars (see “[Estimated ESSER Allocations](#)” in the January 2021 *Fiscal Report*). The Governor has not provided a proposal on how he intends to use the remaining 10% of the ESSER dollars.

The federal legislation gives Governor Newsom discretion on how to spend the GEER dollars. The bill states that the money can be used for LEAs and higher education institutions that have been “most significantly impacted by coronavirus.” As a reminder, Governor Newsom chose to use the state’s GEER funds from the CARES Act for the students with disabilities portion of the learning loss mitigation initiative in the 2020 State Budget Act. However, the Governor did not specify how he intends to use the GEER funding that the state will receive from this most recent relief package.

### **In Closing**

In closing, while we certainly appreciate the restored and stable resources for public education in the Governor’s Budget proposal, we understand that this news is sobered by the fact that all of us are still in the throes of the health pandemic that has consumed our lives since last March. In the meanwhile, we are working diligently to meet the learning and nonacademic needs of our students and their families while planning for the future—a daunting but important endeavor. We appreciate Governor Newsom’s attention on the critical needs of public education as a cornerstone in society and the economy at large and his willingness to address our challenges head on with the caution that the innovations and initiatives we champion can be fully realized with the resources at hand.

We look forward to diving deep into the Governor’s education budget with all of you and helping our local educational leaders and partners operationalize all of what this means for public agencies, staff, students, and local communities.