

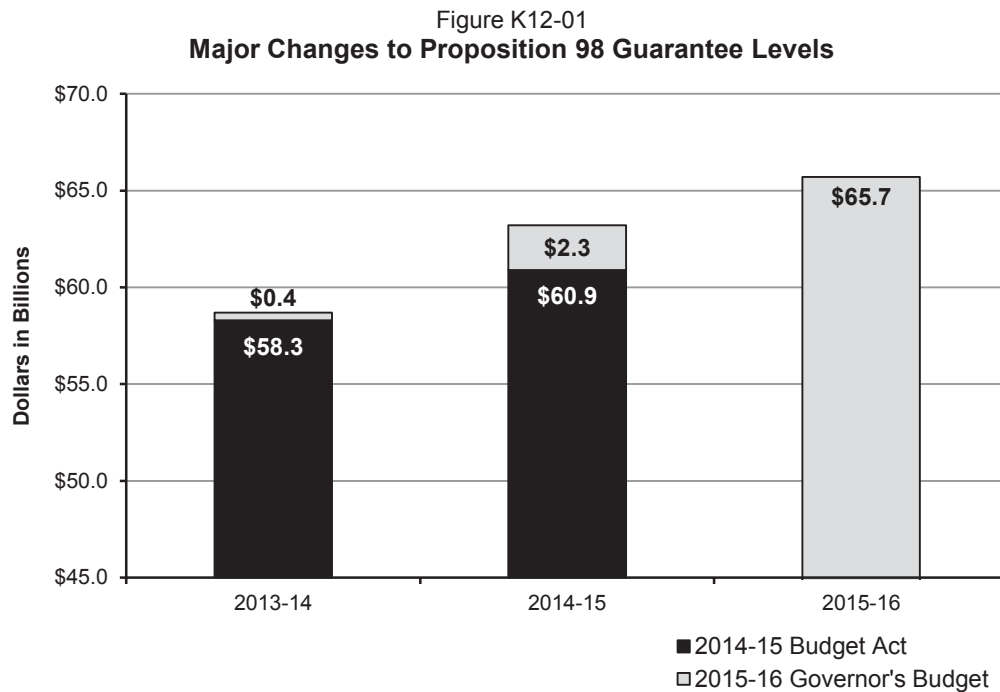
K THRU 12 EDUCATION

California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,000 charter schools provide instruction in English, mathematics, history, science, and other core competencies to provide students with the skills they will need upon graduation for either entry into the workforce or higher education.

INVESTING IN EDUCATION

Primarily as a result of increased General Fund revenues, the Proposition 98 Guarantee increases in 2013-14 and 2014-15, relative to the 2014 Budget Act levels—providing additional one-time resources in each of those years. These General Fund revenue increases also drive growth in the Proposition 98 Guarantee for 2015-16, as displayed in Figure K12-01. When combined with more than \$250 million in settle-up payments for prior years, the Budget proposes an increased investment of \$7.8 billion in K-14 education. Building off of significant funding increases provided in each of the prior two Budget Acts, the Budget proposes investments for 2015-16 that will substantially increase funding distributed under the Local Control Funding Formula, providing additional funding to school districts and students most in need of these resources. These funds will allow schools and colleges to restore and expand base programs and services, implement major new policy initiatives, and support other key local investments and priorities.

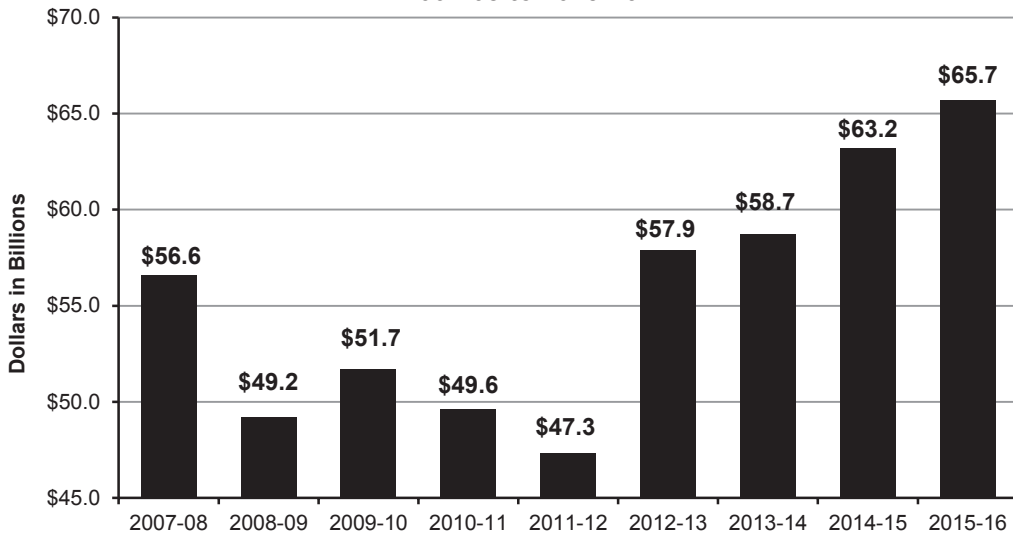
The Budget also eliminates all remaining budgetary deferrals, ensuring that schools receive all of their resources on time. During the height of the recent recession, the state



deferred almost 20 percent of annual payments to schools, meaning that schools received a significant portion of their funds a year after they spent them. Some school districts were able to borrow to manage these deferrals, while others had to implement deferrals as cuts. Districts that were able to borrow incurred substantial interest costs, which led to dollars being taken out of the classroom. The Budget proposes repayment of the \$992 million in remaining K-14 deferred payments, providing certainty of funding for programs and services, and eliminating any additional borrowing costs to be borne by schools and community colleges as a result of deferrals.

Although the current trajectory of Proposition 98 funding is positive, historically the Proposition 98 Guarantee has been subject to significant volatility, as demonstrated in Figure K12-02. The boom-and-bust funding cycle has led to significant and damaging budget reductions during downturns. In an effort to break this cycle, the Administration proposed a constitutional amendment that voters approved as Proposition 2 in the November 4, 2014 general election. Proposition 2 requires a deposit in a state Proposition 98 Rainy Day Fund under specified future conditions. Based on state law, the year following any deposit into the Proposition 98 Rainy Day Fund, a temporary cap on local school district reserves would be implemented. The Administration does not

Figure K12-02
Proposition 98 Funding
2007-08 to 2015-16

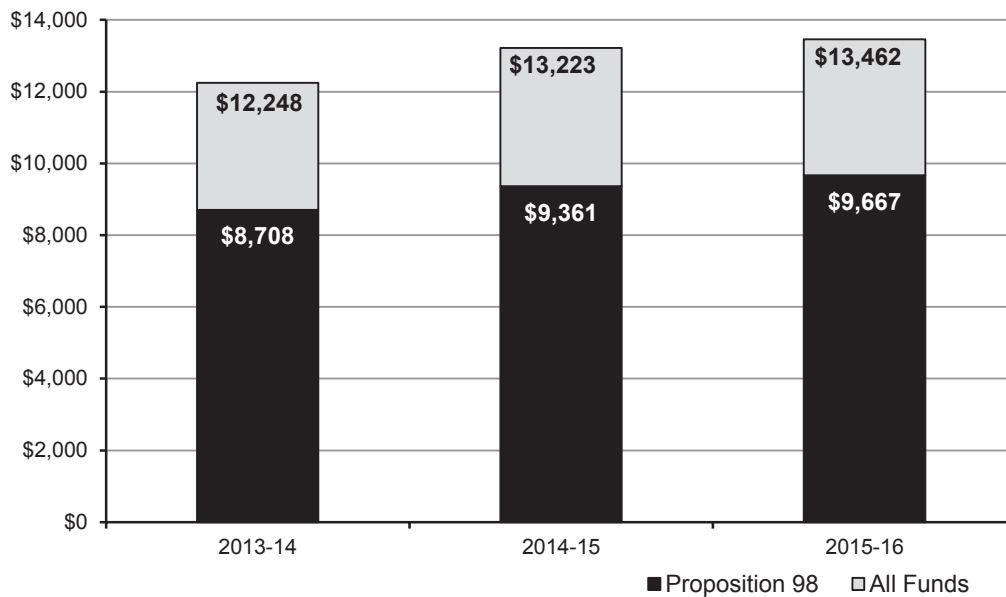


anticipate fiscal conditions requiring a Proposition 98 Rainy Day Fund deposit and the related potential for caps on local reserves at any point in the budget forecast period (through 2018-19). Nonetheless, the Administration appreciates the concerns expressed by stakeholders regarding potential caps on school district reserves and will engage in a dialogue with these groups in the coming months to protect the financial security and health of local school districts.

K-12 PER-PUPIL SPENDING

Reflecting the recent significant increases in Proposition 98 funding, total per-pupil expenditures from all sources are projected to be \$13,223 in 2014-15 and \$13,462 in 2015-16, including funds provided for prior year settle-up obligations. Ongoing K-12 Proposition 98 per-pupil expenditures in the Budget are \$9,667 in 2015-16, an increase of \$306 per-pupil over the level provided in 2014-15, and up significantly from the \$7,008 per pupil provided in 2011-12. (See Figure K12-03.)

Figure K12-03
K-12 Education Spending Per Pupil



LOCAL CONTROL FUNDING FORMULA

In recognition of the fiscal challenges that many school districts face, and to address the many inequities in the pre-existing system of school finance, the 2013 Budget Act established the Local Control Funding Formula. The Local Control Funding Formula includes the following major components:

- A base grant for each local educational agency per unit of average daily attendance (ADA), inclusive of an adjustment of 10.4 percent to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6 percent to reflect the cost of operating career technical education programs in high schools.
- A 20-percent supplemental grant for English learners, students from low-income families, and youth in foster care to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5 percent of a local educational agency’s base grant, based on the number of English learners, students from low-income families, and youth in foster care served by the local agency that comprise more than 55 percent of enrollment.
- An Economic Recovery Target to ensure that almost every local educational agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the Local Control Funding Formula.

The Budget provides a third-year investment of \$4 billion in the Local Control Funding Formula, enough to eliminate more than 32 percent of the remaining funding gap. This investment builds upon the almost \$6.8 billion provided over the last two years.

In addition to fundamentally restructuring the distribution of funds to school districts, the Local Control Funding Formula substantially changed district accountability, moving away from a state-controlled system that emphasized inputs to a locally controlled system focused on improving outcomes and accountability. Guiding each school district, county office of education, and charter school through this new process are locally developed and adopted Local Control Accountability Plans, which identify local goals in areas that are priorities for the state, including pupil achievement, parent engagement, and school climate.

In response to feedback on the first year of Local Control Funding Formula implementation, the State Board of Education adopted revised Local Control Funding Formula expenditure regulations and a significantly modified Local Control Accountability Plan template at its November 2014 meeting. The revised template and regulations, combined with the experiences from this year, should result in Local Control Accountability Plans that better describe local educational agency goals, actions, and services targeted to address state priorities and meet the needs of all students, including specified student subgroups. In addition, the new Annual Update tables in each Local Control Accountability Plan will allow local educational agencies to share how the plan is being implemented. Annual Updates will report on how the actions, services, and expenditures proposed in the prior year Local Control Accountability Plan have been implemented and provide evidence of progress toward expected outcomes. Over the next several years, the State Board of Education will continue to review and revise as necessary the spending regulations and template with the ultimate goal of improving student outcomes.

K-12 SCHOOL FACILITIES

Since 1998, voters have approved approximately \$35 billion in statewide general obligation bonds to construct or renovate public school classrooms used by the state's roughly six million K-12 students. In addition to general obligation bonds, school districts may use developer fees, local bonds, certificates of participation, and Mello-Roos bonds to construct additional classrooms or renovate existing classrooms. There is currently no bond authority remaining in the state's core school facilities new construction and modernization programs.

Over the past two years, the Administration has noted the following significant shortcomings associated with the current School Facilities Program:

- The current program is overly complex with over ten different state agencies providing fragmented oversight responsibility. The result is a structure that is cumbersome and costly for the state and local school districts.
- The current program does not compel districts to consider facilities funding within the context of other educational costs and priorities. For example, districts can generate and retain state facility program eligibility based on outdated or inconsistent enrollment projections. This often results in financial incentives for districts to build new schools to accommodate what is actually modest and absorbable enrollment growth. These incentives are exacerbated by the fact that general obligation bond debt is funded outside of Proposition 98. These bonds cost the General Fund approximately \$2.4 billion in debt service annually.
- The current program allocates funding on a first-come, first-served basis, resulting in a substantial competitive advantage for large school districts with dedicated personnel to manage facilities programs.
- The current program does not provide adequate local control for districts designing school facilities plans. Program eligibility is largely based on standardized facility definitions and classroom loading standards. As a result, districts are discouraged from utilizing modern educational delivery methods.
- The current program was developed before the passage of Proposition 39 (which reduced the local bond vote threshold to 55 percent) in 2000, which has since allowed local school bonds to pass upwards of 80 percent of the time. It was also developed before the Local Control Funding Formula, which provides enhanced local funding flexibility.

As part of a continuing dialogue, the Department of Finance convened a series of meetings this past fall to discuss a new facilities program and obtain feedback from education stakeholders. The meetings started with a review of the problems with the current program noted above, and focused on how a future program could provide districts with the tools and resources to address their core facility gaps and avoid an unsustainable reliance on state debt issuance. Informed by these discussions, and with these key principles in mind, the Budget proposes the following recommendations for the design of a new program:

- Increase Tools for Local Control:
 - Expand Local Funding Capacity—While school districts can pass local bonds with 55-percent approval, assessed valuation caps for specific bond measures and total caps on local bonded indebtedness have not been adjusted since 2000. In order to provide greater access to local financing, these caps should be increased at minimum by the rate of inflation since 2000.
 - Restructure Developer Fees—Current law authorizes the governing board of any school district to levy fees against construction within its boundaries to fund school facilities. There are three categories that determine the amount of fees a district can levy, which range from a fraction of project costs to 100 percent of the costs. A new program should establish one developer fee level for all districts and cap the amount of fees that can be levied for specific projects at a level between the existing Level II and Level III fees (50 to 100 percent of project costs), subject to local negotiation.
 - Expand Allowable Uses of Routine Restricted Maintenance Funding—Current law requires schools to deposit a percentage of their general fund expenditures into a restricted account for use in maintaining their facilities. Rather than requiring that these funds be used solely for routine maintenance, districts should have the ability to pool these funds over multiple years for modernization and new construction projects. Expanding the use of these funds will provide school districts with yet another funding stream to maintain, modernize, and construct new facilities.
- Target State Funding for Districts Most in Need—State funding for a new program should be targeted in a way that: (1) limits eligibility to districts with such low per-student assessed value they cannot issue bonds at the local level in amounts that allow them to meet student needs, (2) prioritizes funding for health and safety and severe overcrowding projects, and (3) establishes a sliding scale to determine the state share of project costs based on local capacity to finance projects.
- Augment the Charter School Facility Grant Program—Most of California’s charter schools lease facilities for instructional purposes. To assist charter schools in paying for rent and lease expenditures, the Charter School Facility Grant Program provides funding to charter schools either serving or located in attendance areas where at least 70 percent of the students qualify for free or reduced-price meals. To further assist charter schools with their facility needs, the state should permanently lower the free or reduced-price meal requirement to 55 percent (the concentration grant

threshold under the Local Control Funding Formula) and provide additional funding to support this program expansion.

In proposing these recommendations, it is the intent of the Administration to advance the dialogue on the future of school facilities funding. School districts and developers should have a clear understanding of which limited circumstances will qualify for state assistance. Over the course of the coming months, the Administration is prepared to engage with the Legislature and education stakeholders to shape a future state program that is focused on districts with the greatest need, while providing substantial new flexibility for local districts to raise the necessary resources for school facilities needs.

ADULT EDUCATION

Historically, K-12 school districts and community colleges have provided adult education instruction. However, there was not effective coordination in all jurisdictions and regional workforce needs were not a focus. As a result, the state has an inefficient and in some places redundant system that is not always structured to best meet the needs of adult learners. Strengthening the link between the state's education and workforce systems is crucial to California's growing economy.

The 2013 Budget Act provided \$25 million Proposition 98 General Fund for two-year planning grants to consortia of community college districts and school districts in 70 regions. The planning builds upon the adult education infrastructure in schools and community colleges. In 2013-14 and 2014-15, K-12 districts also have been required to maintain the 2012-13 level of spending for adult education and career technical education (CTE) programs from funds received through the Local Control Funding Formula.

The Budget provides \$500 million Proposition 98 General Fund for the Adult Education Block Grant, which is an integral component of the state's workforce development strategy, as discussed in the Investing in California's Workforce Chapter. The block grant will fund programs in elementary and secondary basic skills, classes and courses in citizenship and English as a second language for immigrants, education programs for adults with disabilities, short-term CTE programs linked to occupations with high employment potential, and programs for apprentices. To be successful, it is imperative that these programs be well aligned with the economic needs of each region, and that they provide clear pathways to in-demand jobs, as determined by regional labor market information. The program will promote ongoing collaboration amongst different

providers and with entities that serve the populations that benefit from adult education; namely, workforce investment boards, social services departments, and correctional rehabilitation agencies.

In order for adult education programs to be well coordinated and linked with the economic needs of their region, the Administration proposes that each consortium designate an allocation board responsible for planning and allocating block grant funds. Each consortium will form an allocation committee consisting of seven members who represent community colleges, K-12 districts, other adult education providers, local workforce investment boards, county social services departments, correctional rehabilitation programs, and one public member with relevant expertise. Each allocation committee will coordinate with regional partners to ensure various adult education funding streams are integrated, such as block grant funds, other K-12 and community college resources, Workforce Innovation and Opportunity Act allocations, and other federal funds. Each allocation committee will determine how to allocate block grant funds for direct instruction, support services, and administration of its consortium (which will be capped at 5 percent). Each consortium will report annually to the Chancellor and Superintendent on progress towards fulfilling its adult education plan using all resources available. These reports will inform distribution of block grant funds in the future.

The Chancellor of the Community Colleges and the Superintendent of Public Instruction will jointly approve allocations of funds, with an emphasis on providing funding to those regions with the greatest adult education needs. Funding allocations approved by the Chancellor and Superintendent will be distributed to providers as determined by their allocation committees. In the initial year, to ease the transition, funding will be provided directly to K-12 school districts in the amount of the K-12 districts' maintenance of effort for adult education—as jointly determined by the Chancellor and the Superintendent. Further allocations will be distributed according to the local allocation committees.

A final report from the two-year planning process will be provided by March 1, 2015. This report will inform the accountability framework for delivery of adult education and remaining policy decisions, such as how fees are charged for similar programs delivered by different providers.

CAREER TECHNICAL EDUCATION

High-quality CTE programs provide students, particularly those at risk for dropping out, with valuable career and college readiness skills, and are a critical piece to the overall workforce investment strategy of the Administration, as discussed in more detail in the Investing in California's Workforce Chapter. Prior to the adoption of the Local Control Funding Formula, the state provided more than \$500 million annually to support a collection of CTE categorical programs, most notably the Regional Occupational Centers and Programs (ROCPs). The 2013 Budget Act collapsed almost all of this previous categorical funding into the Local Control Funding Formula in the form of a 9-12 grade span adjustment, with requirements on districts in their Local Control and Accountability Plans to describe how they intend to meet the career technical education needs of their students consistent with state-adopted standards. Additionally, the 2013 Budget Act included a two-year maintenance-of-effort requirement for local educational agencies to maintain their existing levels of spending on ROCPs, providing them with additional time to structure more long-term service delivery arrangements. Further, both the 2013 and 2014 Budget Acts provided \$250 million in one-time Proposition 98 funding to support the Career Pathways Trust Program, which provides one-time competitive grants to create innovative programs and partnerships linking rigorous academic standards to career pathways in high-need and high-growth sectors of the economy.

Given the complexity and relatively resource intensive nature of starting and updating CTE programs, the Budget proposes \$250 million in one-time Proposition 98 funding in each of the next three years to support a transitional CTE Incentive Grant Program. Unlike the existing Career Pathways Trust Program, school districts, county offices of education and charter schools receiving funding from this new transitional program will be required to provide a dollar-for-dollar match, and priority for these state funds will be given to local educational agencies applying in partnership with other local educational agencies to offer regional programs. To maintain eligibility for funding under the CTE Incentive Grant Program, recipients will need to demonstrate positive results across a spectrum of outcome measures, including high school graduation rates, CTE course completion rates, pupils obtaining industry-recognized credentials and certificates, the number of pupils achieving gainful employment in relevant occupations, and the number of pupils progressing to postsecondary education. This program is intended to accelerate the development of new and expanded high-quality CTE programs during the next three years and provide opportunities for program growth.

OTHER REFORMS AND INVESTMENTS

In addition to reforming school facilities, adult education and career technical education, the Administration remains committed to additional reforms and investments in the areas of Common Core and mandates, technology infrastructure, teacher preparation and energy efficiency.

COMMON CORE AND MANDATES

The 2013 Budget Act provided \$1.25 billion in one-time Proposition 98 General Fund to support the implementation of the Common Core state standards—new standards for evaluating student achievement in English-language arts and mathematics. These standards focus on developing the critical-thinking, problem-solving, and analytical skills students will need for today’s entry-level careers, freshman-level college courses, and workforce training programs. This funding was provided over a two-year period to support necessary investments in professional development, instructional materials, and technology.

The Budget proposes more than \$1.1 billion in discretionary one-time Proposition 98 funding for school districts, charter schools and county offices of education to further their investments in the implementation of Common Core. These new dollars will also help support implementation of newly adopted English Language Development standards and California’s Next Generation Science standards, as well as make the investments necessary to support new responsibilities required under the evolving accountability structure of the Local Control Funding Formula. Of this amount, \$20 million will be provided to county offices of education, distributed on the basis of countywide ADA and the number of school districts within the county office’s jurisdiction. The balance of this funding will be distributed to school districts and charter schools on the basis of ADA. All of the funds provided will offset any applicable mandate reimbursement claims for these entities, which builds off of the approach in the 2014 Budget Act when \$400.5 million in one-time funding was provided for both general purpose activities and mandates reimbursement. This combined two-year investment will substantially reduce the outstanding mandates debt owed to local educational agencies consistent with the Administration’s goal to pay down debt.

TECHNOLOGY INFRASTRUCTURE

The Budget proposes \$100 million in one-time Proposition 98 funding to support additional investments in internet connectivity and infrastructure. This builds on \$26.7 million in one-time Proposition 98 funding that was provided in the 2014 Budget Act

to assist local educational agencies most in need of help with securing required internet connectivity and infrastructure to implement the new computer-adaptive tests administered under Common Core. While it is anticipated that last year's funding will address the needs of most schools that could not support the computer-based field tests, there are a significant number of schools that could only support these tests by shutting down other non-essential access to online activity. This second installment of funding will further upgrade internet infrastructure to reflect the increasing role that technology plays in classroom operations to support teaching and learning.

TEACHER PREPARATION

The Commission on Teacher Credentialing is responsible for building the quality of the state's teacher workforce. The Commission's core mission includes setting preparation standards and reviewing preparation programs, licensing the state's teacher workforce, and disciplining teachers charged with misconduct.

State oversight of the educator preparation system is currently not robust enough to verify that programs are meeting preparation standards and producing fully prepared teachers. The current accreditation process relies primarily on self-reports of program compliance, sometimes thousands of pages in length, coupled with brief site visits. This system does not provide an efficient or effective way to identify and improve or eliminate weak programs or identify strong programs so that others can emulate them. Furthermore, the current Teacher Performance Assessment, which all teacher candidates must pass before they begin teaching, is outdated and not aligned to current teacher performance standards. And, there is no assessment to determine if a person is prepared to be a school principal.

To address these issues, the Budget proposes \$5 million non-Proposition 98 General Fund (over a two-year period) to: (1) convene an Accreditation Advisory Panel to provide recommendations to the Commission on streamlining preparation standards, (2) enhance existing data systems and develop new data systems to organize and retrieve information from assessments and program surveys, (3) develop candidate and employer surveys that shed light on the nature and quality of preparation, and (4) increase transparency and access to information about the quality and effectiveness of educator preparation programs. The Budget also proposes an additional \$5 million non-Proposition 98 General Fund (over a two-year period) to update the Teacher Performance Assessment and develop an Administrator Performance Assessment to verify educator quality and to assist with determining the effectiveness and quality of preparation programs.

Currently, new teachers are required to participate in an induction program to maintain their teaching credential and employment. However, the current state induction program, the Beginning Teacher Support and Assessment program, is cumbersome and expensive to operate. As a result, some districts and counties have stopped providing beginning teacher induction programs and others are charging beginning teachers for induction. In many cases, teachers are struggling to complete the induction requirements due to the lack of available programs or the cost of participating in a program. To begin addressing these problems, the Budget directs the Commission to evaluate the burden of the current induction requirements on school districts and new teachers and identify options for streamlining and reforming beginning teacher induction. Furthermore, the Administration will engage stakeholders in the coming weeks to determine what the responsibility of school districts should be to provide key induction supports for new teachers, such as mentoring.

ENERGY EFFICIENCY

Proposition 39 was approved in 2012 and increases state corporate tax revenues. For 2013-14 through 2017-18, the measure requires half of the increased revenues, up to \$550 million per year, to be used to support energy efficiency.

The Budget proposes to allocate the \$368 million of energy efficiency funds available in 2015-16 as follows:

- \$320.1 million and \$39.6 million to K-12 school and community college districts, respectively, for energy efficiency project grants.
- \$5.3 million to the California Conservation Corps for continued technical assistance to K-12 school districts.
- \$3 million to the Workforce Investment Board for continued implementation of the job-training program.

K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

- K-12 Deferrals—An increase of almost \$900 million in one-time Proposition 98 General Fund in 2014-15 to eliminate all remaining outstanding deferral debt for K-12. Inter-year deferrals for K-12 had reached a high of \$9.5 billion in the 2011-12 fiscal year.

K THRU 12 EDUCATION

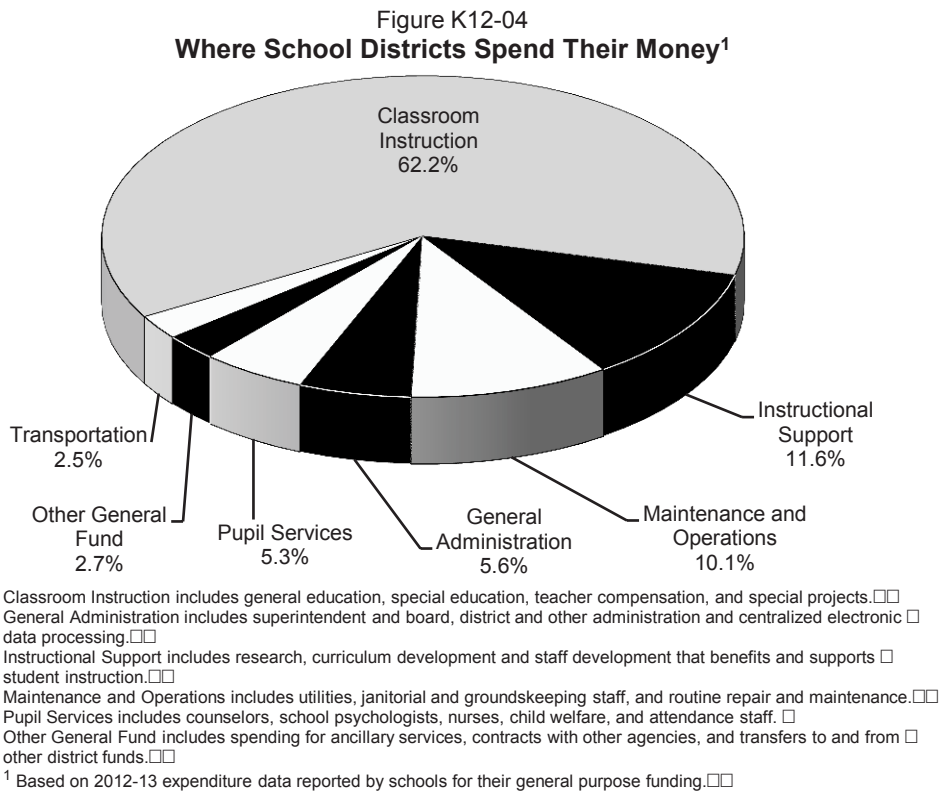
- Emergency Repair Program—An increase of \$273.4 million in one-time Proposition 98 General Fund resources for the Emergency Repair Program. This funding will retire the state’s facilities funding obligation under the terms of the *Williams* lawsuit settlement agreement.
- School District Local Control Funding Formula—Additional growth of approximately \$4 billion in Proposition 98 General Fund for school districts and charter schools in 2015-16, an increase of 8.7 percent.
- County Offices of Education Local Control Funding Formula—An increase of \$109,000 Proposition 98 General Fund to support a cost-of-living adjustment for those county offices of education at their target funding level under the formula.
- Charter Schools—An increase of \$59.5 million Proposition 98 General Fund to support projected charter school ADA growth.
- Special Education—An increase of \$15.3 million Proposition 98 General Fund to reflect a projected increase in Special Education ADA.
- Cost-of-Living Adjustment Increases—An increase of \$71.1 million to support a 1.58-percent cost-of-living adjustment for categorical programs that remain outside of the Local Control Funding Formula, including Special Education, Child Nutrition, Foster Youth, Preschool, American Indian Education Centers, and the American Indian Early Childhood Education Program. Cost-of-living adjustments for school districts and charters schools are provided within the increases for school district Local Control Funding Formula implementation noted above.
- Local Property Tax Adjustments—A decrease of \$11.4 million Proposition 98 General Fund for the school district and county office of education in 2014-15 as a result of higher offsetting property tax revenues. A decrease of \$1.7 billion in Proposition 98 General Fund for school districts and county offices of education in 2015-16 as a result of increased offsetting local property tax revenues.
- Average Daily Attendance—An increase of \$197.6 million in 2014-15 for school districts and county offices of education as a result of an increase in projected ADA from the 2014 Budget Act, and a decrease of \$6.9 million in 2015-16 for school districts and county offices of education as a result of projected decline in ADA for 2015-16.
- Full-Day State Preschool Slots—An increase of \$14.8 million Proposition 98 General Fund and \$18.8 million non-Proposition 98 General Fund to support

4,000 State Preschool slots with full-day wraparound care. These slots were established in the 2014 Budget Act as of June 15, 2015 (for 15 days in the 2014-15 fiscal year) and these increases reflect the difference in full-year cost for these slots in 2015-16.

K-12 SCHOOL SPENDING AND ATTENDANCE

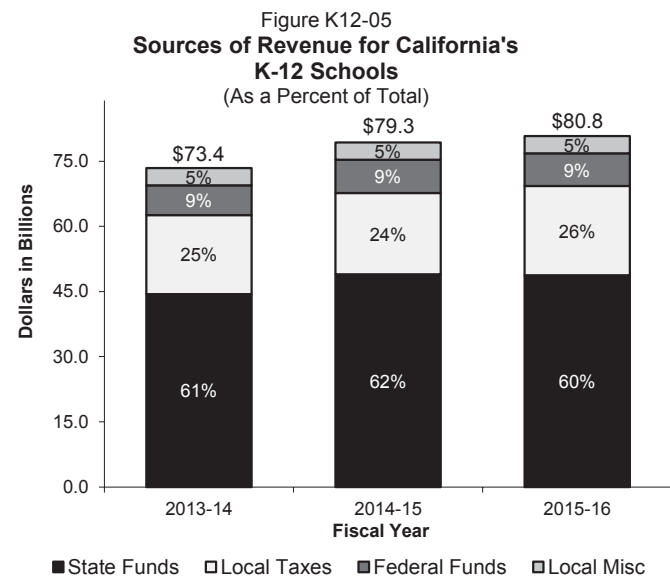
HOW SCHOOL DISTRICTS SPEND THEIR MONEY

Figure K12-04 displays 2012-13 expenditures reported by school districts from their general funds, the various categories of expenditure and the share of total funding for each category. Figure K12-05 displays the revenue sources for school districts.



ATTENDANCE

Public school attendance grew in 2010-11 and 2011-12, and then declined slightly in 2012-13. Attendance began increasing again in 2013-14, and is projected to grow further in 2014-15 and decline slightly during 2015-16. For 2014-15, K-12 ADA is estimated to be 6,000,733, an increase of 8,166 from 2013-14. For 2015-16, the Budget estimates that K-12 ADA will drop by 585 from the 2014-15 level, to 6,000,148.



PROPOSITION 98 GUARANTEE

Proposition 98 guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA 1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year.

For the 2013-14 through 2015-16 fiscal years, the operative Proposition 98 tests are 3, 1, and 2, respectively.

CHILD CARE

Subsidized Child Care includes a variety of programs designed to support the gainful employment of low-income families. These programs are primarily administered by the Department of Education through non-Proposition 98 funding and the annual federal

Child Care and Development Fund grant. All programs are means-tested and require that families receiving subsidies have a need for child care, which means all adults in the family must be working, seeking employment, or in training that leads to employment. Most programs are capped, drawing eligible families from waiting lists, while those specifically limited to CalWORKs families or former CalWORKs families have been funded for all eligible recipients.

The major capped programs include General Child Care, Alternative Payment Program, and Migrant Child Care. CalWORKs programs include: Stage 1, administered by the Department of Social Services, for families on cash assistance whose work activities have not stabilized; Stage 2, administered by the Department of Education, for those CalWORKs families with stable work activities and for families who are transitioning off aid, for up to two years; and Stage 3, also administered by the Department of Education, reserved for families who have successfully transitioned off aid for more than two years and still have a child care need.

California receives about \$550 million annually in federal Child Care and Development Block Grant funding, which in addition to state General Fund, provides the total funding for the General Child Care, Migrant Child Care, Alternative Payment, CalWORKs Stage 3, and child care quality programs, as well as for Local Child Care Planning Councils. On November 19, 2014, the President signed an act reauthorizing the block grant. Under reauthorization, states are expected to make changes in block grant-funded child care programs, including annualizing licensing inspections, providing health and safety inspections for non-family license-exempt providers, allowing for extended income eligibility, providing additional funding for child care quality activities, restructuring professional development for child care providers and staff, and increasing local child care program information provided to families. While the state has several years to begin implementing these changes, they will, nevertheless, pose many challenges for California, especially because the block grant funds are not anticipated to be sufficient to meet these new requirements and to maintain current service levels.

Significant Adjustments:

- Regional Market Rate (RMR) Full-Year Update—An increase of \$33.5 million non-Proposition 98 General Fund to reflect a full-year update of the RMR. The 2014 Budget Act updated the RMR from the 85th percentile of the 2005 RMR survey to the 85th percentile of the 2009 survey, deflated 10.11 percent, effective

January 1, 2015. This increase reflects the difference in full-year cost of this update in 2015-16.

- Cost-of-Living Adjustment (COLA)—An increase of \$9.2 million Proposition 98 General Fund and \$12.3 million non-Proposition 98 General Fund to reflect a statutory COLA of 1.58 percent for capped child care programs. COLA was suspended for these programs from 2008-09 through 2014-15.
- Stage 2—A decrease of \$11.6 million non-Proposition 98 General Fund in 2015-16 to reflect a decrease in the number of CalWORKs Stage 2 cases and an increase in the cost per case. Total base cost for Stage 2 is \$348.6 million.
- Stage 3—An increase of \$38.6 million non-Proposition 98 General Fund in 2015-16 to reflect an increase in the number of CalWORKs Stage 3 cases and an increase in the cost per case. Total base cost for Stage 3 is \$263.5 million.
- Child Care and Development Funds—A net decrease of \$14.9 million federal funds in 2015-16 to reflect a reduction of available carryover funding. Total federal funding is \$565.2 million.