

# BUDGET BRIEF

## 2011-12 Budget Act

### Flat Funding, More Deferrals and Uncertainty in Final 2011-12 Budget

#### Overview

On June 28, the Legislature passed a budget for the 2011-12 fiscal year which was signed by Governor Brown. Two significant changes to the budget process were implemented this year that influenced the passage of the budget. First, this is the first year a budget could be approved by a majority vote instead of a two-thirds vote, allowing the majority party, the Democrats, to pass a budget without any Republican support. Second, this was also the first year that the Legislature forfeited pay after June 15<sup>th</sup>, the constitutional deadline to pass a budget, until a balanced budget was passed.

The 2011-12 budget assumes \$4 billion in higher revenues than was previously projected in the May Revision, but does not rely on tax extensions as previously proposed. The optimistic revenue assumptions help close the budget gap and achieve a “balanced” plan, but the budget also includes an automatic “trigger” to further reduce expenditures mid-year if projected revenues do not materialize. For schools, the budget results in essentially flat spending from the prior year, but does so by deferring the payment of a large portion of these funds into the next fiscal year. It also relies on questionable assumptions about the level of the minimum Proposition 98 funding guarantee for education.

#### State Budget Outlook

The 2011-12 state budget closes a \$26.6 billion budget gap and provides \$85.9 billion in General Fund expenditures, a \$5.5 billion reduction from prior year General Fund expenditures. Federal funds are also expected to drop by over 13 percent from the prior year. Since the original budget proposal in January, state revenues have increased, and the budget assumes \$6.6 billion more in tax revenues for 2011-12 than were anticipated in January. However, if these increased revenues do not materialize by December, automatic reductions will occur. If revenues are \$1 billion less than projected, additional cuts will occur in health, human services and public safety. If revenues fall by \$2 billion below projections, an additional \$1.9 billion would be cut from education. The Brown Administration still plans to seek a ballot measure in 2012 to provide additional tax revenues for the state, but the details of this plan have not been released. For details on the enacted state budget for 2011-12, visit: [www.dof.ca.gov](http://www.dof.ca.gov) and [www.lao.ca.gov](http://www.lao.ca.gov).

#### K-12 Budget Overview

The provisions of Proposition 98 establish a minimum funding guarantee for K-14 education based on complex calculations and interactions of a number of economic and demographic variables. For 2011-12, the budget assumes a Proposition 98 minimum funding guarantee of \$48.65 billion, down from \$49.79 billion in 2010-11. This funding level is adjusted to reflect a



CCSA has created additional resources specifically targeted to addressing the cash flow issues caused by state deferrals. Please visit the [Financial Management section](#) of our website for advice and resources, such as the 2011 edition of CCSA's [Charter School Financial Management Guide](#) and [Bridging the Gap: Understanding Cash Flow Options in the Midst of Deferrals](#). We will also be providing new resources especially for new schools developers to address the unique circumstances of opening a new charter school in these uncertain fiscal times. These resources will be updated as information becomes available.

### **Potential Mid-Year Cuts**

Adding further uncertainty to school funding is an automatic "trigger" built into the budget plan that will cut funding rates if state revenues do not meet the optimistic revenue projections used to balance the budget. If revenues come in at \$2 billion below the budget assumptions by January 2012, K-12 education will face an automatic mid-year cut to apportionments of approximately \$1.5 billion. This cut will occur only after \$600 million in cuts have been made to other programs. Further, the law would allow a reduction in the school year of up to seven days if these cuts were imposed. However, mid-year reduction to the school year may be difficult for districts and charter schools to implement depending on their collective bargaining agreements or other employment contracts. Charter schools are urged to review any collective bargaining agreements or other contracts now to assure maximum flexibility to make mid-year cuts, including a reduction in the school year, in case the trigger is enacted. The Education Trailer Bill to the budget (AB 114) contains a controversial provision that requires districts to assume state funding at the level provided last year and [to maintain staffing and program levels commensurate with that level of funding](#). This provision does not apply to charter schools and we encourage charters to develop financial plans that reflect program spending and priorities in line with reasonable resource assumptions.

We estimate that each billion dollars of education funding equates to approximately \$165 per pupil on average. This number is a good rule-of-thumb estimate for schools to keep in mind as they plan for various scenarios moving into 2011-12 and in preparation for any possible mid-year cuts. Therefore, if apportionments are reduced by \$1.5 billion, we would expect funding to be cut about \$250 per ADA. The actual impact on K-12 education that could result from the loss of the general fund revenues if the trigger is enacted in 2012 remains uncertain. The estimates noted above are only an illustration based on very specific and simplistic assumptions.

### **Other Adjustments for 2011-12**

#### **COLA**

Under the statutory formula, the Cost of Living Adjustment (COLA) is estimated to be 2.24 percent. However, no COLA has been proposed to be funded for any K-12 programs. The cost of the COLA will add approximately \$900 million to the K-12 maintenance factor to be "owed" to schools in future years, which will reach over \$10 billion by the end of 2011-12.

#### **Revenue Limit Block Grant**

The budget provides an increase to the overall charter school block grant appropriation to accommodate the projected increase in ADA. However, this caseload adjustment will not provide additional funds on a per-pupil basis. Block grant rates per pupil are still expected to remain relatively flat between 2010-11 and 2011-12.

### **Categorical Block Grant**

No change is expected in the per pupil rate for the Charter School Categorical Block Grant. However, the budget includes additional funding in categorical block grant and economic impact aid, to accommodate projected increases in charter school enrollment overall.

### **Categorical Flexibility and New Schools Supplement**

In March, the Legislature extended by two years the provisions of the categorical flexibility through 2014-15. While the extension is generally considered positive for schools districts, the categorical-flex scheme has created some problems for many new and growing charter schools that were not included in the “base year” in which funding access was frozen.

One of the top budget priorities for the Association last year was to ensure that new schools received categorical funding for programs that were locked in to base year funding levels under the “Categorical Flexibility” model. The Legislature responded by providing a categorical block grant “supplement” of \$127 per 2010-11 P-2 ADA for start-up charter schools that began operation in 2008-09 and later. The budget funds this supplement for 2011-12 by maintaining the rate at \$127 per ADA for new start-up charter schools. The budget provides an increase in this budget item to accommodate increased projections of new charter ADA. This augmentation will not increase the per-pupil rate of \$127.

This supplement does not apply to new conversion charter schools that began operation in 2008-09 and later. However, instead of receiving the supplement from the state, the law now requires the school district to provide \$127 per ADA to a conversion charter school in lieu of the state supplement.

The budget does not address access to new and growing charter schools to the K-3 Class Size Reduction (CSR) program. K-3 CSR is not included in the block grant supplement noted above. However, access to CSR funding is capped at the number of classes reported by a local education agency for 2008-09. Schools without a base identified in 2008-09 should not budget staffing or dollars for K-3 CSR implementation.

### **Charter School Facility Grant Program (SB 740)**

The budget retains the Governor’s January proposal to fully fund the SB 740 Charter Schools Facility Grant Program in 2011-12. Consistent with SB 658/09, funding for the Facility Grant Program continues to increase through a transfer from the phase-out of year round school grants to districts. Grant levels and eligibility requirements remain the same, for now, but CCSA is sponsoring SB 645 which would reduce the threshold for eligibility and increase grant rates, making it possible for more charter schools to access funds. With total funding of over \$75 million, this is the largest amount of funds ever available for this program. Schools should keep an eye out for application materials soon, as the law requires the California Department of Education to allocate funds by no later than October 1 for prior and current year costs.

### **Special Education: AB 3632 Mental Health Services**

The budget provides a transfer of \$389.4 million to education from state general fund, federal funds and Proposition 63 funds to implement a shift in mental health services from counties to schools. This action eliminates the local mandate for AB 3632 for counties and shifts the responsibility to LEAs to provide mental health services through the IDEA.

## Budget Planning Projector

Given the volatility of the economy and the assumptions on the passage of the tax extension that were used in the budget, the figures noted on the following tables offer a estimate of potential revenues for charter schools. Schools may also wish to plan contingency budgets that reflect different scenarios and assumptions, especially given the automatic trigger that could reduce funding up to \$250 per ADA in January. In addition, schools should pay close attention to the apportionment schedules and deferrals that will have a significant impact on their monthly cash flow.

Keep an eye out for our *Capitol Updates* and look for regular updates to our Budget Information page at: [www.calcharters.org/budgetupdate](http://www.calcharters.org/budgetupdate) for the most recent information on the state budget situation.

**Below is our estimate of charter school funding rates based on the enacted budget. For now, we do not reflect any differences in funding rates between 2010-11 and 2011-12.**

<b>2010-11 Budget Estimate Block Grant Rates</b>				
	<b>K-3</b>	<b>4-6</b>	<b>7-8</b>	<b>9-12</b>
General Purpose Block Grant*	\$ 5,077	\$ 5,153	\$5,306	\$6,148
Categorical Block Grant	\$ 400	\$ 400	\$ 400	\$ 400
<b>Total estimate for 2010-11</b>	<b>\$ 5,477</b>	<b>\$ 5,553</b>	<b>\$ 5,706</b>	<b>\$ 6,548</b>
Economic Impact Aid (per eligible pupil)	\$ 318	\$ 318	\$ 318	\$ 318
Categorical Block Grant supplement for schools starting in 2008-09 and later	\$127	\$127	\$127	\$127
* These rates are revised estimates posted by CDE as of June 15, 2011 and subject to change.				
<b>2011-12 Budget Act Estimate Block Grant Rates*</b>				
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*These rates are revised estimates based 2011 Final Budget assumptions and are subject to change. Annual rates do not account for significant revenues that will be deferred into 2012-13 or additional mid-year cuts that may be required.				