

BUDGET BRIEF

2012-13 Final Budget Act

Charter School Growth Funding Restored, But Budget Agreement Depends on Voter Approval

Overview

Governor Jerry Brown signed the 2012-13 budget on June 27, 2012, right before the start of the new fiscal year. The main budget bill is Assembly Bill (AB) 1464, which was later amended by AB 1497. In addition, many of the education program changes necessary to implement the budget are contained in Senate Bill (SB) 1016, the Education Trailer Bill. However, the 2012-13 budget is built on the Governor's ballot measure passing in November. Therefore, the actual fiscal situation will be unsettled until after the November election.

State General Fund spending for 2012-13 is budgeted at \$91.3 billion. This is a reduction of \$11.6 billion since General Fund spending peaked at \$103 billion in 2007-08. The budget relies on spending cuts and new revenues to close what was projected to be a \$15.7 billion deficit this year.

Impact of Proposed Ballot Initiative

The approved 2012-13 budget assumes the passage of "The Schools and Public Safety Protection Act of 2012." This ballot initiative has qualified to go before the voters in November 2012. If passed, the initiative would raise the personal income tax on the wealthiest taxpayers for seven years and increase the sales tax by one-quarter of one percent for four years. The initiative is expected to generate a net General Fund benefit of \$5.6 billion in 2012-13. The Department of Finance projects that K-14 education funding will increase by \$17.2 billion (over \$2,500 per pupil) over the next four years.

2012-13 Triggers if Ballot Initiative is Not Successful

The primary source of new revenues in the approved budget is the November ballot initiative. However, the fate of the initiative will not be known until November, four full months into the fiscal year. Without the increased revenues anticipated by this initiative, the budget imposes automatic trigger cuts, similar to the mechanism approved in the 2011-12 budget. The trigger cuts reduce Proposition 98 spending for K-14 education in 2012-13 by \$5.4 billion. Cuts would go into effect on January 1, 2013. This would result in the continuation of devastating apportionment deferrals and additional programmatic cuts the equivalent of approximately three weeks of instruction, or a midyear cut of approximately \$460 pupil to general purpose funding. Due to the uncertainty in state revenue contingent upon the November ballot initiative, schools must use caution in planning for the coming year.

K-12 Budget Overview

Proposition 98

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. Under the approved budget, the Proposition 98 guarantee for 2012-13 is \$53.6 billion assuming the ballot proposal passes. This is a \$2.9 billion increase in 2012-13.

Even with a notable increase in the Proposition 98 guarantee, schools cannot expect an increase in operational funding from 2011-12 to 2012-13. Due to several interacting adjustments between the two fiscal years, and the proposed “buy-out” of \$2.2 billion of K-14 cross-year deferrals, year-to-year operational funding to schools will remain flat for 2012-13 even if the ballot initiative passes.

Major Education Budget Proposals and Adjustments for 2012-13

COLA

The budget does not contain a Cost of Living Adjustment (COLA) for any K-12 programs. The unfunded K-12 COLA is calculated at 3.24 percent, which will be added to the K-12 maintenance factor to be owed in future years.

Revenue Limit Block Grant

The annual block grant rates per pupil are expected to remain relatively flat between 2011-12 and 2012-13. This is due to the lack of any COLA and the effort to reduce cross-year apportionment deferrals.

However, if the ballot initiative fails, automatic “trigger” cuts would be imposed mid-year. Proposition 98 programs would face a programmatic cut mid-year of approximately \$460 per average daily attendance. The trigger provisions also offer flexibility to reduce the school year to 160 days or the equivalent instructional minutes. For planning purposes, the table at the end of this brief provides estimated charter school block grant rates under both scenarios, with and without the passage of the ballot initiative.

Categorical Block Grant

The per-pupil rate for the Categorical Block Grant will remain relatively stable at approximately \$400 per average daily attendance, with the Economic Impact Aid adjustment of \$325 for English Learners and economically disadvantaged pupils. Charter schools received a growth augmentation of approximately \$53.7 million to this budget items to keep the per pupil rate stable, while statewide charter ADA is growing significantly. In addition, start-up charter schools that began operation in or after 2008-09 will continue to receive a supplement of \$127 per average daily attendance, in accordance with Education Code Section 42606, to recognize the lack of access to categorical programs for which funding has been frozen.

Categorical Reform and Weighted Student Funding

Since the initial release of the Governor’s Budget last January, there has been considerable discussion of his proposal to shift education funding to a “weighted student formula”. This concept was discussed in budget hearings and the original proposal was amended as part of the Governor’s May Revision. In the end, the proposal was rejected and no significant changes were made to the overall school funding system.

Transitional Kindergarten

This year, the Governor proposed to eliminate funding for the new Transitional Kindergarten (TK) program. However, the Legislature rejected this proposal this spring and voted to retain the program. The final budget includes funding for TK, and no changes to its implementing law were made. The TK program requirements are contained in Education Code Section 46300. In addition, charter schools must meet laws governing the minimum age for kindergarten enrollment. For the 2012-13 school year, the minimum age has been moved up one month; students must be age five by November 1, 2012 for the 2012-13 school year. For more information on TK and charter schools, visit the CCSA blog post at:

<http://www.calcharters.org/blog/members/2012/07/update-on-transitional-kindergarten.html>

SB 740 Charter School Facility Grant Program

The Governor's proposal to provide approximately \$93 million for charter school facility grants was enacted. However, the proposals to streamline the program and expand eligibility were not approved.

Mandates Block Grant

The approved budget contains \$166.6 million for a new K-12 Mandates Block Grant that will provide \$14 per ADA to charter schools that choose to participate. Since charter schools currently cannot access the mandate reimbursement process, this is a new source of funding for charter schools. The approved block grant provides charter schools with only half of the \$28 per pupil that participating schools districts will receive. The lower rate presumably recognizes that some of the mandates in the block grant do not apply to charter schools.

Specifically, the block grant is enacted through new Government Code Section 17581.6 that:

- Requires any charter school seeking a grant to submit a letter of intent to the Superintendent of Public Instruction by September 30 of each year the grant is requested
- Prohibits any entity that receives a grant from submitting a claim for reimbursement through the mandate process for any of the enumerated mandates in any year in which the grant is received
- Subjects block grant funding to audits required by section 41020
- States that block grant funding is to support a specified list of mandated programs (See the full list at the end of this brief.)

CCSA will closely monitor the implementation of this new process and keep you informed as details emerge.

Payment Deferrals

The final budget provides \$2.2 billion to reduce inter-year deferrals for K-14 education. Most significantly, compared to the 2011-12 schedule, the February to July deferral would be reduced by approximately \$1.5 billion (from \$2 billion in 2011-12 to \$500 million in 2012-13), and the April to August deferral would be reduced by approximately \$503 million (from \$679 million in 2011-12 to \$176 million in 2012-13). However, significant deferrals would continue, even under this scenario. And, if the November initiative fails, these deferral buy-outs would be repealed and the deferrals would revert to the 2011-12 schedule.

We will provide a 2012-13 proposed payment/deferral schedule as details become available.

In addition to the deferral relief noted above, the budget trailer bill amends Education Code Section 14041.7 to allow charter schools to submit a request an exemption of the June to July deferral without charter-authorizer approval. However, a charter school is required to notify its authorizer when applying for a deferral exemption. This should streamline the process for charter schools seeking a deferral exemption.

Charter School Borrowing Options

The budget's Education Trailer Bill (SB 1016) contains a number of provisions that are intended to level the playing field for charter schools compared to districts in accessing lower cost working capital to help relieve some of the financial burdens on charter schools caused by apportionment deferrals and other financial issues. Each of these provisions appear to offer a somewhat different option, and deeper analysis will be necessary to determine exactly how and which of these will be most useful. Specifically, SB 1610:

- Amends Education Code Sections 1042 and 47603 to allow county boards of education to make loans to charter schools for which the county board has either supervisory responsibility or a contractual relationship for the purpose of borrowing money to meet the cash flow needs of the charter school caused by apportionment deferrals. This option is available through July 1, 2017. (This proposal was contained in AB 1576 earlier this year.)
- Makes several technical amendments to the California School Finance Authority Act (Education Code Sections 17170 through 17199.3) to provide charter schools with improved access to working capital loans, by expanding the definition of "participating party" to include entities such as Charter Management Organizations that seek loans on behalf of a group of charters, allow for refinancing and expand the repayment intercept to include the categorical block grant to leverage greater loan security.
- Makes technical changes to Education Code Section 41366.6 regarding the Charter School Revolving Loan fund to allow revenues generated by interest charges on revolving loans to be repaid to the loan fund to cover the costs of loan defaults. This transfer will provide additional funds for revolving loans.
- Adds Education Code Section 42620.1 and amends Sections 42621, 42622 which allow county boards of supervisors, and county boards of education to make a temporary transfer of funds to charter schools to meet payment of current expenses prior to receipt of state funds, to be repaid by the first funds accruing to the charter school. In some circumstances, these loans would be required to be repaid within the same fiscal year, but other provisions allow payment in the following fiscal year.
- Amends Education Code Sections 53850 and 53853 to define charter schools as "local agencies" for the purpose of issuing or participating in the issuance of revenue anticipation notes (RANs).

Charter Schools Access to Surplus District Property

SB 1016, the Education Trailer Bill, provides a limited option for charter schools to receive the "first right of refusal" to access school district property when a district declares it surplus. Under new Education Code Section 17457.5, and conforming amendments to other code sections, a school district must offer surplus property for sale or lease to a charter school that has submitted a written request to the district for such property. The sales or lease price shall not

exceed amounts specified. However, this option is only available for properties designated surplus during the 2012-13 fiscal year, unless the provision is extended.

Next Steps

The Legislature and the Governor have agreed to the budget proposal assuming the passage of The Schools and Local Public Safety Protection Act this November. However, the budget also contains automatic mid-year trigger cuts that will be imposed if that initiative fails.

Budget Planning Projector

The figures noted on the following tables offer an estimate of potential revenues for charter schools. We have provided two estimates of the general purpose block grants: 1) assuming the ballot initiative passes; and 2) assuming the 2012-13 “trigger” cuts are enacted. These rates are based on the 2011-12 second principal apportionment (P-2) certified by CDE on July 3, 2012. Rates are subject to change throughout the year as revenue estimates and enrollment projections are revised. In addition to the estimated funding rates, schools should pay close attention to the apportionment schedules and deferrals for their significant impact on monthly cash flow.

2011-12 Estimate Block Grant Rates (Based on CDE certified P-2 Rates, July 3, 2012)				
	K-3	4-6	7-8	9-12
General Purpose Block Grant	\$ 5,076	\$ 5,153	\$ 5,308	\$ 6,141
Categorical Block Grant	\$ 398	\$ 398	\$ 398	\$ 398
Economic Impact Aid (per eligible pupil)	\$ 325	\$ 325	\$ 325	\$ 325
Categorical Block Grant supplement for schools starting in 2008-09 and later	\$ 127	\$ 127	\$ 127	\$ 127
2012-13 Budget Act Block Grant Rate Estimates				
	K-3	4-6	7-8	9-12
General Purpose Block Grant (If Initiative Passes)	\$ 5,076	\$ 5,153	\$ 5,308	\$ 6,141
<i>General Purpose Block Grant (If Initiative Fails)</i>	<i>\$ 4,648</i>	<i>\$ 4,718</i>	<i>\$ 4,860</i>	<i>\$ 5,623</i>
Categorical Block Grant	\$ 400	\$ 400	\$ 400	\$ 400
Economic Impact Aid (per eligible pupil)	\$ 325	\$ 325	\$ 325	\$ 325
Categorical Block Grant supplement for schools starting in 2008-09 and later	\$ 127	\$ 127	\$ 127	\$ 127

Education Mandate Block Grant

Pursuant to Government Code Section 17581.6, charter schools may receive a block grant of \$14 per ADA to support all of the following programs:

- (1) Absentee Ballots (CSM 3713; Chapter 77 of the Statutes of 1978 and Chapter 1032 of the Statutes of 2002).
 - (2) Agency Fee Arrangements (00-TC-17 and 01-TC-14; Chapter 893 of the Statutes of 2000 and Chapter 805 of the Statutes of 2001).
 - (3) AIDS Instruction and AIDS Prevention Instruction (CSM 4422, 99-TC-07, and 00-TC-01; Chapter 818 of the Statutes of 1991; and Chapter 403 of the Statutes of 1998).
 - (4) California State Teachers' Retirement System Service Credit (02-TC-19; Chapter 603 of the Statutes of 1994; Chapters 383, 634, and 680 of the Statutes of 1996; Chapter 838 of the Statutes of 1997; Chapter 965 of the Statutes of 1998; Chapter 939 of the Statutes of 1999; and Chapter 1021 of the Statutes of 2000).
 - (5) Caregiver Affidavits (CSM 4497; Chapter 98 of the Statutes of 1994).
 - (6) Charter Schools I, II, and III (CSM 4437, 99-TC-03, and 99-TC-14; Chapter 781 of the Statutes of 1992; chapters 34 and 673 of the Statutes of 1998; Chapter 34 of the Statutes of 1998; and Chapter 78 of the Statutes of 1999).
 - (7) Collective Bargaining (CSM 4425; Chapter 961 of the Statutes of 1975).
 - (8) Comprehensive School Safety Plans (98-TC-01 and 99-TC-10; Chapter 736 of the Statutes of 1997; Chapter 996 of the Statutes of 1999; and Chapter 828 of the Statutes of 2003).
 - (9) Consolidation of Annual Parent Notification/Schoolsite Discipline Rules/Alternative Schools (CSM 4488, CSM 4461, 99-TC-09, 00-TC-12, 97-TC-24, CSM 4453, CSM 4474, CSM 4462; Chapter 448 of the Statutes of 1975; Chapter 965 of the Statutes of 1977; Chapter 975 of the Statutes of 1980; Chapter 469 of the Statutes of 1981; Chapter 459 of the Statutes of 1985; Chapters 87 and 97 of the Statutes of 1986; Chapter 1452 of the Statutes of 1987; Chapters 65 and 1284 of the Statutes of 1988; Chapter 213 of the Statutes of 1989; Chapters 10 and 403 of the Statutes of 1990; Chapter 906 of the Statutes of 1992; Chapter 1296 of the Statutes of 1993; Chapter 929 of the Statutes of 1997; Chapters 846 and 1031 of the Statutes of 1998; Chapter 1 of the Statutes of 1999, First Extraordinary Session; Chapter 73 of the Statutes of 2000; Chapter 650 of the Statutes of 2003; Chapter 895 of the Statutes of 2004; and Chapter 677 of the Statutes of 2005).
 - (10) Consolidation of Law Enforcement Agency Notification and Missing Children Reports (CSM 4505; Chapter 1117 of the Statutes of 1989 and 01-TC-09; Chapter 249 of the Statutes of 1986; and Chapter 832 of the Statutes of 1999).
 - (11) Consolidation of Notification to Teachers: Pupils Subject to Suspension or Expulsion I and II, and Pupil Discipline Records (00-TC-10 and 00-TC-11; Chapter 345 of the Statutes of 2000).
 - (12) County Office of Education Fiscal Accountability Reporting (97-TC-20; Chapters 917 and 1452 of the Statutes of 1987; Chapters 1461 and 1462 of the Statutes of 1988; Chapter 1372 of the Statutes of 1990; Chapter 1213 of the Statutes of 1991; Chapter 323 of the Statutes of 1992; Chapters 923 and 924 of the Statutes of 1993; Chapters 650 and 1002 of the Statutes of 1994; and Chapter 525 of the Statutes of 1995).
 - (13) Criminal Background Checks (97-TC-16; Chapters 588 and 589 of the Statutes of 1997).
 - (14) Criminal Background Checks II (00-TC-05; Chapters 594 and 840 of the Statutes of 1998; and Chapter 78 of the Statutes of 1999).
 - (15) Differential Pay and Reemployment (99-TC-02; Chapter 30 of the Statutes of 1998).
 - (16) Financial and Compliance Audits (CSM 4498 and CSM 4498-A; Chapter 36 of the Statutes of 1977).
 - (17) Habitual Truants (CSM 4487 and CSM 4487-A; Chapter 1184 of the Statutes of 1975).
 - (18) High School Exit Examination (00-TC-06; Chapter 1 of the Statutes of 1999, First Extraordinary Session; and Chapter 135 of the Statutes of 1999).
 - (19) Immunization Records (SB 90-120; Chapter 1176 of the Statutes of 1977).
 - (20) Immunization Records--Hepatitis B (98-TC-05; Chapter 325 of the Statutes of 1978; Chapter 435 of the Statutes of 1999).
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of 1979; Chapter 472 of the Statutes of 1982; Chapter 984 of the Statutes of 1991; Chapter 1300 of the Statutes of 1992; Chapter 1172 of the Statutes of 1994; Chapters 291 and 415 of the Statutes of 1995; Chapter 1023 of the Statutes of 1996; and Chapters 855 and 882 of the Statutes of 1997).

(21) Intradistrict Attendance (CSM 4454; Chapters 161 and 915 of the Statutes of 1993).

(22) Juvenile Court Notices II (CSM 4475; Chapters 1011 and 1423 of the Statutes of 1984; Chapter 1019 of the Statutes of 1994; and Chapter 71 of the Statutes of 1995).

(23) Mandate Reimbursement Process I and II (CSM 4204, CSM 4485, and 05-TC-05; Chapter 486 of the Statutes of 1975).

(24) Notification of Truancy (CSM 4133; Chapter 498 of the Statutes of 1983; Chapter 1023 of the Statutes of 1994; and Chapter 19 of the Statutes of 1995).

(25) Open Meetings/Brown Act Reform (CSM 4257 and CSM 4469; Chapter 641 of the Statutes of 1986; and Chapters 1136, 1137, and 1138 of the Statutes of 1993).

(26) Physical Performance Tests (96-365-01; Chapter 975 of the Statutes of 1995).

(27) Prevailing Wage Rate (01-TC-28; Chapter 1249 of the Statutes of 1978).

(28) Pupil Health Screenings (CSM 4440; Chapter 1208 of the Statutes of 1976; Chapter 373 of the Statutes of 1991; and Chapter 750 of the Statutes of 1992).

(29) Pupil Promotion and Retention (98-TC-19; Chapter 100 of the Statutes of 1981; Chapter 1388 of the Statutes of 1982; Chapter 498 of the Statutes of 1983; Chapter 1263 of the Statutes of 1990; and Chapters 742 and 743 of the Statutes of 1998).

(30) Pupil Safety Notices (02-TC-13; Chapter 498 of the Statutes of 1983; Chapter 482 of the Statutes of 1984; Chapter 948 of the Statutes of 1984; Chapter 196 of the Statutes of 1986; Chapter 332 of the Statutes of 1986; Chapter 445 of the Statutes of 1992; Chapter 1317 of the Statutes of 1992; Chapter 589 of the Statutes of 1993; Chapter 1172 of the Statutes of 1994; Chapter 1023 of the Statutes of 1996; and Chapter 492 of the Statutes of 2000).

(31) Pupil Expulsions (CSM 4455; Chapter 1253 of the Statutes of 1975; Chapter 965 of the Statutes of 1977; Chapter 668 of the Statutes of 1978; Chapter 318 of the Statutes of 1982; Chapter 498 of the Statutes of 1983; Chapter 622 of the Statutes of 1984; Chapter 942 of the Statutes of 1987; Chapter 1231 of the Statutes of 1990; Chapter 152 of the Statutes of 1992; Chapters 1255, 1256, and 1257 of the Statutes of 1993; and Chapter 146 of the Statutes of 1994).

(32) Pupil Expulsion Appeals (CSM 4463; Chapter 1253 of the Statutes of 1975; Chapter 965 of the Statutes of 1977; Chapter 668 of the Statutes of 1978; and Chapter 498 of the Statutes of 1983).

(33) Pupil Suspensions (CSM 4456; Chapter 965 of the Statutes of 1977; Chapter 668 of the Statutes of 1978; Chapter 73 of the Statutes of 1980; Chapter 498 of the Statutes of 1983; Chapter 856 of the Statutes of 1985; and Chapter 134 of the Statutes of 1987).

(34) School Accountability Report Cards (97-TC-21, 00-TC-09, 00-TC-13, and 02-TC-32; Chapter 918 of the Statutes of 1997; Chapter 912 of the Statutes of 1997; Chapter 824 of the Statutes of 1994; Chapter 1031 of the Statutes of 1993; Chapter 759 of the Statutes of 1992; and Chapter 1463 of the Statutes of 1989).

(35) School District Fiscal Accountability Reporting (97-TC-19; Chapter 100 of the Statutes of 1981; Chapter 185 of the Statutes of 1985; Chapter 1150 of the Statutes of 1986; Chapters 917 and 1452 of the Statutes of 1987; Chapters 1461 and 1462 of the Statutes of 1988; Chapter 525 of the Statutes of 1990; Chapter 1213 of the Statutes of 1991; Chapter 323 of the Statutes of 1992; Chapters 923 and 924 of the Statutes of 1993; Chapters 650 and 1002 of the Statutes of 1994; and Chapter 525 of the Statutes of 1995).

(36) School District Reorganization (98-TC-24; Chapter 1192 of the Statutes of 1980; and Chapter 1186 of the Statutes of 1994).

(37) The Stull Act (98-TC-25; Chapter 498 of the Statutes of 1983; and Chapter 4 of the Statutes of 1999).

(38) Threats Against Peace Officers (CSM 96-365-02; Chapter 1249 of the Statutes of 1992; and Chapter 666 of the Statutes of 1995).