

BUDGET BRIEF

2012-13 May Revision

Current Funding Levels Maintained, but Contingent on Ballot Initiative

Overview

Governor Jerry Brown released the May Revision to his 2012-13 fiscal year budget proposal on May 14, 2012. The May Revision typically updates the budget for changes in variables such as population, economic indicators, and tax revenue assumptions. Overall, the state's budget deficit has increased to \$15.7 billion, an increase of \$6.2 billion since the January budget proposal. This change is largely due to lower than expected revenues, and an increase in the Proposition 98 guarantee funding level for K-14 education. The Governor proposes additional cuts to universities, health and welfare programs and a decrease in state workers' pay to help close the gap.

According to the State Constitution, the Legislature has until June 15 to approve a budget by a majority vote for the fiscal year which begins July 1. However, the 2012-13 budget is expected to be built on expectations of the Governor's ballot measure passing in November. Therefore, the actual fiscal situation will not likely be resolved until after the November election.

State Fiscal Outlook

Last year, the budget was enacted using optimistic revenue assumptions, which did not come to pass. We saw the first indication of that in December when partial trigger cuts were imposed on education as many of these revenues were not realized. Unfortunately, even since the January budget proposal, the funding gap has widened.

In January, we reported that although California has begun to recover from the recession, the recovery still lags. These assumptions are still generally true. While most key economic indicators are recently trending upward, the pace is slower than previously expected and trends are not consistent. The unpredictability of the economic recovery, the global economic condition, increased unfunded liabilities and cost increases for state programs make projections of revenues and expenditures particularly volatile.

Overall, the Governor's May Revision proposes \$91.4 billion in General Fund expenditures for 2012-13, an increase of \$4.9 billion over \$86.5 billion in General Fund Expenditures in 2011-12. The budget identifies a \$15.7 billion deficit through the end of 2012-13. The budget plan would close this gap through a combination of spending cuts and tax increases.

Impact of Proposed Ballot Initiative

The Governor's Budget assumes the passage of "The Schools and Public Safety Protection Act of 2012." This ballot initiative is expected to go before the voters in November 2012. If passed, the initiative is expected to generate a net General Fund benefit of \$5.6 billion in 2012-13. The increased General Fund revenues from the initiative will result in an increase in the Proposition

98 guarantee for K-14 education funding by billions of dollars annually, though the precise increase is difficult to predict.

2012-13 Triggers if Ballot Initiative is Not Successful

The primary source of new revenues in the Governor's plan is from revenues anticipated from the 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 Governor proposes automatic trigger cuts, similar to the mechanism approved in the 2011-12 budget. In the May Revision, the Governor estimates that Proposition 98 spending for K-14 education in 2012-13 would be reduced by \$5.5 billion if the trigger cuts are necessary. 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 \$441 per 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. Because current year revenues have come in well below predicated, the Proposition 98 guarantee for 2011-12 is actually lower than when the budget was passed. But, because of the assumption of the ballot initiative and other interacting variables, the guarantee for 2012-13 has increased since the January proposal. Under the May Revision, the Proposition 98 guarantee for 2011-12 is \$47 billion (down from \$47.6 billion in January) and for 2012-13 is \$53.7 billion (up from \$52.5 billion in January) assuming the ballot proposal passes.

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 some of the 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

Financial Relief and Improved Funding Equity for Charter Schools

As we noted in January, the budget proposal contains a significant package of charter school reforms designed to level the financial playing field between districts and charter schools by streamlining and expanding financial support for charters schools and improving facility access and funding equity. The May Revision makes some minor changes to a few of those proposals including:

- Allowing, but not requiring, counties and districts to provide loans to charter schools or include charter schools in their Tax Revenue Anticipation Note (TRAN) financing
- Eliminating the funding determination process for "non-classroom-based" charter schools, but keeping existing funding determination levels in place
- Requiring notification, but not approval, of the authorizer for deferral exemptions requested by charter schools

- Providing an additional \$3.4 million to fund new enrollment growth in the Charter School Categorical Block Grant

COLA

The Cost of Living Adjustment (COLA) for K-12 funding is estimated to be 3.24 percent, a slight increase since January. But, no COLA has been proposed for any K-12 programs. The cost of the COLA will be added to the K-12 maintenance factor to be owed in future years.

Revenue Limit Block Grant

As we reported in January, even with the revenue projected to be produced by the Governor's ballot initiative, and an increase in the Proposition 98 guarantee, 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 Governor's priority for reducing cross-year apportionment deferrals.

However, if the ballot initiative fails, the Governor proposes automatic "trigger" cuts that would be imposed mid-year. Proposition 98 programs would face a programmatic cut mid-year of approximately \$441 per pupil. The Governor has proposed flexibility to reduce the school year by up to three weeks if this occurred. 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

No significant change is expected in the per pupil rate for the Charter School Categorical Block Grant. However, the May Revision contains funding for additional projected growth in pupil population at charter schools.

Categorical Reform and Weighted Student Funding

The Governor has offered some changes to his Weighted Student Formula (WSF) he proposed in January. Key changes include:

- Extending the phase-in from five to seven years, with assurances that phase in will stop if the deficit factor has not been repaid, deferrals are not eliminated or other funding increases are not on target.
- Providing base rates by grade span as is currently done with the charter school block grant, instead of a single base rate.
- Decreasing the "weight" for English Learners or economically disadvantaged pupils to twenty percent of the base rate (down from thirty seven percent).
- Requiring weighted grants to be spent on the targeted pupil population.
- Excluding Home to School Transportation and Targeted Instructional Improvement Grant (TIIG) funds from the base and provide a supplement to the base only for those districts currently receiving those funds.
- Providing "concentration" grants of an additional four percent of the base for every ten percentage points that the charter school or district exceeds 50% free and reduced price eligible pupils. However, charter schools cannot exceed the concentration rate of the district in which it resides.
- Providing an "accountability" grant of 2.5% of the base grant for each school meeting yet to be determined performance metrics, beginning in 2013-14.

A few programs, such as federal programs, special education, After School Education and Safety, and Charter School Facility Grants would be excluded from the formula, but virtually all other state categoricals would be folded into the weighted student formula over time.

The table on Page 5 provides estimated rates for this proposal. We encourage schools to view this proposal in light of their own pupil populations.

Elimination of Transitional Kindergarten

The Governor continues his proposal to eliminate funding for the Transitional Kindergarten program though the estimates of the potential savings have been reduced. However, we note that the Legislature Budget Subcommittees rejected this proposal this spring and voted to retain the program.

SB 740 Charter School Facility Grants

The May Revision did not change from the January proposal to provide approximately \$92 million and other streamlining measures for this program.

Mandates

In January, the Governor proposed \$178 million for a new K-12 Mandates Block Grant and elimination of half of the current mandates. The May Revision makes some adjustments and clarifications to that proposal including:

- Providing a fixed distribution of approximately \$28 per pupil statewide
- Eliminating of the existing mandates claim process for mandates included in the grant
- Permanently repealing six existing “high-cost” mandates

Funding Deferrals

The May Revision retains the January proposal to provide \$2.2 billion to reduce inter-year deferrals. \$7.3 billion in deferrals would remain. The Governor has proposed simplifying the deferral exemption process for charter schools so that they would only require authorizer notification, but not certification. We will provide a 2012-13 proposed payment/deferral schedule as details become available.

Next Steps

The Legislature has been holding budget subcommittee hearings throughout the spring, and is required to adopt a budget by June 15, or forfeit pay until the budget is approved. However, the key element of the revenue proposal will not be decided until the November election.

Budget Planning Projector

Given the volatility of the budget adoption process and the assumptions on the passage of the Governor’s ballot initiative that were used in the budget proposal, the figures noted on the following tables only offer a rough 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. Even if approved, the Weighted Student Formula, would have little impact on 2012-13 funding rates, but we provide estimates for your information. 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.

Below is our latest estimate of charter school funding rates based on the May Revision.

2011-12 Estimate Block Grant Rates				
	K-3	4-6	7-8	9-12
General Purpose Block Grant	5,043	\$ 5,120	\$5,273	\$6,101
Categorical Block Grant	\$ 385	\$ 385	\$ 385	\$ 385
Total estimate for 2011-12	\$ 5,428	\$ 5,505	\$ 5,658	\$ 6,486
Economic Impact Aid (per eligible pupil)	\$ 326	\$ 326	\$ 326	\$ 326
Categorical Block Grant supplement for schools starting in 2008-09 and later	\$127	\$127	\$127	\$127
2012-13 Governor's May Revision Estimate Block Grant Rates				
	K-3	4-6	7-8	9-12
General Purpose Block Grant (Assuming New Revenues)	\$ 5,084	\$ 5,161	\$5,315	\$6,149
<i>Alternate General Purpose Block Grant (Assuming Initiative Fails and Trigger Cuts Are Imposed)</i>	\$ 4,630	\$ 4,701	\$4,841	\$5,601
Categorical Block Grant	\$ 400	\$ 400	\$ 400	\$ 400
Economic Impact Aid (per eligible pupil)	\$ 326	\$ 326	\$ 326	\$ 326
Categorical Block Grant supplement for schools starting in 2008-09 and later	\$127	\$127	\$127	\$127
2012-13 Governor's May Revision Weighted Student Formula Simulation				
	K-3	4-6	7-8	9-12
Formula Base Rate per ADA (K-3 rate includes K-3 CSR)	\$ 5,466	\$ 4,934	\$ 5,081	\$ 5,887
20% Weight Per English Learner or Pupil Eligible Free and Reduced Price Meals (no double count)	\$ 1,093	\$ 987	\$ 1,016	\$ 1,177
4% Concentration Grant per pupil for each 10% of population over 50% FRP eligible	\$ 219	\$ 197	\$ 203	\$ 235
2.5% Accountability Grant starting in 2013-14 for school meeting targets yet to be defined	\$ 137	\$ 123	\$ 127	\$ 147