



BUDGET BRIEF

Governor's Budget 2013-14: January 2013

Overview

Governor Jerry Brown released his proposed budget for the 2013-14 fiscal year on January 10, 2013. This proposal is the basis for budget discussions in the California Legislature over the next several months. According to the Governor's office, Governor Brown has "proposed a balanced state budget that boosts investment in education, implements health care reform," "keeps California on a long-term path to fiscal stability" and "builds on the work of the last two years to eliminate the ongoing deficit."

Overall, the budget continues many of the spending cuts made in the last two years in order to pay down the "wall of debt." However, for the first time in years, the budget increases state funding for K-12 and community colleges by \$2.7 billion and increases the University of California and California State University systems' budgets by an additional \$250 million for the 2013-14 fiscal year. For K-12 education, the Governor proposes "buying back" \$1.8 billion additional cross-year deferrals, and once again proposes a major restructuring of K-12 allocations similar to last year's weighted student formula (renamed the Local Control Funding Formula). The budget would provide \$1.6 billion to begin that transition. The Governor also continues his support for charter schools by funding growth, offering reforms to improve access to facility funding and extending surplus property access.

The Governor's budget is only the first step in the budget enactment process. According to the state constitution, the Legislature has until June 15 to approve a budget by a majority vote. While the budget will undergo changes before it is approved by the Legislature, we are encouraged by the new investment in K-12 education. CCSA will be analyzing the details of the Governor's plan as they become available. We will work to ensure that charter schools are treated fairly in the final budget. This brief will provide some of the details of the proposal and its specific impact on charter schools. The budget, in full, is posted online at www.ebudget.ca.gov.

State Fiscal Outlook

The state and national economies are showing signs of recovery, although the pace is slower than it has been for past recessions. The Governor's budget summary reports that "the state's recovery has also gathered momentum because of better real estate conditions, faster job growth, and improved consumer attitudes." The budget projects modest economic growth over the next few years, although the pace of the economic recovery at both the national and state levels is still hard to predict.

Overall, the Governor's budget proposes \$97.7 billion in General Fund expenditures for 2013-14, an increase of five percent over 2012-13. The revenues provided by the passage of Proposition 30 prevented any additional mid-year cuts for the 2012-13 fiscal year. The passage of two tax increase initiatives last November (Propositions 30 and 39) greatly improve the state's revenue forecast, contributing combined revenue of \$5.8 billion in General Fund

revenues in 2013-14. The budget proposal is balanced by a narrow margin, but includes a \$1 billion reserve. This is a significant improvement over just two years ago when we were facing a \$20 billion shortfall. However, the state is still facing a “wall of debt” that reached \$35 billion in 2011 and has since been reduced to \$28 billion. The Governor proposes spending \$4.2 billion in 2013-14 to continue to reduce this debt. Forecasts for the future predict modest but steady growth over the next five years.

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. For the budget year 2013-14, the Governor proposes fully funding the constitutional guarantee of \$56.2 billion, an increase of \$2.7 billion over 2012-13. This is approximately an average of \$8,304 per pupil. This budget plans to use new resources to continue to “buy out” an additional \$1.8 billion in cross-year apportionment deferrals and \$1.6 billion in an ongoing increase to begin implementation of a new school funding system. The increase of \$1.6 billion in operational Proposition 98 funding provides approximately \$267 per pupil on average. However, under the Governor’s plan, this increase would be applied differently to local education agencies depending on their current funding relative to established targets under a new funding formula.

Adjustments for 2012-13

As you may recall, the 2012-13 budget was passed assuming that Proposition 30 would be approved by the voters in November. Because Proposition 30 was enacted, schools can finish the 2012-13 school year without fear of extensive trigger cuts that would have occurred if Proposition 30 had failed. Due to a number of interacting variables, the Proposition 98 guarantee has declined approximately \$163 million below the budget amount for 2012-13 for a total of \$53.5 billion. However, this relatively small adjustment is proposed to be addressed through a fund shift and will not result in any programmatic cuts.

Major Education Budget Proposals and Adjustments for 2013-14

Several Proposals Specifically Assist Charter Schools

The budget proposal contains a number of changes for charter schools that build on last year's gains to improve charter schools’ access to funding and facilities, and to strengthen overall operations. Funding equity and school finance issues continue to be a top priority for CCSA. Therefore, we are pleased that the Governor continues to make proposals that assist charter schools on these issues. These proposals would:

- Provide \$48.5 million for new pupil growth for charter schools. These funds will not increase per-pupil funding, but rather will ensure funding for new charter school pupils.
- Provide \$92 million for the SB 740 Charter School Facility Grant Program (CSFGP)
- Transfer the administration of the Charter School Revolving Loan Program and the SB 740 CSFGP to the California School Finance Authority (CSFA) to improve efficiency of program administration. Because the CSFA already works on charter school loans and facility grants in their current scope, transfer of these programs would be consistent with CSFA operations and relieve the CDE of the burden of administering these programs.

- Expand eligibility for the SB 740 CSFGP to include nonclassroom-based charter schools. Since many nonclassroom-based schools actually have significant facility costs, this proposal would treat all charter schools fairly under this program.
- Modify and streamline the funding determination process for nonclassroom-based charter schools by requiring it only in the first and third year in most cases. CCSA has long supported major reforms to this process.
- Extend charter schools' access to surplus district property for an additional five years. This opportunity was first provided as a one-year proposal for 2012-13. Extending these provisions would make surplus property a more viable option for many charter schools.

Average Daily Attendance

Statewide average daily attendance (ADA) is expected to increase again in 2013-14, but K-12 growth continues to be low. For 2012-13, K-12 ADA is estimated to be 5,982,430, and in 2013-14 it will increase by 5,967 to 5,988,397. Growth assumptions are reflected in the budget, with an increase in district apportionments and the charter school block grants to accommodate the projected increase in ADA.

COLA

The Cost of Living Adjustment (COLA) for K-12 is estimated to be 1.65 percent, but the COLA is assumed in the new K-12 funding proposal which is discussed below. The budget provides for a COLA for some categorical programs that will be outside the new funding formula such as special education and pupil nutrition.

Charter School General Purpose Block Grant

The Governor's proposal for a Local Control Funding Formula (discussed below) would establish a new K-12 education funding system that would include charter schools. Under that plan, charter schools would no longer receive funding under the charter school block grants. However, at this point, sufficient details of the new plan are not available to do a full modeling of its impact on charter schools. We will be working on such a model in the coming weeks. In addition, it is important to note that the fate of the Local Control Funding Formula is still uncertain.

Therefore, for initial planning purposes, the table at the end of this brief provides estimates of charter school block grant rates under the current system. The estimates assume that the block grants receive the 1.65 percent COLA that has been assumed in the new revenues for K-12 education. Applying the COLA to the block grant increases it by about \$90 per ADA on average over the estimated 2012-13 rates.

Charter School Categorical Block Grant

As mentioned above, under the Local Control Funding Formula, charter schools would no longer receive funding for the Categorical Block Grant. However, because of the uncertainty around the implementation of the new formula, and for initial planning purposes, it is reasonable for schools to assume continuation of the block grant until more details of the new formula are available. We suggest assuming the Charter School Categorical Block Grant rate remains flat for 2013-14. We also suggest assuming the continuation of the Categorical Block Grant supplement of \$127 per ADA for start-up charter schools that began operation in 2008-09 and later. This supplement provides partial relief for charter schools that otherwise would lack access to categorical funds that were frozen at 2007-08 year funding levels.

Categorical Reform and the Local Control Funding Formula

For 2013-14, Governor Brown has once again proposed a major overhaul of state school funding. While it is similar to last year's Weighted Student Formula (WSF) proposal, the revised proposal has a new name, the Local Control Funding Formula (LCFF).

Although the exact details of the plan have not yet been provided, the goals of the new formula appear consistent with the WSF proposal to: 1) shift more decision-making authority to local education agencies; 2) reduce inequities that have been caused by "freezing" categorical program funding and other archaic formulae; and 3) target funds to serve disadvantaged populations, especially low income pupils and English Learners.

Similar to the Charter School General Purpose Block Grant, the LCFF would provide a base per-pupil rate for grade level span (K-3, 4-6, 7-8 and 9-12). Then, similar to Economic Impact Aid (EIA) funding, each pupil who is identified as an English Learner, or who is eligible for free or reduced price meals (FRPM), or who is a foster youth, would generate an additional supplement. Under the LCFF, the weight is 35 percent of the base grant. (Unlike EIA, a pupil would only be eligible for one weight, regardless of whether he or she is eligible in more than one category.)

In addition to the base and weight, districts would receive an additional weighted grant if they have a FRPM eligible population that exceeds 50 percent of the district's total ADA. This Concentration Grant would provide an additional 35 percent weight for each pupil exceeding 50 percent FRPM eligible at the district. Charter schools would also be eligible for a Concentration Grant, but their eligibility would be capped the average FRPM rate of the district in which the school is located, rather than the actual FRPM percent of the charter school.

Virtually all revenue limit and categorical funding, including the Charter School Categorical Block Grant, would be rolled into the new LCFF grants, with a few exceptions. Special Education, nutrition, After School Education and Safety, and federal programs would continue to be funded outside of the LCFF. Targeted Instruction Improvement Grants (TIIG) and Home to School Transportation would not be rolled into the new formula and would continue to be provided to those districts that currently receive it, although the funds would not be restricted to those purposes. Finally, K-3 Class Size Reduction funds would be allocated as a per pupil add-on to the K-3 base grant of approximately \$710 per K-3 ADA, with an assumption that local education agencies would retain a pupil-to-teacher ratio of 24 to 1. Career Technical Education funding would be allocated as a per pupil add-on to the high school base grant of approximately \$215 per ADA, with an assumption that high schools would continue to invest in Regional Occupation Centers and other similar programs.

The LCFF proposal would be phased-in over seven years, as new school funding is available, until the target rates are attained. The Governor proposes using approximately one-half of Proposition 98 growth funding to implement the new system. In 2013-14, the Governor proposes investing \$1.6 billion, or approximately \$267 per pupil, to begin the transition. Using new money as it becomes available is intended to hold districts and charter schools harmless from cuts as the system is phased-in.

We predict that if this proposal were implemented, over time it would improve funding equity for charter schools compared to districts because it would unfreeze funds (including K-3 Class Size

Reduction and other state categorical funds) that are not currently available to new and growing schools. Further, the base inequity in the Charter School Categorical Block Grant would be equalized over time. However, we are concerned that some elements of the proposal, such as the exclusion of TIIG and transportation funding from base grants, and capping concentration grants for charter schools, could institutionalize inequities between students in charter schools and those in traditional schools.

CCSA will be working to model the provisions of the Governor's LCFF and will provide you with tools to evaluate your potential funding under that plan. However, due to the lack of detail, it is impossible at this time to determine how the implementation would affect charter schools. Until more details are provided, we recommend charter schools build their initial budget for 2013-14 based on the traditional charter school block grant funding model, recognizing that some adjustments may be necessary upon legislative action on a specific funding reform plan.

SB 740 Charter School Facility Grants

2013-14 funding for the SB 740 Charter School Facility Grant program is approximately \$92 million, which is the same as last year. Fund transfers that have increased this program funding over the last few years have been completed. CCSA has advocated for program changes to expand eligibility and streamline the funding release process. The Governor has acknowledged some of these concerns by proposing to include eligibility for nonclassroom-based schools that meet other program requirements and to move administration of the program to the California School Finance Authority (CSFA). Because the CSFA already administers the similar federally funded Charter School Facility Incentive Grant Program, transfer of this program would be consistent with CSFA operations and relieve the CDE of the burden of administering the program.

Funding Deferrals

Deferral relief is the first step in reducing the wall of debt owed to K-12 schools. In 2012-13, the Legislature enacted \$2.2 billion to reduce inter-year deferrals. For 2013-14, the Governor has proposed an additional reduction of \$1.8 billion in K-12 deferrals. This amount is expected to fully repay the February and March deferrals and partially repay the April deferral. Although \$5.6 billion in K-12 deferrals still remain, recent commitments have significantly reduced deferrals since the peak of \$9.5 billion of apportionment deferrals in 2012-13. The Department of Finance estimates it will be 2016-17 before all apportionment deferrals are fully repaid. We will provide a 2013-14 proposed payment/deferral schedule as details become available.

Mandates

In 2012-13, the budget enacted a major reform in mandate funding by providing \$200 million for a mandate block grant as an alternative to the traditional mandate reimbursement process. This year, the budget proposes an additional \$100 million to add two mandates, Graduation Requirements and Behavioral Intervention Plans, to the block grant. The addition of these programs and funds would result in an increase to the charter school mandate block grant rate from \$14 to \$24 per unit of average daily attendance.

Special Education

The budget includes a 1.65 percent COLA for state funded special education and a revision to the special education funding formula enacted in 1997 by AB 602. The proposal would de-link federal and state special education funding in an effort to simplify the formula and help equalize funding among special education local planning areas (SELPA). The proposal would also

consolidate funding for a number of special education add-ons. We will provide more information on this proposal as it moves forward and details emerge.

Nonclassroom-based Charter Schools and Technology-based Instruction

The Governor has proposed reforms that may assist schools that offer nonclassroom-based instruction, which may include online courses. First, for all nonclassroom-based charter schools, the Governor has proposed modifying the funding determination process by requiring it only in the first and third year in most cases. CCSA has long supported major reforms to this process, and this proposal would greatly reduce the burden of funding determinations. The Governor has also proposed making nonclassroom-based charter schools eligible for SB 740 facility grants. Finally, the Governor has proposed streamlining the independent study agreement process to an outcome-based contract. These revised contracts would presumably offer greater flexibility in accounting for technology-based instruction, such as changing or eliminating the pupil-to-teacher ratio requirements for these courses. The details of this plan have not yet been released, so we will provide more information, including the proposals' applicability to charter schools, when it becomes available.

Energy Efficiency

Most charter schools are familiar with Proposition 39, as the November 2000 ballot initiative that lowered the vote threshold for local school bonds and gave charter school students a right to access school district facilities reasonably equivalent to those available to non charter pupils. But, as of November 2012, California has another Proposition 39, which raised taxes on multi-state businesses and provides funds to improve energy efficiency. The budget contains \$450 million for allocations to K-12 and community colleges in 2013-14 to undertake projects that reduce current utility requirements and expand use of renewable energy resources. Program details are not yet available, and the Legislative Analyst has already questioned some of the program assumptions made by the Department of Finance. We will keep you posted as this proposal evolves.

Legislative Analyst's Office Response

The State's Legislative Analyst's Office (LAO) has provided an initial response to the Governor's plan. The complete LAO summary is available at www.lao.ca.gov. In the response, the LAO concludes that generally, the Governor's estimates appear reasonable. The LAO notes that after several years of massive budget shortfalls "the state has reached a point where its underlying expenditures and revenues are roughly in balance", and further commends the Governor for his fiscal restraint in focusing on paying off some of the state's accumulated debt. While the LAO generally has a favorable view of the Governor's K-12 proposals, it notes serious concerns with the specific proposal to implement the energy efficiency program under the new Proposition 39.

Next Steps

The Governor's budget is only the first step in enacting the state budget for 2013-14. The Legislature must act on this proposal, and will no doubt have its own priorities and ideas for managing the state's finances. The Legislature will begin holding budget hearings in early spring, and economic assumptions will be updated in mid-May. The Legislature is required to adopt a budget by June 15.

Budget Planning Projector

The figures noted on the following tables only offer a rough estimate of potential revenues for charter schools in 2012-13 and 2013-14. For planning purposes, these rates assume current allocation methods remain in place, notwithstanding the Governor's proposal to significantly reform K-12 funding through the Local Control Funding Formula. We will attempt to model that proposal when details become available. In addition to the funding rates, schools should pay close attention to the apportionment schedules and deferrals for their significant impact on monthly cash flow.

2012-13 CCSA Estimate Block Grant Rates*

	K-3	4-6	7-8	9-12
General Purpose Block Grant	\$ 5,076	\$ 5,153	\$ 5,308	\$ 6,141
Categorical Block Grant	\$ 400	\$ 400	\$ 400	\$ 400
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 estimates are based on assumptions from the 2012-13 Budget Act. CDE will provide revised estimates of these rates after the first principal apportionment in February 2013.

2013-14 CCSA Estimate Block Grant Rates*

	K-3	4-6	7-8	9-12
General Purpose Block Grant	\$ 5,160	\$ 5,238	\$ 5,396	\$ 6,242
Categorical Block Grant	\$ 400	\$ 400	\$ 400	\$ 400
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

*For initial planning purposes, CCSA is offering estimates of charter school funding for 2013-14 based on the current charter school funding model and a COLA of \$1.65%. However, the Governor has proposed a new funding system to begin in 2013-14, that, if enacted would significantly change how charter schools are funded, and would create different funding amounts for each charter school. CCSA will be providing additional information in the coming weeks to assist schools in modeling their budgets under the proposed new system as details of that plan emerge.