



2014-15 FINAL BUDGET BRIEF

June 23, 2014

2014-15 Budget Reduces Deferrals and Increases K-12 Education Funding

Overview

Governor Jerry Brown signed the budget bill for the 2014-15 fiscal year on June 20, 2014.

The state and national economies continue to improve modestly and the state is in its most stable fiscal situation in more than a decade. The budget provides \$109 billion in total General Fund resources, and uses new funding to continue to pay down the “wall of debt,” accelerate implementation of the Local Control Funding Formula (LCFF) for K-12 education, significantly invest in early childhood education and meet significant new obligations to Medi-Cal.

For K-12 education, the budget “buys back” all but \$1 billion in remaining K-12 and community college deferred payments, with a “trigger” to repay all remaining deferrals if new revenues materialize during the year, and provides \$4.75 billion for the second year of a multi-year phase-in of the new Local Control Funding Formula (LCFF). This brief provides some of the details of the final budget and its specific impact on charter schools.

The budget and key implementing Trailer Bills to the budget are contained in the following bills:

- Senate Bill (SB) 852: Budget Act of 2014
- SB 858: Omnibus Education Trailer Bill implementing key K-12 education components of the Budget Act
- SB 859: K-12 Local Control Funding Formula (LCFF) technical clean up
- Assembly Bill (AB) 1469: State Teachers Retirement System (STRS) contribution revisions

The specific language of these bill can be found at: <http://www.leginfo.ca.gov/bilinfo.html>.

Proposition 98 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. The 2014-15 budget provides full funding of the constitutional guarantee. The Proposition 98 formula requires numerous interacting calculations that result in adjustments to the guarantee over three years. The budget establishes the Proposition 98 guarantee at \$57.8 billion for 2012-13, \$58.3 billion for 2013-14, and \$60.9 billion for 2014-15.

Highlights of the Education Budget for 2014-15:

Local Control Funding Formula Implementation: The final budget contains \$4.75 billion additional funds to continue the phase-in of the Local Control Funding Formula (LCFF), which is expected to eliminate 29.56 percent of the gap toward full implementation of the LCFF. This increase includes funding for a cost of living adjustment of 0.85 percent to the statutory *target* rates under LCFF. (See LCFF details below.)

Deferral Plan Revised: The Legislature did not fully implement the Governor's proposal to entirely buy-back all of the K-12 deferrals this year. Under the adopted plan, approximately \$1 billion in deferrals would remain for 2014-15 which would be attributed to the June 2015 payment. However, the plan also includes an automatic "trigger" that would buy-back more deferrals if additional revenues become available before May 2015. While the final action falls short of fully repaying all deferrals, it is a welcome step in the right direction and a significant benefit for charter schools that have been particularly impacted by the cash flow problems caused by the delay of state apportionments.

One-time Per-ADA Block Grant: The budget provides \$400 million, about \$65 per pupil, for a one-time block grant that schools may use for any educational purpose. Funding is to be allocated on an equal amount per unit of average daily attendance (ADA) based on 2013-14 ADA at the second principal apportionment. To the extent a local education agency has outstanding mandate claims, the dollars would be designated as an offset to that obligation. The allocation also states the "intent" that the funds be used for continued implementation of the Common Core Standards. This funding is somewhat more flexible than last year's Common Core grant because funds are not explicitly required to be used for Common Core and there is no audit requirement. Unfortunately, because the funds are based on prior year ADA, new and growing charter schools will be disadvantaged in accessing these funds.

Mandates Block Grant: The budget continues the K-12 Mandates Block Grant which provides \$14 per ADA in grades K-8, and \$42 per ADA in grades 9-12 to charter schools that choose to participate. The budget offers minimum funding to establish five new mandates, but does not make any changes to the mandate block grant rates for 2014-15. Information about accessing this grant is at: <http://www.cde.ca.gov/fq/aa/ca/mandatebg.asp>.

California Career Pathways Trust: \$250 million is provided to augment one-time funds from last year for a competitive career technical education/linked learning grant program. Charter schools are eligible to apply, in accordance with program requirements, and some charter schools received a grant in 2013-14. For information on this grant program, visit: <http://www.cde.ca.gov/ci/ct/gi/ccptinfo.asp>.

SB 740 Charter School Facility Grants: The 2014-15 funding for the SB 740 Charter School Facility Grant program remains stable at approximately \$92 million. This program is administered by the California School Finance Authority and provides lease assistance to charter schools with a high percentage of pupils eligible for free or reduced priced meals. The budget does not contain any changes to this program, but CCSA continues to advocate for expanded eligibility through our sponsored legislation, AB 948. For details about program criteria and application deadlines, please visit: <http://www.treasurer.ca.gov/csfa/csfgp/index.asp>.

Energy Efficiency Grants: The budget for 2014-15 includes \$307 million to K-12 schools for eligible energy efficiency projects funded by Proposition 39 of 2012, the California Clean Energy Jobs Act. Charter schools are encouraged to review the **revised** program guidelines and consider applying for these funds. The substantive changes to the Prop. 39 Energy Efficiency Program guidelines will greatly benefit charter schools, especially those in leased private facilities by extending the cost recovery period for these projects. The new guidelines can be found at: <http://www.energy.ca.gov/2013publications/CEC-400-2013-010/CEC-400-2013-010-CMF-REV2.pdf>. Additional information can be found at: <http://www.energy.ca.gov/efficiency/proposition39/index.html>. The Energy Commission has also set up a toll-free hotline (855-380-8722) to assist with program questions on how to apply for Proposition 39 (Clean Energy) awards.

High Speed Network: The budget contains \$26.7 million in new one-time funds for high-need local education agencies to access the K-12 High Speed Network. Network connectivity infrastructure grants would be provided based on a need assessment with priority for funding to those school sites with projects critical for 2014-15 implementation of computer-based assessments. While the specific details on how these funds will be allocated is not yet available, information about the K-12 High Speed Network may be found at: <http://www.cde.ca.gov/ls/et/hs/>.

State Teachers Retirement System (STRS) Contributions: AB 1469 contains changes to the contribution rates for STRS that are intended to address the projected \$74 billion unfunded liability in the retirement system. Under the provisions of AB 1469, employer contributions to STRS will increase by 0.63% to 8.88% in 2014-15, to 10.73% in 2015-16, and to 12.58% in 2016-17, with steady increases thereafter. There will also be increases to state and employee contributions. This is less of an initial increase than the Governor had proposed in the May Revision, which gives schools a little time to plan for the steeper increases to come. Nonetheless, this is still a significant increased cost to LEAs, including charters that participate in STRS.

Special Education: The budget includes funding for a 0.85 percent COLA for state funded special education, but does not contain any other significant changes for special education funding in 2014-15.

Preschool/Child-Care: The budget contains \$155 million in new Proposition 98 funds and \$101 million in new non-98 General Fund dollars for a significant investment in increased caseloads, training and facilities for early childhood education programs. This is a much pared down version of the early childhood education proposal released earlier this year in the Legislature. Charter schools offering these programs may access these resources. The law does not mandate that charters offer these programs.

District Reserves/Proposition 98 “Rainy Day” Fund: The budget contains provisions for a ballot initiative to establish a new Proposition 98 “rainy day” fund that would set aside a reserve each year to cover revenues in tough times. Contributions to the reserve would not begin until approximately \$4 billion in pre-recession cuts to education are restored. A highly controversial provision that would cap district reserves under certain circumstances was also adopted. Proponents had argued that to the extent the state is creating a Proposition 98 reserve, there is less need for districts to maintain high reserve levels locally. Therefore, a cap on local reserves

would ensure funds were used for services in a timely manner. While hotly opposed by most of the education sector as an attack on local fiscal control, this provision was deemed necessary to support the passage of the state Proposition 98 “rainy day” reserve fund, which will be presented to the voters in the November 2014 election. The new reserve requirement will not go into effect until contributions to the rainy day reserve begin. However, we note that district reserve requirements do not apply to charter schools. Therefore, these new reserve cap provisions also do not apply to charter schools.

Other Programmatic Changes in the Budget

Independent Study Streamlining and “Course-Based” Independent Study: AB 1463 enacts a new independent Study (IS) option starting in 2015-16 to provide “course-based” IS for K-12 students. The bill also makes some streamlining reforms to traditional IS requirements.

Independent Study Streamlining. AB 1463 amends several sections of the existing IS law. These changes which would be effective immediately for the 2014-15 fiscal year, are intended to address several deficiencies in the existing independent study process and provide schools with additional instructional flexibility by streamlining and expanding opportunities available through this model. Specifically, these changes include:

- Requiring school districts to calculate IS pupil-to-teacher ratios by grade span rather than school-wide. However, it also retains the option for charter schools to use a fixed school-wide ratio of 25 to 1.
- Allowing an IS agreement to be valid for a full school year, rather than just one semester.
- Eliminating the requirement that work product be signed and dated for purposes of determining the time value of student work for apportionment purposes.

Course-Based Independent Study. AB 1463 also enacts the Governor’s proposal to, allow charter schools and districts the option of offering “course-based” IS to pupils in grades K-12. Because this option does not begin until 2015-16, we expect further clarification and direction on the details of how this option will operate. Specifically, AB 1463:

- Enacts new Education Code section 51749.5 that allows full courses to be certified by the governing board, as specified, for IS, if the course is comparable to a site-based course.
- Requires direct communication between the teacher and pupils enrolled in an IS course at least twice per calendar month to ensure satisfactory progress toward course completion.
- Provides the method of assigning instructional time by course, for purposes of determining apportionment credit.
- Specifies the content of the course-based IS learning agreement.

Adults in Charters: In the May Revision, the Governor introduced a proposal that would have imposed a one-year moratorium on planned, but not yet opened, charter schools that would specifically serve adult populations and which operate in partnership with the federal Workforce Investment Act or operate in correctional facilities. That proposal was amended in the final budget agreement to only apply to charter schools approved *after* July 1, 2014, and only until

June 30, 2015. CCSA had requested this change to protect schools that had already been approved to operate in 2014-15. However, we note that there appears to be interest within the Administration and the Legislature to re-evaluate, in the coming year, the funding structure for charter schools that serve adult populations as part of an overall redesign of adult education services.

Local Control Funding Formula (LCFF)

Introduction. The enactment of the LCFF in 2013 was a significant step toward a more equitable and adequate funding system for California's schools, including charter schools. The LCFF includes charter schools within the broader system for funding all public schools, eliminating the prior charter block grant funding model.

The 2014-15 budget includes \$4.75 billion to continue implementation of the LCFF which will move the state closer to full implementation. The budget package also adopted AB 1464, which provides some technical adjustments to the laws implementing LCFF. While the basic architecture of the LCFF remains as originally enacted, some of the key clarifying changes to LCFF made in AB 1464 include:

- Clarifying how schools that operate under the Community Eligibility Option (provision 2 or 3) of the National School Lunch Program establish their annual unduplicated count of high need pupils.
- Allowing schools to apply the greater of their 2013-14 or 2014-15 unduplicated count for determining 2013-14 funding.
- Clarifying how charter schools are to report to CDE the location of their school sites to determine if the school is located outside of the district of authorization, for purposes of determining the appropriate concentration grant cap.

Background: The LCFF provides a base target per-pupil rate for grade level span (K-3, 4-6, 7-8 and 9-12) and additional grade span adjustments for K-3 and high school ADA. Then, 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, generates an additional supplement. Finally, in addition to the base and weight, districts and charter schools receive an additional weighted grant if they have a high concentration of high needs pupils overall.

Each year the LCFF is implemented, each charter school increases funding toward its targeted rate by an increment based on its current level of funding. For 2014-15, each school will recalculate the remaining gap between its 2013-14 funds and the new 2014-15 target, and then close that gap by an expected 29.56 percent.

With few exceptions, virtually all funds for schools and districts are contained in the LCFF. Special Education, nutrition, After School Education and Safety, SB 740 Charter School Facility Grants, mandates and all federal programs continue to be funded outside of the LCFF. Targeted Instruction Improvement Grants (TIIG) and Home to School Transportation are provided to those districts that received them prior to the LCFF.

In building annual budgets, charter schools should also include non-LCFF funding sources in their budget planning such as federal funds, special education, mandates, one-time common

core grants and energy efficiency grants and other funding described in this brief that the school may receive outside of the LCFF.

LCFF for 2014-15. Below are the targets, supplements and multipliers under the LCFF for 2014-15. Grade level target rates per ADA are adjusted annually for COLA, including a 0.85 percent COLA for 2014-15. Actual funding to be received by each school will vary depending on progress towards the target compared to 2013-14 LCFF funding received.

Funding Element	Target Amount for 2014-15
Grade K-3 Base Target	\$7,011
Grade K-3 Grade Span Adjustment	\$ 729 (10.4% of K-3 target)
Grade 4-6 Base Target	\$7,116
Grade 7-8 Base Target	\$7,328
Grade 9-12 Base Target	\$8,490
Grade 9-12 Grade Span Adjustment	\$ 221 (2.6% of 9-12 target)
Supplement per unduplicated Free or Reduced Priced Meal Eligible Pupil, English Learner or Foster Youth	20% of average base and add-on funding per eligible ADA
Concentration Supplement per pupil above 55% of the lesser of total district or charter percent high need	50% of average base and add-on funding per eligible ADA above 55%
Percent of gap between current funding and target funded in 2013-14	29.56%

LCFF Tools

CCSA has developed a number of tools to assist schools in implementing the LCFF. Please review the LCCF tab on our budget web page at: <http://www.calcharters.org/2011/04/state-budget-update.html#tab-lcff> for these resources. Also, please review CCSA's *2014-15 Governor's Budget Brief*, dated January 2014, for a complete description of the LCFF calculations.