



BUDGET BRIEF

Governor's Budget 2014-15: January 2014

\$9.7 Billion in New Education Funding Increases Support for Schools and Could End Payment Deferrals

Overview

Governor Jerry Brown released his proposed budget for the 2014-15 fiscal year on January 9, 2014. This proposal is the basis for budget discussions in the California Legislature over the next several months. Governor Brown noted that “with a decade of intractable deficits behind us, California is poised to take advantage of the recovering economy.” However, he further cautions that a mountain of long-term liabilities and the volatility of state revenue sources, including temporary tax increases enacted through Proposition 30, require that “wisdom and prudence should be the order of the day.”

Overall, the budget reflects significant increases in state funding and uses those increases to restore cuts from the past and continue to pay down the “wall of debt.” The budget increases state funding for K-12 and community colleges by \$9.7 billion and increases the University of California and California State University systems’ budgets by an additional \$839 million for the 2014-15 fiscal year. For K-12 education, the Governor proposes “buying back” \$5.5 billion of deferred payments to schools, completely eliminating these late payments. The budget would also provide \$4.5 billion for the second year of a multi-year phase-in of the new Local Control Funding Formula, which has completely restructured how K-12 schools are funded. The Governor also continues his support for charter schools by funding enrollment growth, SB 740 Facility Grants and offering reforms that are intended to streamline requirements for independent study and Blended Learning programs.

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 continue to work to ensure that charter schools are treated fairly in the final budget and that our members are informed as the budget enactment process continues through the spring. 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 and in the proposed Assembly Bill 1457.

State Fiscal Outlook

The state and national economies have improved modestly and the state is in its most stable fiscal situation in more than a decade. The Department of Finance reports that “overall, the economy is expected to improve, with slow and steady growth over the next few years. Unemployment rates for the nation and California continue to drop, with job creation and housing prices improving.” The surge of the stock market in 2013 resulted in a windfall to state

revenues from capital gains of about \$4 billion, and temporary sales tax increases from Proposition 30 further improve the state's fiscal position.

Overall, the Governor's budget proposes \$106.8 billion in General Fund expenditures for 2014-15, nearly \$9 billion more than in 2013-14. While increased revenues are a welcome change, the Governor warns about the continued volatility of the state revenue situation and encourages discipline to continue paying off "the wall of debt." The Governor proposes \$11 billion to reduce these liabilities and also proposes strengthening provisions to invest in "rainy day" funds to even out revenues in tough 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 2014-15, the Governor proposes fully funding the constitutional guarantee of \$61.6 billion, an increase of \$6.3 billion over 2013-14. This is approximately an average of \$9,194 per pupil, a statewide increase of \$725 per pupil from 2013-14. In addition, the budget includes one-time "settle up" funding of \$3.4 billion for prior year's adjustments to the Proposition 98 guarantee.

This budget plans to use one-time, and some ongoing resources to fully "buy out" \$5.5 billion in remaining apportionment deferrals to K-12 schools, completely eliminating these late payments. The proposal also contains \$4.47 billion in an ongoing increase for the second year of implementation of the Local Control Funding Formula (LCFF). Under LCFF, increased funding per pupil would be applied differently to local education agencies depending on their current funding relative to established targets (see LCFF section below).

Adjustments for 2012-13 and 2013-14

The passage of Proposition 30 and the improving economy have increased the Proposition 98 guarantee as it applies to both the 2012-13 and 2013-14 fiscal years. For 2012-13, the Proposition 98 guarantee increases \$1.8 billion for a total of \$58.3 billion, and for 2013-14, the guarantee increases \$1.5 billion for a total of \$56.8 billion. The adjustments to the prior and current year funding guarantee for schools require a one-time "settle-up" for school funding, which the Governor has proposed using to buy- back apportionment deferrals.

Major Education Budget Proposals and Adjustments for 2014-15

The Governor's Budget contains a number of proposals that would improve K-12 schools districts and charter schools:

- \$4.5 billion to continue the phase-in of the LCFF, which is expected to eliminate 28.05 percent of the gap toward full implementation of LCFF. This increase includes funding for a cost of living adjustment of 0.86 percent to the statutory target rates under LCFF.
- \$5.5 billion in deferral relief for K-12 schools, which would completely eliminate all of the remaining payment deferrals.
- \$92 million in continued funding for the Charter School Facility Grant Program.

- \$316 million to K-12 schools for eligible energy efficiency projects funded by Proposition 39 of 2012.
- \$73.4 million to fund projected increases in charter school enrollment.
- \$46.5 million for implementation of the new state testing and accountability system as revised by last year's AB 484.
- A proposal to increase instructional flexibility by streamlining and expanding the opportunities to offer nonclassroom-based independent study.
- The Governor's budget proposal does not include funding to expand Transitional Kindergarten although the Legislative Leadership recently proposed this, nor does it include additional funding for implementation of the Common Core Standards.
- The proposal does not include a new K-12 school bond, but instead suggests that the state needs to engage in a broader examination of state infrastructure financing to reconsider its unsustainable reliance on state debt financing for school facilities.

Local Control Funding Formula

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. Not only does the LCFF create a more fair and rational system for funding all of California's public schools, including charter schools, but it directs increased resources to support the learning of the highest need students. 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 \$4.5 billion to continue implementation of the LCFF which will move the state closer to full implementation. The budget does not include any other significant changes or adjustments to the LCFF formula. The basic architecture of the LCFF remains as originally enacted.

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 indentified 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 28.05 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 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 LCFF.

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 0.086 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	\$7,012
Grade K-3 Grade Span Adjustment	\$ 729 (10.4% of K-3 target)
Grade 4-6 Base Target	\$7,117
Grade 7-8 Base Target	\$7,328
Grade 9-12 Base Target	\$8,491
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	28.05%

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> for these resources.

One of these tools is an LCFF simulator to assist you in estimating your funding for 2014-15. The simulator is an interactive spreadsheet that you may download for your budget planning that can be accessed from our LCCF tab on our budget webpage at <http://www.calcharters.org/2013/04/lcff-model-simulator.html>. Using the factors and amounts noted above, the simulator estimates per pupil funding for the year by doing the calculations for you, once you enter your school level data. Rates may be subject to change throughout the year as revenue estimates and enrollment projections are revised.

In building their total 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 as well as other funding the school may receive outside of the LCFF.

Simplified Steps to Estimating Your School's 2014-15 Funding Under the LCFF:

The following steps may be used along with CCSA's LCFF calculator to better understand the LCFF and determine estimates for your school.

Step 1: Calculate Starting Point Base:

- A. Determine your 2013-14 funding per ADA received under the LCFF. (For new schools planning to open in 2014-15, use the 2013-14 LCFF rate of the school district in which the charter will be located.)

Step 2: Calculate your LCFF Target

- A. **Base Target:** Multiple your estimated 2014-15 ADA by the grade level target amounts noted above, including the supplement for K-3 and 9-12 ADA, divided by total ADA for a per pupil base target.
- B. **Supplement:** Multiply the base target in 2-A by the percent of unduplicated pupil enrollment that is eligible for Free or Reduced Priced Meal, an English Learner or Foster Youth. Multiply that by the 20% supplement.
- C. **Concentration Grant:** If the school, and the district in which it is located, has 55 percent or more of its population eligible for a base grant, determine the lesser of the percent of total district or charter pupils that received a supplemental grant. Subtract that percent from 55 percent. Multiply that difference times 50 percent times the base target rate per ADA determined in 2-A.
- D. Sum 2-A through 2-C for the target rate per ADA for 2014-15.

Step 3: Calculate your estimated LCFF funding for 2014-15

- A. Subtract the target rate in 2-D from the base start point in 1-D to determine the gap per pupil.
- B. Multiply the difference found in 3-A by the 2014-15 gap closing rate of 28.05 percent.
- C. Add the funded gap per ADA in 3-B to the start point base in 1-D to determine your average 2014-15 per ADA LCFF funding.

Other Budget Adjustments:

Average Daily Attendance

Statewide average daily attendance (ADA) remains relatively flat. 2012-13, K-12 ADA has been reduced slightly from prior estimates to 5,962,430. 2013-14 ADA will increase by only 702 to 5,963,132. For 2014-15, ADA is projected to drop slightly to 5,956,130. However, charter school ADA is expected to continue to grow by approximately 78,000. Charter ADA is projected to be 519,468 in 2013-14 and 597,388 in 2014-15. The budget includes \$73.4 million for additional charter school pupils.

COLA

The Cost of Living Adjustment (COLA) for K-12 is estimated to be 0.86 percent, and the budget includes \$33.3 million for the COLA increases to LCFF targets and some categorical programs that remain outside of the LCFF, including Special Education and nutrition. As discussed in the LCFF section above, because the COLA is applied to LCFF targets, the actual increase received in 2014-15 will vary by school.

SB 740 Charter School Facility Grants

2014-15 funding for the SB 740 Charter School Facility Grant program remains stable at approximately \$92 million. The Governor's Budget does not recommend any changes to this program, but CCSA continues to advocate for expanded eligibility through our sponsored legislation AB 948.

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, and in 2013-14 deferrals were reduced by another \$1.8 billion. This year, the Governor has proposed completing the buy-back

of all K-12 deferrals with a final adjustment of \$5.5 billion beginning with the July 2014 apportionment. This proposal is a significant benefit for charter schools that have been particularly impacted by the cash flow problems caused by the delay of state apportionments. We will provide additional information on the impact of this proposal on cash flow as details emerge.

Mandates

The Governor did not propose any additional funding for outstanding mandates, nor did he propose any changes to the mandate block grant for 2014-15. 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. The K-12 Mandates Block Grant provides \$14 per ADA to charter schools that choose to participate. In 2013-14, the budget expanded the block grant to include high school graduation requirements. As a result, the mandate block grant increased from \$14 to \$42 per pupil for charter high school ADA.

Special Education

The budget includes \$31.6 million for a 0.86 percent COLA for state funded special education, but does not contain any other significant changes for special education funding in 2014-15.

Nonclassroom-based Charter Schools and Blended Learning

The Governor's budget contains a new proposal intended to address several deficiencies in the existing independent study process and provide schools with additional instructional flexibility by streamlining and expanding the instructional opportunities available through this process.

The details of this plan have not yet been released. However, CCSA has recently been engaged in a project to identify key barriers faced by schools that are innovating in the area of integrated technology and classroom-based instruction. We are hopeful that the final proposal introduced by the Governor will include improvements to many of the challenges faced by blended learning providers. We will provide more information, including the applicability of the proposal to charter schools, when it becomes available.

Energy Efficiency

The budget for 2014-15 includes \$316 million to K-12 schools for eligible energy efficiency projects funded by Proposition 39 of 2012, the California Clean Energy Jobs Act. The California Energy Commission (CEC) adopted the California Clean Energy Jobs Act Guidelines in December 2013. All charter schools are encouraged to review the guidelines and consider applying for these funds. The guidelines and 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) for in-state calls and an out-of-state hotline (916-653-0392) to assist with program questions on how to apply for Proposition 39 (Clean Energy) awards.

School Facilities

The Governor did not include any significant proposal for school facilities or a future statewide schools bond. The Governor believes that the state needs to rethink the way it supports school facilities including streamlining the process and avoiding "unsustainable reliance on state debt issuance". However, the Legislature continues to discuss the possibility of placing a statewide school bond on the 2012 ballot. The budget includes \$181 million for the emergency repair

program and proposes to transfer \$211 million of existing bond authority within the state school building program to new construction and modernization.

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, even if slightly lower than the LAO has previously projected. Further, recent economic indicators suggest it is very possible that revenues could increase even further during the year. The LAO notes that the "Governor's Budget would continue the state's fiscal progress" and that his "emphasis on debt repayment is a prudent one." The LAO also finds that the Governor's "Proposition 98 education plan provides a reasonable mix of one-time and ongoing spending."

Next Steps

The Governor's budget is only the first step in enacting the state budget for 2014-15. The Legislature must act on this proposal, and will no doubt have its own priorities and ideas for managing the state's finances. One particular area of discrepancy is the Legislature's proposal to expand Transitional Kindergarten, which is not included in the Governor's Budget. 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.