



# BUDGET BRIEF

## 2014-15 May Revision to the Governor's Budget: May 15, 2014

### May Revision Retains Increases for K-12 Education

#### Overview

Governor Jerry Brown released the May Revision to his proposed budget for the 2014-15 fiscal year on May 13, 2014. The May Revision is the last update of economic variables before the final 2014-15 budget is adopted in late June. The May Revision is largely consistent with the January proposal, and offers few significant changes to the education spending levels or to specific proposals offered by the Governor in January.

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 May Revision reflects \$2.4 billion in new state funding that was not anticipated in 2014-15 budget proposed in January. Total General Fund revenues are estimated to be \$107 billion. The Governor proposes using the new funds to continue to pay down the "wall of debt," invest in a "rainy day fund" and meet significant new obligations to Medi-Cal.

For K-12 education, the Governor retains his proposals to "buy back" all K-12 and community college deferred payments, completely eliminating these late payments, and to provide \$4.5 billion for the second year of a multi-year phase-in of the new Local Control Funding Formula. A net increase of \$242 million in the Proposition 98 funding guarantee is used primarily for minor technical adjustments and a modest proposal to improve access to the K-12 High Speed Network. The May Revision also includes a long-term plan to shore up the State Teachers Retirement System beginning in 2014-15.

According to the state constitution, the California Legislature has until June 15 to approve a budget by a majority vote. While the budget will undergo some changes in the coming weeks before it is approved by the Legislature, we are encouraged by the 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 when the final budget is enacted. This brief will provide some of the details of the May Revision proposal and its specific impact on charter schools. The budget, in full, is posted online at [www.ebudget.ca.gov](http://www.ebudget.ca.gov).

## 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 May Revision contains 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 May Revision 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 Proposals

- Maintains proposal for \$4.5 billion to continue the phase-in of the Local Control Funding Formula (LCFF), which is expected to eliminate 28 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.
- Maintains proposal for \$5.5 billion in deferral relief for K-12 schools, which would completely eliminate the remaining payment deferrals. The May Revision makes a technical shift between ongoing and one-time funds as the source for the buy-out.
- Maintains \$92 million in continued funding for the Charter School Facility Grant Program.
- Decrease funding from \$316 million to \$307 million to K-12 schools for eligible energy efficiency projects funded by Proposition 39 of 2012.
- Maintains \$46.5 million for implementation of the new state testing and accountability system as revised by AB 484 of 2013.
- Provides \$26.7 million in new one-time funds for high-need local education agencies to access the K-12 High Speed Network.
- Provides technical adjustments for average daily attendance, reduction in local property tax revenues, and enrollment growth and cost of living adjustments for selected categorical programs.
- Provides some modifications to the proposal to offer “course-based” independent study and blending learning intended to streamline and expand opportunities to offer these instructional models.
- Proposes 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 all pre-recession cuts to education are restored.
- Proposes a long-term plan to shore up the State Teachers Retirement System beginning with a combined \$450 million increase to contributions in the first year from the State, local education agencies and teachers.
- Proposes a one-year moratorium on new charter schools that would serve adult populations under existing exemptions in the Education Code.

### 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. The LCFF includes charter schools within the broader system for funding all public schools, eliminating the prior charter block grant funding model.

As proposed in January, the May Revision to the 2014-15 budget includes \$4.5 billion to continue implementation of the LCFF which will move the state closer to full implementation. The May Revision provides some technical adjustments to the LCFF. One change addresses confusion on how schools that operate under provision 2 or 3 of the National School Lunch Program establish their unduplicated count of high need pupils. But overall, 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 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 the 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 0.85 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.

<b>Funding Element</b>	<b>Target Amount for 2014-15</b>
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	28%

### **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.

One key tool for estimating LCFF revenues for 2014-15 is CCSA's *LCFF Simulator*. 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. 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 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 as well as other funding the school may receive outside of the LCFF.

### **New Proposals in the May Revision:**

#### **High Speed Network**

The May Revision proposes \$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.

#### **STRS Contributions**

The Governor has set forth a long-term plan to shore up the State Teachers Retirement System (STRS) beginning in 2014-15. Currently, STRS has a significant unfunded liability of \$74 billion, which threatens the system's ability to meet its promises to retired teachers. The new plan is intended to ensure the system is fully funded within 30 years. According to the proposal, STRS employer contributions would increase from 8.25% to 9.5% in the 2014-15 year. In subsequent years, the contribution would increase by 1.6% until the target contribution rate of 19.1% is met. The employee contribution would increase from 8.0% to 8.15% in 2014-15 and increase to 10.25% over the next three years. State contributions would increase from 3.04% to 6.33% over the next three years. This proposal will likely be one of the most controversial discussions as the Legislature considers final action on the budget.

#### **Rainy Day Fund**

The Governor has also proposed a new "rainy day" fund that would set aside a portion of General Fund revenues to cover state expenditures when revenues are low. The proposal would also establish a Proposition 98 reserve that would set aside funds when revenue "spikes" to minimize cuts in lean years. Contributions to the Proposition 98 reserve would not begin until after approximately \$4 billion in pre-recession cuts to education were restored, which will likely take several years. If approved by the Legislature, the proposal would go to the voters for approval in November 2014.

#### **Restrictions on New Charter Schools Serving Adults**

In the May Revision, the Governor proposes 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. Existing programs would not be

affected, but the intent of the moratorium appears to be a desire to find a more permanent restriction on “adult education” charters. CCSA is greatly concerned about this approach and the impact it may have on new charter schools that have already planned to open in 2014-15 under the existing exemption in current law.

### **Other Budget Adjustments in the May Revision:**

#### **COLA**

The Cost of Living Adjustment (COLA) for K-12 is estimated to be 0.85 percent, and the budget includes funds for the COLA increases to LCFF targets and some categorical programs that remain outside of the LCFF, including Special Education and nutrition. 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 May Revision does not recommend any changes to this program, but CCSA continues to advocate for expanded eligibility through our sponsored legislation, AB 948.

#### **Funding Deferrals**

The Governor’s proposal from January to buy back all K-12 deferrals beginning with the July 2014 apportionment remains in May Revision. The revision proposes a funding shift in the source of the buy-back from ongoing to one-time Proposition 98 dollars, but this change has no practical effect on the repayment. 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.

#### **Mandates**

The May Revision offers minimum funding to establish five new mandates, but otherwise offers no additional funding for outstanding mandates, nor any changes to the mandate block grant for 2014-15. The K-12 Mandates Block Grant provides \$14 per ADA in grades K-8, and \$42 per ADA in grades 9-12 to charter schools that choose to participate.

#### **Special Education**

The May Revision 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.

#### **Nonclassroom-based Charter Schools and Blended Learning**

The Governor’s budget contained 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 opportunities available through this model.

The proposal would allow charter schools and districts the option of offering “course-based” independent study, providing significant streaming in course approval, “time value of work” evaluation and contract and signature requirements. The proposal would also establish a new “site-based blended learning” option. The May Revision provides some additional flexibilities and technical amendments to the original proposal, such as modifying the teacher contact requirement and allowing electronic signatures. Various proposals to streamline and modify

independent study and blended learning are also being discussed in the legislative policy arena. Of note, are SB 1143, which largely mirrors the Governor's proposal, and CCSA's sponsored bill AB 2178 that would establish a blended learning pilot program.

### **Energy Efficiency**

The May Revision 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. This is \$9 million less than the funding level projected in January. Charter schools are encouraged to review the program 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.

### **Next Steps**

The May Revision is the final adjustment to economic factors prior to the adoption of a final state budget for 2014-15. The Legislature will be acting on each element of the proposal in the next few weeks, and will no doubt have its own priorities and ideas for managing the state's finances. In addition to the controversial STRS proposal, one particular area of discrepancy is the Legislature's proposal to expand Transitional Kindergarten, which is currently not included in the Governor's plan. The Legislature is required to adopt a budget by June 15.