

State Budget Update: On June 28, The Legislature passed a budget for the 2011-12 fiscal year. While the Governor recently vetoed a similar version of the budget, he is expected to sign the revised budget at any time. He stated that "Democrats in the California State Legislature made tough choices and delivered an honest, balanced and on-time budget that contains painful cuts and brings government closer to the people through an historic realignment." The new budget agreement does not rely on tax extensions previously proposed, but does assume higher revenues than previously projected.

This is the first time in recent memory that the Legislature has passed a budget before the start of the fiscal year which begins on July 1. Two significant changes to the budget process were implemented this year that influenced the passage of the budget. This is the first year a budget could be approved by a majority vote, allowing majority Democrats to pass a budget without any Republican support and this was also the first year that the Legislature forfeited pay after June 15th until a balanced budget was passed.

For K-12 education, the approved budget looks very similar to the one the Governor recently vetoed. It is also very similar to the K-12 budget plan proposed by the Governor back in January. Overall, the budget maintains Proposition 98 funding relatively flat from 2010-11 to 2011-12, but there are two significant components that will result in challenges and greater uncertainty for charter schools and school districts.

First, as proposed in January, the approved budget contains \$2.1 billion of new cross-year K-12 apportionment deferrals in 2011-12. These deferrals were actually enacted by the Legislature in March. The May Revision had proposed to eliminate some of these new deferrals, but because the budget was adopted without the revenues from the tax extension, the roll-back of the deferrals was rejected. Schools will need to be prepared for significant funding delays across the fiscal year into 2012-13.

Adding further uncertainty to school funding is an automatic "trigger" built into the budget plan that will cut funding if state revenues do not meet the optimistic revenue projections used to balance the budget. If revenues come in at \$2 billion below the budget assumptions by January 2012, K-12 education will face an automatic mid-year cut of \$1.9 billion. This cut will occur only after \$600 million in cuts have been made to other programs. Further, the law would allow a reduction in the school year if these cuts were imposed.

With the exception of the "trigger," the final budget agreement appears to be consistent with the plan the Legislature approved in March, but not with the Governor's May Revision. The March agreement included:

- No new reductions for 2010-11. Overall, current year funds were not subject to additional reductions.
- Extended the categorical "flex and freeze" system for two years, through 2014-15.
- Extended the supplemental categorical block grant of \$127 per pupil for new start-up charter schools to help mitigate the inequity imposed by the categorical flexibility.
- Funded the SB 740 facility grants as proposed by the Governor, at approximately \$80 million.
- Augmented the charter school revolving loan fund by five million dollars.