

BUDGET BRIEF

2013-14 May Revision

New One-time Revenues Provide Additional Support for Schools

Overview

On May 14th, Governor Jerry Brown released the May Revision to his 2013-14 fiscal year budget proposal. The May Revision typically updates the budget for changes in variables such as population, economic indicators, and tax revenue assumptions. The revision includes \$1.6 billion in additional K-12 deferral relief, and \$1 billion in one-time funding for the transition to the common core standards. This Brief provides an update of the Governor's proposal that was described in our January 2013 Governor's Budget Brief. The full May Revision Summary can be found on [California's e-budget website](#).

State Fiscal Outlook

According to the Department of Finance, General Fund revenues are projected to increase by \$2.8 billion in the current year (2012-13) for a total of \$98.2 billion. However, this welcome influx of new revenue is expected to be short-lived and will represent a one-time boost to the state's General Fund. In 2013-14, total General Fund revenues are expected to be \$97.2 billion, which is \$1.3 billion lower than the January projections. This downward revision to the short-term economic outlook is due to federal sequestration cuts and the expiration of federal income tax relief which were not anticipated in January. As a result, the pace of the economic recovery has slowed a bit from earlier projections, despite new revenues generated by Proposition 30. While the pace of the recovery is projected to be a bit slower than originally estimated in January, over the next five years, General Fund revenues are expected to increase by an average of seven percent per year.

K-12 Budget Overview and Proposition 98

Proposition 98 (1988) establishes a minimum funding guarantee for K-14 education based on complex calculations and interactions of a number of economic and demographic variables. The Department of Finance projects that the minimum guarantee will be \$56.5 billion for 2012-13. This is an increase of \$2.9 billion compared to the January projections. For 2013-14, the guarantee will drop \$941.4 million from January estimates, to a total of \$55.3 billion. The Proposition 98 guarantee is projected to increase from \$47.3 billion in 2011-12 to \$66.5 billion in 2016-17, representing an increase of about \$2,754 per pupil over that time period.

Major Education Budget Adjustments for 2012-13

The May Revision projects \$2.9 billion in new revenues for K-12 education in the current year. However, these new funds are considered one-time benefits, which are proposed to be used as follows:

- \$1.6 billion to accelerate deferral relief in 2012-13. These funds would be partially offset by a reduction of \$909 million in deferral repayments previously planned for 2013-14. In total, K-12 inter-year deferrals will be reduced to \$4.9 billion by the end of the 2013-14 fiscal year. While deferrals will still be significant, this is a considerable reduction from peak deferrals of \$9.5 billion.
- \$1 billion for common core standards implementation activities. Charter schools could use funding for instructional materials, professional development and technology necessary to implement the common core academic content standards according to a plan adopted by the governing body of the charter school. These funds would provide about \$170 per pupil based on average daily attendance at the 2012-13 second principal apportionment. While these funds technically count towards the 2012-13 Proposition 98 guarantee, schools will not actually receive them until the 2013-14 fiscal year.

Major Education Budget Proposals and Adjustments for 2013-14

Overall, the Governor retains all of the charter school proposals that he made in his January proposal with only minor modifications. However, it is still unclear whether the legislature will accept, reject or amend these ideas. In general, proposals that are not discussed in this Brief remain unchanged from the Governor's January plan. (See our January 2013 *Governor's Budget Brief* at: <http://www.calcharters.org/2013/01/2013-14-governors-budget-brief.html> for information on these proposals.)

Local Control Funding Formula

The key piece of the Governor's budget for K-12 education this year is his plan for a new school funding system, the Local Control Funding Formula (LCFF), which was proposed in January. (Please visit LCFF tab on the CCSA Budget page for more details on the Local Control Funding Formula at: <http://www.calcharters.org/2011/04/state-budget-update.html>.)

The LCFF would provide a base per-pupil rate per grade level spans: K-3, 4-6, 7-8 and 9-12. 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, would generate an additional supplement of 35 percent of the base grant. 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 at the average FRPM rate of the district in which the school is located, rather than the actual FRPM percent of the charter school. Additional funds for K-3 pupils and high school pupils would be provided for class size reduction and career technical education programs, respectively.

The LCFF proposal would be phased-in over five to seven years, as new school funding is available, until the target rates are attained. During the transition, schools would receive their prior year funding, plus a percent of the difference between their current funding and the target rate in each year until the proposal is fully funded. By funding a percent of the difference each year, schools that are further behind their target rate will gain funding more quickly than those

closer to the target. Using new money as it becomes available is intended to hold districts and charter schools harmless from cuts as the system is phased-in.

In the May Revision, Governor Brown largely retains his original LCFF proposal, but makes a number of adjustments in response to concerns raised by stakeholders since the plan was introduced. Some of these changes are related to issues specifically raised by CCSA based on our analysis of the original LCFF proposal. Key changes and clarifications addressed in the May Revision that affect charter schools include:

Growth Calculations: CCSA raised significant concerns about the way the LCFF calculations worked for growing schools and we worked with the Department of Finance to craft amendments to clarify funding calculations for growing schools. The revised proposal addresses most, but not all of our concerns. Under the plan, charter schools would receive annual growth for all new pupils for all funds except those categorical funds that are currently frozen, including K-3 CSR. However, since funds for K-3 CSR are built into the targets for every K-3 pupil, schools that have not had access to CSR funds will make annual incremental progress toward equity on K-3 CSR funding over the implementation phase of LCFF.

Additional Funds: The May Revision provides an additional \$236 million to increase base grants in the first year (approximately \$40 per pupil). This will increase the percentage of funding for the difference between the current funding and the target from 10 percent to approximately 12 percent.

English Learners: The May proposal increases the time that English Learners are eligible for supplemental weights from 5 years to 7 years, with 2013-14 as the first year of the designation. It appears that pupils with a prior designation would get to restart the clock for this purpose.

Locally Funded Charter Schools: CCSA raised concerns about how base funding was determined for locally-funded charter schools because they receive much of their categorical funding as a pass-through from their district. Revised language addresses this concern by ensuring that districts continue to pass through a proportionate share of funds to charter schools based on funds received in 2012-13.

Accountability Plans: The LCFF requires charter schools and districts to establish an accountability plans to ensure that progress is being made toward improving performance of the pupils for which the targets are designated. The charter school plans are largely tied to the outcomes defined in the charter and new growth target metrics for significant subgroups as defined in SB 1290 last year. The May Revision increases the accountability provisions to ensure weighted funds are used for the pupils that generate the weights, and increase County Office of Education oversight for school districts. However, it is not clear at this time how or whether these changes would apply to charter schools. We will continue to seek clarity on this issue and advocate for optimal spending flexibility for charter schools.

Other LCFF Issues: CCSA raised concerns with two other provisions of the LCFF as proposed in January. First, the LCFF would cap a Concentration Grant for charter schools at the average Concentration Grant of the district in which it is located. Second, the LCFF excludes from the formula two large categorical programs, Targeted Instructional Improvement Grants and Home to School Transportation, preventing charter schools from gaining access to these funds. The

May Revision does not change the proposals on these issues and CCSA continues to oppose them.

It is still unclear how the legislature will respond to the Governor's revised LCFF plan. Key differences between the legislature and the Governor remain on major issues such as accountability plans, the concentration factor and the adequacy of the base grants. CCSA will continue to engage both the administration and the legislature on our concerns.

Other K-12 Adjustments

The May Revision offers some other adjustments affecting overall K-12 education programs, including:

Proposition 39 Energy Efficiency Grants: Proposition 39, of 2012 raised taxes on multi-state businesses to provide funds to improve energy efficiency. The Governor's plan would allocate these funds to schools based on average daily attendance (ADA). In the May Revision, the Governor amended his proposal to provide every local education agency (LEA) with ADA of 200 or less a minimum grant of \$15,000. For LEAs with more than 200 ADA, the grant would be the larger of the LEA's proportional award on the basis of average daily attendance or \$50,000. We note that AB 39 and SB 39 are competing measures to the Governor's plan for the use of Proposition 39 funds that would create competitive grant programs rather than a per-ADA allocation. It is unclear at this point which of these approaches will be adopted.

Special Education: The May Revision proposes to expand program consolidation to provide greater funding flexibility by consolidating separate cost pools and Regional Occupation Center funding for pupils with low-incidence disabilities. The revision also includes \$60 million in state funds to backfill federal sequestration cuts to special education.

Technology-Based Education: The Governor has withdrawn the proposal to create a definition and attendance accounting structure for schools offering online learning, with the intent of refining the plans for next year. He did not withdraw his proposal to reduce the number of funding determinations required for nonclassroom-based charter schools.

Cost of Living Adjustment (COLA): The statutory COLA for 2013-14 is reduced from 1.65 percent to 1.565 percent. But, as was the proposal in January, the COLA is assumed in the LCFF target rates. 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.

Deferrals: Because the one-time funds in 2012-13 allow for an acceleration of the deferral buy-backs of \$1.6 billion, there is an offsetting reduction of \$909 million in deferral repayments previously planned for 2013-14. In total, K-12 inter-year deferrals will be reduced to \$4.9 billion by the end of the 2013-14 fiscal year. While remaining deferrals will still be significant, this is a considerable reduction from peak deferrals of \$9.5 billion. Continued buy-backs are expected in the future as new funds are available. CCSA will post a revised cash flow schedule to reflect these adjustments when the revised details on timing of apportionments become available.

Next Steps

The May Revision offers the Governor's update to his original January Budget proposal and retains other provisions of his January proposal as described in our January [2013-14 Governor's Budget Brief](#), including several proposals to assist charter schools. However, it is still unclear whether the legislature will accept, reject or modify the Governor's plan. According to the State Constitution, the legislature has until June 15 to approve a budget by a majority vote for the fiscal year which begins July 1. We expect the legislature will hold hearings and make progress over the next few weeks to adopt its version of the budget by this deadline.

CCSA will monitor budget discussions closely and continue to advocate for charter schools to be treated equitably in the budget. We will keep membership advised as the process continues. Keep a close eye out for our [Capitol Updates](#) and other CCSA communications for up-to-date information on budget developments.

Budget Planning

While some key elements of the LCFF are still under discussion, CCSA has revised its LCFF Funding Simulator to reflect the assumptions in the Governor's May Revision. Visit our LCFF tab on the budget page to download the May Revision LCFF simulator.