Governor’s Proposals for the 2014-15 State Budget and Education

Preface

What a difference a year makes! Just 13 months ago education was faced with a very tough situation; either Proposition 30 passes or education takes another deep cut. This year due to an improving economy the average increase for K-12 school districts will be 10.9%, or approximately $751 per student. Only once in the past 30 years has public education received an increase of more than 10% and that was way back in 2001. For 2013-14, the Budget started the Local Control Funding Formula (LCFF) with initial funding of $2.1 billion; for 2014-15, Governor Jerry Brown proposes a whopping $4.5 billion in ongoing LCFF funding!

In addition to the increase in projected revenues for 2014-15, Governor Brown recognizes higher revenues and higher Proposition 98 obligations for both 2012-13 and 2013-14. These one-time resources enable the state to buy out the remaining $6.1 billion in K-14 cash deferrals. We detail these and other financial and policy impacts of the Governor's proposals below, but any way you slice it, education would experience the highest level of recovery funding ever experienced.

Those who follow our analyses of Proposition 98 know that we believe that under current law education would be entitled to about 90% of any year-to-year revenue growth experienced by the state. The results of that calculation as reflected in the Governor's projection produce a remarkable result. While the California economy as a whole improves at a very moderate rate, and tax revenues increase at a somewhat better rate, education's Proposition 98 entitlement skyrockets. This creates a window of opportunity unlike any we have had before.

Remembering that most of the state's past financial problems have stemmed from over-exuberance in good times, not just the onset of bad times, it is important for us to look at the prospects for stability that underpin the Governor's proposals. A rollercoaster that can take us up quickly can take us down just as quickly unless there is a safety net. The Governor acknowledges that in some future year there will be another downturn. To protect education in that eventuality, the Governor creates two rainy day funds: one for education and one for the rest of the budget. We think this is reasonable and prudent, though we expect the Governor to get push-back from those who would prefer to spend more now.

We should also remind readers that districts will not receive the average increase of 10.9%; some could get significantly more and some significantly less based upon each district's unique demographics. The divergence in funding that we expected to occur during the LCFF implementation period would be very much accelerated under the Governor's Proposal. Even so, nearly every district in the state would receive increases that are far above the meager 0.86% cost-of-living adjustment (COLA) projected by the state.

As you read our summary of the Governor's specific proposals, please keep in mind that as a group they represent the most aggressive move the state has ever made toward recognizing the need for policy and funding changes for public education.

Overview of the Governor's Budget Proposals
Governor Jerry Brown released his proposal for state revenues and spending for 2014-15 one day earlier than expected, holding a press conference on Thursday, January 9, 2014, rather than Friday. His proposal projects $106.1 billion in new state revenues in the Budget year, plus $4.2 billion in carryover funds, to pay for $106.8 billion in state expenditures.

His top Budget priorities for the coming year are education and paying down prior-year debts, including the K-12 apportionment deferral. His Budget allocates $1.6 billion to the Budget Stabilization Account (BSA) and $1 billion to the reserve.

At his press conference, the Governor stressed the need for the "wise allocation of public funds." He also indicated that he would not pursue an extension of the higher tax rates enacted under Proposition 30, stating that "we must live within our means." In turn, his Budget proposes modifications to the Proposition 58 BSA and the establishment of a Proposition 98 reserve to smooth out education spending.

"Wisdom and prudence should be the order of the day," Governor Brown wrote in his note to the Legislature proposing his Budget for next year.

The Economy and Revenues

The Economy

The Governor's Budget Proposal paints a picture of the overall economy that is in line with what others have been saying—"the slow economic recovery continues." This is the same assessment that was offered by the Legislative Analyst's Office (LAO) in November and the UCLA Anderson Forecast the following month.

As evidence that the economy is improving, the Governor's Department of Finance (DOF) points to falling unemployment rates for both the nation and California and an improving housing market. At the national level, the DOF projects real gross domestic product (GDP) to pick up in 2014 to about 2.5% and increase to over 3% in 2015 and 2016. GDP is expected to rise over the next year and a half as pent up consumer demand stimulates purchases of durable goods. This increase, however, is expected to ease as the pent up demand trails off. DOF economists see near term GDP growth peaking in the third quarter of 2015 at 3.4% and then dropping slightly in the following quarter to 3.1%.

Similarly, the U.S. job market continues to improve, with the U.S. unemployment rate falling to 7.0% in November 2013, down from 7.8% a year earlier. While it has been 4½ years since the recovery began, the nation has yet to recover all of the jobs lost; currently about 94% of the job loss has been recovered. Because of the new entrants coming into the job market, wages have remained relatively low, which in turn has kept the overall price increase below 2%.

Unfortunately, weak economic growth worldwide will keep net exports down, acting as a drag on the economy. The DOF expects import growth to outpace export growth during the near term. This will have a significant impact on California because of the state's dominant role in the export market, especially to Pacific Rim countries.

The California economy, which has lagged the recovery of the nation as a whole, may be showing signs of growing strength. The DOF notes that the state's unemployment rate fell more quickly than the nation's, falling from 9.8% at the end of 2012 to 8.5% one year later. Unfortunately, California's unemployment rate is still 1.5% higher than the nation's, and is not expected to fall below 7.0%—the U.S. rate today—until the middle of 2016.

The California housing market, which took the biggest fall among the states during the recession, is now recovering briskly. As of October 2013, prices of existing single-family homes are up 25% from a year earlier. The DOF points out that, with the run up in prices, new home buyers will face higher down payments,
which in turn could keep these potential buyers in the rental market for a little longer.

State Revenues

The Governor's Budget acknowledges a significant improvement in the state revenue outlook when compared to the assumptions contained in the 2013-14 Budget Act. For 2012-13, the Administration has identified an additional $1.7 billion in General Fund revenue and an additional $2.9 billion in the current year. The revenue outlook for the Budget year is very encouraging. The Governor's Budget reflects a 5.9% increase in revenues, equal to an additional $5.9 billion above the revised current-year level.

Underlying these welcome revenue estimates are factors that argue for the cautious approach to 2014-15 spending that the Governor has put forth. The DOF has identified the strong performance of the stock market as the primary factor generating the unexpected new revenues for both the current year and 2014-15. The Budget notes that the S&P index was projected to reach 1600 by the end of 2013; by early December 2013 the index was 1800. Capital gains revenue generated from the rising stock market, however, are very volatile and difficult to forecast. Moreover, the Governor's Budget reflects downward revisions in expected tax collections from the sales and use tax and the corporation tax, thus placing even greater reliance on the income tax.

The DOF's long-term revenue forecast is strikingly similar to the LAO's forecast released two months ago. By 2017-18, the DOF forecasts General Fund revenues of $118 billion from the three major taxes (the income tax, the sales and use tax, and the corporation tax). The LAO forecasts $119.6 billion, just 1.4% more than the DOF's forecast.

Proposition 98

Proposition 98 sets, in the State Constitution, a series of complex formulas that establish the minimum funding level for K-12 education and the community colleges from one year to the next. This target level is determined by prior-year appropriations that count toward the guarantee, plus (1) workload changes as measured by the change in average daily attendance (ADA) and (2) inflation adjustments as measured by the change in either per-capita personal income or per-capita state General Fund revenues, whichever is less. Under certain circumstances, the minimum level is set by a fixed percentage of General Fund revenues, called "Test 1," and it is this percentage that determined the Proposition 98 funding level for 2012-13 and for the 2014-15 Budget year. In 2013-14, the minimum guarantee is set by Test 3, which adjusts the guarantee based on the change in per-capita state General Fund revenues.

An improving economy has lifted the minimum funding required for K-14 education, increasing 2012-13 and 2013-14 by $1.8 billion and $1.5 billion, respectively. The two-year total (rounds to $3.4 billion) is available for one-time spending, and the Governor's 2014-15 Budget proposes to combine this revenue with $2.7 billion from 2014-15 to completely retire K-14 deferrals—a one-time cost totaling $6.1 billion.

For 2014-15, the Budget projects that the Proposition 98 guarantee will grow to $61.6 billion, a $6.3 billion increase above the 2013-14 budgeted level.

Some of the major K-12 Budget proposals include the following:

- $5.5 billion to fully eliminate interyear K-12 apportionment deferrals in 2014-15. This retires all deferrals two years sooner than the plan announced in the Governor's Budget Proposal last year, which targeted remaining apportionment deferrals to be paid off by the end of 2016-17.
- $4.472 billion in additional funding for school districts and charter schools to continue implementation of the LCFF, which equates to an average increase of 10.9%.
- $25.9 million to continue implementation of the county office of education (COE) LCFF.
• $316.5 million to support energy efficiency projects in schools consistent with Proposition 39.
• $33.3 million to fund a 0.86% statutory COLA for categorical programs that will remain outside of the LCFF: Special Education, Child Nutrition, American Indian Education Centers, and American Indian Early Childhood Education Programs. COLAs for core discretionary funding of school districts, charter schools, and COEs are included in the LCFF target entitlement calculation.
• $74.3 million to fund projected growth in charter school ADA.
• $188.1 million for the Emergency Repair Program (ERP) from one-time Proposition 98 funds.
• $46.5 million for student assessments, including additional resources to implement Assembly Bill (AB) 484 (Chapter 489/13), which revised California's student assessment system to align with new state standards.

Finally, notwithstanding growth in ADA forecast for charter schools, statewide the Governor's Budget assumes that total K-12 ADA counts for 2014-15 will decline by more than 7,000 compared with the current year, resulting in a modest net savings to the state of $43 million.

Seeking to avoid a continuation of the boom and bust cycle of state revenues and budgeting, Governor Brown is proposing a constitutional amendment that would revise the existing constitutional requirement to set aside a share of state revenue growth into a "rainy day" fund. While this budget makes the first deposit to the rainy day fund since 2007, he also is proposing through the amendment to strengthen the allocation of revenue growth by earmarking capital gains tax revenues that exceed 6.5% of state revenues in any year for the fund, and broadening the use of those reserve funds to include meeting the demands of long-term state liabilities.

As part of that proposal, a share of revenue growth diverted to reserves would also accrue to a Proposition 98 reserve to be used to smooth out the year-to-year fluctuations in the K-14 minimum guarantee.

Local Control Funding Formula

The Governor's 2014-15 Budget continues implementation of the LCFF with an infusion of $4.5 billion of additional Proposition 98 revenues. The new formula, adopted beginning with the current-year State Budget, provides funding to move all school districts and charter schools toward a system of school finance that allocates similar amounts per ADA as base grants within four grade spans, and provides additional percentage increases, or "weights", for class-size reduction (CSR) in grades Transitional Kindergarten-3, career-technical education (CTE) for grades 9-12, and supplemental/concentration grants on behalf of students that are not English language proficient, who are from low-income families, or who are in foster care.

Estimated 2014-15 target base grants by grade span are $7,012 per ADA for Kindergarten and grades 1-3; $7,117 per ADA for grades 4-6; $7,328 per ADA for grades 7-8; and $8,491 per ADA for grades 9-12. In addition, the K-3 grant increase for CSR is $729 per ADA, and the grade 9-12 grants are increased by $221 to provide resources for CTE.

School districts and charter schools are entitled to supplemental increases equal to 20% of the base grant plus CSR/CTE adjustments for the percentage of enrolled students who are English learners, eligible for the Free and Reduced-Price Meals program, or in foster care. An additional 50% per-pupil increase is provided as a concentration grant for each eligible student enrolled that exceeds 55% of total enrollment.

The Governor's Budget proposes to use $4.5 billion from increased Proposition 98 resources to continue funding the LCFF in 2014-15, and districts and charter schools would receive a proportional share of this additional funding toward achieving their funding goal as determined under the LCFF calculation. The proposed increase is expected to close the 2014-15 funding gap for each school district and charter school, compared with their 2013-14 funding level adjusted for changes in ADA, by approximately 28%, an average
increase of 10.9% or $751 per ADA. Actual percentage and per-ADA increases for individual school districts and charter schools will vary depending on the local educational agency (LEA) gap between current funding and the LCFF full implementation target.

Federally funded categorical programs, such as Child Nutrition and Special Education, remain outside of the new formula. Two former state categorical programs—pupil transportation and Targeted Instructional Improvement Grants—will continue as separate add-ons to the LCFF allocations.

School districts with property tax revenues that exceed the formula funding levels will continue to retain their local tax growth, and will receive a minimum state aid allocation that is reduced by the cuts incurred during the recession which, under the LCFF, are carried forward into future years for these districts.

COEs receive funding under a similar formula, but in two parts: one in recognition of direct instructional services for pupils in juvenile court schools and community schools, and a second allocation for countywide services based on the number of school districts and the total ADA within the county. Like school districts, each county has a funding target for each part of the formula and will receive increases over time to reach those targets, with the 2014-15 budget proposal providing $25.9 million for that purpose.

Funding for most categorical programs was consolidated into the LCFF in 2013-14. Categorical programs outside the LCFF, including Special Education, Child Nutrition, American Indian Early Education Centers, and the American Indian Early Education Program are provided with the 0.86% COLA in the Governor's Budget.

Finally, to provide greater certainty over future funding necessary to continue implementation of the LCFF, the Governor is proposing legislation to establish a continuous state appropriation to ensure that full implementation occurs on schedule. The implementation plan for LCFF has assumed that it will be fully funded by 2020-21.

Deferrals

The Governor's Budget proposes $5.5 billion to completely eliminate the rest of the statutory cash deferrals for K-12 schools. We would expect that, as a result, the timing of apportionment cash would adhere to the basic schedule for each district category (for example, the 5-5-9 schedule for most districts). However, without further details we are unable yet to confirm that there aren't other changes proposed to the apportionment schedules.

To be clear, while dollars used to buy back deferrals count toward Proposition 98 expenditures for the state's purposes, they do not provide more spending authority to schools.

Special Education

The Governor's proposed 2014-15 State Budget provides $31.6 million to pay for a 0.86% COLA. This COLA is slightly offset by a reduction of $2.2 million due to a decline in special education ADA.

Independent of the Budget, a Special Education Task Force co-chaired by State Board of Education (SBE) member Carl Cohn, and Fred Weintraub, Los Angeles Unified School District federal court appointed independent special education monitor, has been established. The appointed 32-member task force is focusing on identifying the state's vision and mission for students with disabilities and the development of specific goals in the areas of teacher preparation, credentialing, and professional development; successful education delivery models; assessment and accountability; early learning; and of course, fiscal issues.

Child Care
A Parent/Child Engagement Demonstration pilot program is proposed for 2014-15. This pilot program would support vulnerable low-income families who face multiple barriers of entry into the workforce without access to licensed child care, or who fall into California Work Opportunity and Responsibility to Kids (CalWORKs) sanction status. A six-county pilot comprising 2,000 families is proposed to be conducted over three years at a cost of $9.9 million in 2014-15 from non-Proposition 98 funds (assuming a March 2015 enrollment of the first cohort of families), and $115.4 million over the three years. The objectives of the pilot are to:

- Connect children with stable licensed child care
- Engage parents with their children in the child care setting
- Enhance parenting and life skills
- Provide parents with work readiness activities that will move the family to self-sufficiency

The changes to CalWORKs child care funding are the result of the following:

- Stage 2 programs will increase by $6.3 million in 2014-15 to reflect an increase in the cost-per-case of eligible CalWORKs Stage 2 beneficiaries and a slight decrease in the number of cases. The base cost for Stage 2 is $364.1 million.
- Stage 3 programs will increase by $2.8 million in 2014-15 to reflect an increase in the cost-per-case of eligible CalWORKs Stage 3 beneficiaries and a slight decrease in the number of cases. The base cost for Stage 3 is $185.8 million.
- Child Care and Development Funds will see a net decrease of $9.1 million in federal funds in 2014-15 to reflect a reduction of available carryover funds ($3.2 million) and a decrease of $5.9 million to the base grant. Total federal funding is $555.6 million.

Charter Schools

The Governor's Budget Proposal includes an increase of $74.3 million in Proposition 98 funding to support the projected charter school ADA growth. As discussed earlier, the Proposal continues to fund charter schools through the LCFF. Under the formula, charter schools are treated the same as school districts, with the exception that a charter school cannot receive a higher concentration grant than the school district in which it resides. That concentration grant may be used for any purpose that benefits the students generating the funding.

State Mandate Reimbursements

The Governor's Budget Proposal contains no changes to the funding level of the Mandate Block Grant (MBG), and there are no changes proposed to the list of state mandates included in the MBG. The Budget continues the long-term plan outlined in last year's May Revision to pay down the $5.4 billion debt owed to schools, community colleges, and local governments for prior mandates over several years in the future, to be completed by the end of 2017-18. However, no further details are provided on this repayment plan, and no funds are included for this purpose in 2014-15, leaving the payoff for future years. The reason given for not funding this particular debt in 2014-15 was to give priority to eliminating the cash deferrals and paying down the Economic Recovery Bonds that were issued in 2004.

School Facilities

Governor Brown puts a damper on the idea of introducing a 2014 facilities bond in his Budget Proposal by proposing to continue a dialogue on the future of school facilities funding, including consideration of "what role, if any, the state should play in the future of school facilities funding."

In his Budget summary, the Governor notes that since 1998, voters have approved about $35 billion in statewide general obligation bonds for K-12 student facilities, costing the state General Fund approximately
$2.4 billion in annual debt service. There is currently no bond authority remaining in the core school facilities new construction and modernization programs.

The administration proposes that any future facilities program be easy to understand and provide school districts appropriate local control and fiscal incentives. Specific areas of concern noted are:

- The current program is overly complex and reflects an evolution of assigning over ten different specialized state agencies resulting in fragmented oversight responsibilities.
- The current program allocates funding on a first-come, first-served basis resulting in a substantial competitive advantage for large school districts with dedicated personnel to manage facilities programs.
- The current program does not compel districts to consider facilities funding within the context of other educational costs and priorities. For example, districts can generate and retain state facility program eligibility based on outdated or inconsistent enrollment projections. This often results in financial incentives for districts to build new schools to accommodate what is actually modest and absorbable enrollment growth. These incentives are exacerbated by the fact that general obligation bond debt is funded outside of Proposition 98.
- The current program does not provide adequate local control for districts designing school facilities plans. Program eligibility is largely based on standardized facility definitions and classroom loading standards that can result in districts being discouraged from utilizing modern educational delivery methods.

Facilities Investments

The Governor's Proposal includes nearly $400 million in facilities investments. Specifically the Budget:

- Transfers $211 million of remaining School Facility Program bond authority from specialized programs to the core new construction and modernization programs to continue construction of new classrooms and modernization of existing classrooms for districts that have been awaiting funding.
- Dedicates $188.1 million in one-time funds to the ERP to provide grants for reimbursements to LEAs for the cost of repairing or replacing building systems that pose a health and safety risk to students and staff at eligible school sites.

Routine Restricted Maintenance Account

Starting in 2008-09, LEAs had the ability to reduce the amount deposited into a routine restricted maintenance account through 2014-15. The exemption allows a district to reduce its contribution from 3% of General Fund expenditures to 1% or below, given certain conditions. The Governor's Proposal does not change the 2014-15 expiration date. Beginning in the 2015-16 fiscal year, districts are required to contribute a minimum amount equal to or greater than 3% of the total General Fund expenditures, including other financing uses.

Proposition 39

The California Clean Energy Jobs Act, was approved by voters in 2012 to support energy efficiency. Proposition 39 funding can be used by school districts to undertake energy efficient measures, including the construction or modernization of buildings in a manner that uses less energy, purchasing energy efficient equipment, and undertaking renewable energy projects.

Governor Brown proposes to allocate $363 million of energy efficiency funds in 2014-15 as follows:

- $316 million to K-12 school districts for energy efficiency project grants
- $39 million to community colleges for energy efficiency project grants
- $5 million to the California Conservation Corp for continued technical assistance to K-12 school districts
- $3 million to the Workforce Investment Board for continued implementation of the job-training program

**Pupil Transportation**

No changes are proposed for the Pupil Transportation program. The funding continues to be an add-on to the LCFF and no COLA is applied. The maintenance-of-effort requirement tied to each LEA's 2012-13 spending level of state funds for the program remains.

**Lottery Funding**

The California Lottery has contributed more than $1 billion to LEAs annually for each of the past 13 years, and has been a welcome source of continued revenue for school agencies to use toward their cost of operations.

The 2013-14 Lottery funding has been estimated at $1.3 billion for education. We are projecting the per-ADA rates for the 2013-14 fiscal year at $126 per-annual ADA (unrestricted) and $30 per-annual ADA (restricted).

We anticipate that the Lottery Commission will release its sales projections in June 2014 for the 2014-15 fiscal year. Until such information is known, we are recommending that district LEAs use the same projected per-ADA rates for 2013-14 for the 2014-15 fiscal year.

**Federal Programs**

A recent agreement reached in Congress on the federal budget will provide relief from sequestration cuts to education and other federally funded programs that are in Washington's "discretionary" budget—at least in the short term.

This means, at a minimum, there should be no additional cuts to federal education programs below current funding levels. The House and Senate Appropriations Committee will negotiate spending levels for 2015. Since federal education programs are forward funded, any changes would impact education budgets in California during the 2015-16 and 2016-17 years.

One of the major unresolved federal issues is the debt ceiling limitation that will have to be increased in February to allow additional federal borrowing necessary to fund the higher spending levels authorized in this compromise. Absent a deal on the debt ceiling, federal spending could not be sustained and any budget compromise would, at that point, become moot.

**Initiatives**

Governor Brown proposes a constitutional amendment to strengthen the state's Rainy Day fund. Voters in 2004 approved Proposition 58, which, among other things, required a balanced Budget and directed 3% of the state's revenues into a Rainy Day fund. However, the economic challenges that have faced the state over the past several years have highlighted its deficiencies. A proposed constitutional amendment to modify the Proposition 58 Rainy Day fund (Assembly Constitutional Amendment 4 [ACA 4]) is set to be on the ballot in November, but Governor Brown in his morning press conference calls that proposal "extremely complicated with limited flexibility."

While details are not yet available, Governor Brown's proposed constitutional amendment would base deposits into the reserve account when capital gains revenues make up more than 6.5% of the state's General
Fund revenues and double the size of the reserve from 5% to 10% of state revenues. In addition, the proposal would allow the state to make supplemental payments to reduce the state's Wall of Debt or other long-term liabilities.

The proposal would also create a Proposition 98 reserve to help smooth out Proposition 98 revenues to prevent the severe cuts that have been imposed in years past. Funding for this reserve would come from spikes in Proposition 98 funding and would be held in reserve for future years when revenues are in decline. The proposal would make no changes to the Proposition 98 guarantee.

If approved by two-thirds of the Legislature, the proposal would replace ACA 4 on the November 2014 ballot.

California State Teachers' Retirement System

The Governor's Budget Proposal notes that the California State Teachers' Retirement System (CalSTRS) faces a growing unfunded liability of $80.4 billion and may exhaust its assets within 30 years. Stabilizing the system could cost more than $4.5 billion per year. In February 2013, CalSTRS presented a report to the Legislature with many options for improving the funded status of the basic retirement plan, all of which would require increases in the contributions from employees, employers, and the state (see "CalSTRS Report Presents Options for Funding Stability" in the February 8, 2013, Fiscal Report).

The contribution rates for CalSTRS are set in statute, so unlike the California Public Employees' Retirement System Board, the Teachers' Retirement Board does not have authority to change the rates. The current contribution rates are as follows:

- Members: 8% since 1972 (new members starting January 1, 2013, also contribute 8%, which can be adjusted by CalSTRS)
- Employers: 8.25% since 1990

The state's contribution fluctuates, but is currently 5.291%. It will take legislative action to change the contribution rates, and the Governor's Budget Proposal states that his administration will work with stakeholders on a "plan of shared responsibility" to achieve a fully funded system within 30 years.

The CalSTRS report states that the maximum contribution increase that can be assessed on members (hired before January 1, 2013) is 2.6% and pegs the maximum increase to the state's contribution as 1.085%, with employers picking up the lion's share. The Governor's Budget also states that school districts and community colleges should anticipate absorbing much of any new CalSTRS funding requirement, as the state's role as a contributor to the plan should be evaluated. The CalSTRS funding plan will be included in the Governor's 2015-16 Budget Proposal, so school and community college employers should be prepared for increases in the contribution rate for CalSTRS employees starting in that year.

Redevelopment Agencies

In 2001, approximately 400 redevelopment agencies (RDAs) were eliminated, releasing $5.0 billion in local property tax revenues to retire pre-existing obligations of RDAs and fund local government services, including school districts. Any property tax revenue remaining after the pre-existing obligations are paid is distributed to the affected taxing entities based on their property tax share. In those areas that contained RDAs, the Governor's Budget estimates that in the current year and budget year, approximately $1.6 billion will be distributed back to counties, $1.2 billion will be distributed back to cities, and $400 million will be distributed back to special districts. The additional property tax revenue received by K-14 schools generally offsets the state's Proposition 98 General Fund costs on a dollar-for-dollar basis.

Schools received approximately $2.2 billion of additional property tax revenues, a savings for the state,
in 2011-12 and 2012-13, and the Budget anticipates Proposition 98 state General Fund savings of $1.1 billion in 2013-14 as a result of the RDA dissolution. For 2014-15, state savings are expected to be $785 million, with ongoing savings in future years of about $1 billion annually.

Action taken in Budget trailer bill legislation that was enacted in prior years affects RDA pass-through payments to K-12 school districts and COEs, requiring that payments terminate at the time that RDAs' enforceable obligations are fully retired. A portion of RDA pass-through payments received by LEAs is currently retained locally for use on facility-related expenses as allowed under statutes. The loss of these funds, as RDA obligations wind down, can significantly impact those school districts that are receiving them.

**Adult Education**

The Governor states his "intention" in 2015-16 to make an investment in adult education programs (including programs provided in county jails) through a "single categorical program." Adult education consortia plans will be completed by early 2015, and the Administration intends to make an investment in the 2015-16 Budget for adult education, noting his office will continue to work jointly with the California Department of Education and Community Colleges Chancellor's Office to "complete the adult education consortia plans, while working with the Legislature to ensure that any legislation pertaining to adult education aligns with and supports the planning process currently underway, and provides consistent guidance to the K-12 and community college districts."

**Class-Size Reduction**

As mentioned earlier in this report, the formula for providing funds to lower class sizes in grades K-3 is not proposed to change. Since the Governor's Budget proposes funding the LCFF at an estimated 28%, up from nearly 11.78% in the current year, local school agencies will need to prepare to further reduce class sizes in these grade levels by 28% of the difference between the current-year class size and the 24 students per-class target, unless the collective bargaining exception applies to your agency.

**Local Control Accountability Plan**

The LCFF dramatically changes the state's accountability system; moving us away from a system of rule compliance measured by audits and enforced through penalties to a system of accountability based upon local needs and measured by progress towards annual goals. The cornerstone of the accountability system is the Local Control Accountability Plan (LCAP). The Governor's Budget proposes no changes to existing requirements including, the requirement that LEAs adopt a three-year plan with annual updates beginning July 1, 2014.

With the responsibility for developing and adopting the LCAP template delegated to the SBE, it is not surprising that the Budget says little about the accountability system. The SBE released draft LCFF emergency spending regulations and a conceptual framework for the LCAP at its November meeting and revised emergency regulations and an LCAP template have now been set for approval by the SBE in January.

The proposed LCAP template categorizes the state priorities into three categories for planning purposes. The actual template is organized into three sections and includes a description of each section, provides instructions, and lists guiding questions to facilitate completion of the template. LEAs must demonstrate in their LCAP that they have increased or improved services for unduplicated pupils in proportion to the increase in the funds apportioned to supplement and concentration grants. The emergency regulations prescribe a methodology for calculating proportionality percentages.

The SBE will meet and consider the LCFF emergency spending regulations and the LCAP template on
Thursday, January 16, 2014. Regardless of what is proposed, LEAs must adopt an aggressive timeline for the development of the LCAP this year, including the engagement of stakeholders as required by law. It is essential that school districts, COEs, and charter schools understand what is required, know how to engage stakeholders in a meaningful way in development of the plan, and determine now, if they haven't already, who will lead and who will support key development efforts.

**Independent Study**

Historically, the primary nonclassroom-based instructional method used by LEAs has been nonclassroom-based independent study. Due to the burdensome administrative requirements of this practice—calculation of the time value of student work—and the resulting disincentive to schools to provide independent study, Governor Brown proposes legislation to streamline and expand the instructional opportunities for independent study. While the proposed legislation has not yet been released, the goal of this flexibility is to stabilize and increase attendance for students at risk of dropping out or transferring to private institutions.

The proposed streamlined process will require that independent study courses meet the following criteria:

- Are of the same rigor and educational quality as their classroom-based equivalent courses
- Maintain the same number of total educational minutes as their classroom-based equivalent courses
- Provide at least one meeting per week between the student and teacher to verify that the student is working toward course completion
- Do not result in the LEA claiming more than one unit of ADA per year for each independent study student
- And, most significantly, maintain classroom-based equivalent pupil-to-teacher ratios unless an alternative ratio is collectively bargained

This proposal is similar to a bill introduced last year by Assembly Member Blumenfield (AB 342) that was held by the Legislature.

**Common Core State Standards**

The Governor's Budget does not include any additional funding in 2014-15 for the implementation of the Common Core State Standards. The $1.25 billion provided to LEAs in the 2013-14 State Budget is available for expenditure during 2013-14 and 2014-15.

The Governor's Proposed Budget includes an additional $46.5 million to implement AB 484 (Chapter 489/2013), which established a revised student assessment system that is aligned to the new state standards. The intent is that, beginning with the English language arts and mathematics assessments, additional assessments will be included and developed using computer-based testing, wherever feasible, for these standards.

**Close**

As we remind readers each year, the Governor's Budget Proposals do not mark the end of the Budget cycle—they mark the beginning. The Legislature will have a lot to say about the Governor's priorities and whether or not they agree with him. This would be the second year in a row that the Governor proposes that the lion's share of new revenues be committed to education, to the exclusion of other major segments of the State Budget. After more than five years of Budget reductions, we predict the Legislature will push for improvements in other areas of the Budget, as they did last year. The Governor will again be tested, but last year he stood his ground.

Our economy is still fragile and we need to be careful, but we will be raising our planning factors in the
School Services of California, Inc., (SSC) Dartboard and in our SSC Simulator to reflect that 2014-15 funding will equal 28% of the remaining LCFF gap for each district. This amount is ongoing and will dramatically affect many districts' ability to fund programs and to eliminate past deficit spending.

This spring, districts will be developing LCAPs and budgets on a parallel track. A large segment of our Governor's Budget Workshops will be devoted to discussion of how to make the LCAP work for your district. It is not just about how much more funding is received, it is just as important to understand the state's requirements for expenditure of those funds.

We look forward to seeing you at our Governor's Budget Workshop next week. We will fully develop all of the topics summarized here and many more. For those who worried that we would never have another good year; your worries are over, this is going to be a great year for public education.

—SSC Staff

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