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An Overview of the 2014-15 Governor's May Revision

Preface

The May Revision marks Governor Jerry Brown's final statutory opportunity to amend his Budget Proposal to the Legislature. In most years, any change is generally driven by updated revenue projections; that is true this year, but other factors have arisen as well. School Services of California, Inc., has estimated that state revenues would likely come in more than \$2 billion above the Governor's January projection; the Governor now projects that number to be \$2.4 billion, an amount he asserts is largely consumed by higher than expected expenditures.

The Governor's signature pieces in the May Revision are 1) Medi-Cal coverage for more Californians and 2) creation of a rainy day fund for the state. Each of these options is expensive.

The Governor projects that the state's cost of Medi-Cal in the current year will be \$1.1 billion higher than expected, and for 2014-15, he projects another \$2.4 billion increase. The increased costs are attributed to increased Medi-Cal enrollments and higher than expected costs of administration.

Additionally, the Governor assumes creation of a rainy day fund with an initial funding of \$1.6 billion. These two initiatives and another swipe at the "wall of debt" essentially take all of the new money off the table. At the same time, the Governor announced plans to begin to address the CalSTRS unfunded liability. As detailed below, increased employer payments would start immediately, but with no new funding from the state.

While the January Budget makes a generous increase to ongoing education funding, there are few additions to education in the May Revision. The hoped for increases in Common Core funding, mandate credit card payments, or an even higher commitment to Local Control Funding Formula (LCFF) implementation are nowhere to be found.

Additionally, the Governor has resisted requests to implement universal Transitional Kindergarten (TK) and has re-iterated his commitment to austerity in spending.

The May Revision

Proposition 98

The Governor's May Revision acknowledges \$2.4 billion in additional General Fund revenues compared to the January estimate. However, because of how these new revenues interact with the constitutional formulas of Proposition 98, K-14 education will see very little of this new money compared to the Governor's January Budget.

Specifically, the May Revision estimates current-year revenue will be up \$2.038 billion from the January Budget forecast and that revenues for 2014-15 will be up by \$843 million. However, the Department of Finance (DOF) has revised the revenue collections for 2012-13, reducing the total by \$513 million. These revised totals result in unexpected changes to the Proposition 98 guarantee.

Compared with the January Governor's Budget, for 2012-13 the minimum funding guarantee drops by \$547 million; it increases by \$1.5 billion in 2013-14; and then drops by \$700 million for 2014-15, for a net increase over the three-year period of \$242 million. Most of this increase goes to paying for revised estimates of average daily attendance (\$103 million in the current year and \$121 million in the budget year).

Even with a net decline in the Proposition 98 estimate for 2014-15, the actual funds received by K-12 education will change very little compared to the Governor's January proposal because of a redistribution in the allocation of funds to buy back the apportionment deferrals. The May Revision accommodates the changes in the Proposition 98 guarantee by shifting the mix of funds used to buy back deferrals, utilizing more of the one-time funds accruing in 2013-14 and thereby freeing up the ongoing funds in 2014-15 to maintain the spending levels proposed in January.

Rainy Day Fund

The January Governor's Budget proposed a constitutional amendment to require contributions to a State Budget reserve, dubbed the "Rainy Day Fund," driven largely by capital gains revenue. In addition, the January proposal called for the establishment of a separate Proposition 98 reserve that would also receive contributions when capital gains revenues exceeded a specified threshold.

The May Revision reflects a compromise with the Legislature worked out just days ago. The new proposal calls for both a state Rainy Day Fund and a Proposition 98 reserve, similar to the January proposal. However, the compromise plan also specifies that the Proposition 98 reserve would not take effect until several conditions are met, including (1) the Proposition 98 maintenance factor as of the end of 2014-15 (estimated at \$4 billion) is fully restored; (2) Proposition 98 is in a Test 1 year (i.e., funding based on a fixed percentage of General Fund revenue); and (3) enrollment growth and the cost-of-living adjustment (COLA) are fully funded. Given these conditions, contributions to the Proposition 98 reserve may not take effect until after the end of the decade.

The revised proposal also calls for contributions to the state Rainy Day Fund to be based on (1) 1.5% of General Fund revenues, and (2) capital gains revenue in excess of 8% of General Fund revenue. However, Proposition 98 must be fully funded before these contributions are made.

The May Revision indicates that if voters approve the "Rainy Day Fund", then contributions commencing in 2015-16 through 2017-18 could reach \$3 billion. In addition, repayment of outstanding state debt of a similar amount would occur.

Finally, the May Revision proposes that 3% of 2014-15 revenues, or \$3.2 billion, be set aside in accordance with Proposition 58. Of this amount, half would be used to retire the Economic Recovery Bonds authorized by Proposition 57 and half would be transferred to the Budget Stabilization Account.

Local Control Funding Formula

Unchanged from the Governor's 2014-15 January Budget, the single largest Proposition 98 expenditure continues to be \$4.5 billion for implementation of the LCFF. The increase equates to an average of 10.7% and \$737 per pupil. The LCFF is designed to distribute additional funds to all school districts over time, but with particular emphasis on improving the level of support for English learners, foster youth, and students in poverty. As a result, individual school districts may receive substantially more or less than the average increase.

Also unchanged in the May Revision, DOF staff estimate that the additional LCFF funding will close more than 28% of the remaining gap between the 2013-14 funding level and the LCFF funding target for each school district.

County offices of education (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 average daily attendance (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 May Revision maintaining, but not changing, the 2014-15 Budget proposal that would provide \$25.9 million for that purpose. Unlike school districts, the LCFF targets for COEs are expected to be fully implemented if the proposed 2014-15 increase is approved by the Legislature. The Governor's LCFF implementation plan for school districts would not be completed until 2020-21.

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.

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—continue as separate add-ons to the LCFF allocations.

CalSTRS Funding Plan

The Governor proposes an additional \$73.2 million of state General Fund money for 2014-15 to start buying down the estimated \$74.4 billion unfunded liability for the California State Teachers' Retirement System (CalSTRS) basic retirement plan. More significantly, the Governor is estimating that there will be \$450 million more contributed to CalSTRS in 2014-15 through a combination of increasing employee contribution rates, increasing employer contribution rates, and the state's \$73.2 million. Previously, the employer and employee contribution rate increases were anticipated to start in 2015-16. Under the Governor's May Revision proposal, the employer rate will increase by 1.25% starting July 1, 2014—less than two months from now. Further, employers are expected to pay this increase from existing revenue sources. Just one month before local school agencies are putting their 2014-15 budgets and Local Control and Accountability Plans (LCAPs) to bed they are faced with this last-minute increase in the CalSTRS employer rate. It will be problematic for districts to add this expense to the budget at this late date with no increase in revenues to pay for it.

The Governor proposes a plan that would provide full funding in about 30 years. The state's contribution rate would increase from 3.041% to 6.3% over three years. He proposes phasing in higher contribution levels for employers over seven years and for employees over three years:

	Current	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Employer Contribution Rate	8.25%	9.5%	11.1%	12.7%	14.3%	15.9%	17.5%	19.1%
Employee Contribution Rate (2% at 60 members)*	8.00%	8.15%	9.2%	10.25%	10.25%	10.25%	10.25%	10.25%

*The maximum contribution rate for new members (2% at 62 members) will be 9.21%, phased in over the

same three-year timeframe

Cash Deferrals

While the May Revision proposes to exchange some one-time funds for ongoing funds that were proposed in January to buy down cash deferrals, the overall proposal from January to eliminate all cash deferrals in 2014-15 still stands.

Common Core State Standards

Beyond the \$1.25 billion in Common Core State Standards (CCSS) implementation funds provided in the 2013 Budget Act, the May Revision does not propose any additional per-ADA statewide funding for local educational agencies (LEAs) for the CCSS. However, in acknowledgement of the need for adequate technological capacity to administer the computer-based assessments and support access for students, the Governor proposes an increase of \$26.7 million in one-time dollars for the K-12 High Speed Network to conduct a comprehensive network connectivity assessment and to provide grant funds to support LEAs with the most need in ensuring equal accessibility and participation in computer adaptive tests during the 2014-15 year.

Independent Study

In January, Governor Brown proposed to streamline and expand the instructional opportunities available through independent study by authorizing LEAs to offer course-based independent study options for students in grades 9-12 and site-based blended learning programs for all grades.

The May Revision proposes additional changes to independent study as follows:

- Eliminating the requirement of the weekly meeting between the certificated teacher and the student
- Allowing schools to offer site-based blended learning, which would be supported by a universal learning agreement for all students enrolled in the same course(s)
- Funding the participating students on the basis of ADA and applying the statewide excused absence rate to ADA claimed by LEAs

Adult Education

In January 2014, Governor Brown indicated his intent to fund Adult Education as a “single categorical program” beginning 2015-16.

The Governor’s May Revision contains no changes to Adult Education. LEAs are still required to maintain no less than the 2012-13 expenditure level for Adult Education in 2013-14 and 2014-15. In the 2013-14 adopted State Budget, \$25 million was appropriated to community college and school district consortia for two-year Adult Education planning and implementation grants. These funds have been allocated and a status report can be found at http://ab86.cccco.edu/portals/7/docs/AdultEducation_2014.pdf.

Transitional Kindergarten

Absent from the May Revision is any mention of expanding TK, which has been a top legislative priority this year for Senate Democratic leader Darrell Steinberg (Sacramento).

Mandates Reimbursement and the Mandates Block Grant

The May Revision provides an increase of \$5,000 (\$1,000 per mandate) to reflect the addition of five mandates to the mandate claiming process. The five mandates are:

- Parental Involvement;
- *Williams* Case Implementation I, II, and III; and
- Developer Fees

Two existing mandates, Student Records and Graduation Requirements, have \$1,000 each included as a line item in the May Revision due to the fact that they were inadvertently omitted from the claims process budget bill item last year.

The May Revision includes an additional \$100 million to repay a portion of existing mandate reimbursement claims that have been owed to local governments since at least 2004. However, as part of the May Revision, the Administration expects that the majority of the dollars will be spent improving implementation of 2011 Realignment and public safety. There is no mention of providing reimbursement for outstanding education mandate claims.

The K-12 Mandates Block Grant (MBG) is increased by \$1.6 million to align mandate block funding with revised ADA estimates. The increase to the MBG assumes 100% program participation with no increase to the rates provided in the January Budget Proposal.

Proposition 39 Funding

In 2013-14, \$381 million in funding was allocated for LEAs as a result of the passage of Proposition 39—California Clean Energy Jobs Act. In his January 2014 Budget proposal, Governor Brown allocated an additional \$363 million, including \$316 million to K-12 schools and \$39 million to community colleges for energy efficiency project grants, \$5 million to the California Conservation Corps for continued technical assistance to K-12 schools, and \$3 million to the Workforce Investment Board for continued implementation of the job-training program. No additional funding was proposed for the Energy Conservation Assistance Act revolving loan program which was funded with \$28 million last fiscal year.

Due to reduced Proposition 39 revenue estimates, the May Revision proposes a decrease of \$9 million, from \$316 million to \$307 million, for K-12 energy efficiency projects.

Child Care and State Preschool Programs

The May Revision proposes administrative adjustments from the Governor's Budget to the California Work Opportunity and Responsibility to Kids (CalWORKs) child care system. These adjustments reflect a decline in the number of newly eligible beneficiaries for Stage 2 (\$15.6 million non-Proposition 98 General Fund reduction) and updated data which showed an increase in Stage 3 caseloads and costs per case (\$30.2 million non-Proposition 98 General Fund increase).

Capped child care programs (non-CalWORKs) are proposed to see a net decrease of \$15.4 million reflecting a decrease of \$15.9 million of funding that was originally appropriated to backfill the federal sequestration cuts, which did not occur, and a slight increase in funding due to an increase in the population of 0 to 4 year old children. State Preschool funds also score an increase of \$356,000 in Proposition 98 General Funds to support the growing population of 0 to 4 year old children.

The May Revision also proposes that child care and development programs will see an increase in federal funds of \$24.4 million in 2014-15, reflecting both ongoing base federal funds and one-time funds from 2013-14.

Charter Schools

The LCFE enacted in 2013-14 applies to charter schools in the same manner as for traditional school districts. Charter schools will receive a per-ADA amount for the base grant applicable to the respective grade

level, supplemental grant, and concentration grant, if applicable. However, concentration grants for charter schools will be limited by the percentage of unduplicated pupils in the school district where the charter school is physically located. Any charter school physically located in more than one school district cannot exceed the percentage of unduplicated pupils of the school district with the highest percentage. Lastly, while school districts must make progress and eventually meet the 24:1 school site average ratio, charter schools will receive these funds without having to meet these K-3 Grade Span Adjustment requirements.

Neither the Governor's January Budget proposal nor the May Revision makes changes to the how charter schools are treated under the LCFF.

Special Education

At the release of the First Principal Apportionment in late February 2014, a 4.1% proration factor was applied to the Assembly Bill 602 state apportionment, due to lower property taxes and the impact of federal sequestration cuts. About 45% of the reduction is expected to be backfilled at the Second Principal Apportionment due to higher property taxes and the remainder is a one-time federal reduction (Congress' deal last year restores the cut prospectively). This is not a new cut if districts budgeted for the federal reduction in July 2013.

However, it may have a differential impact on Special Education Local Plan Areas compared to budgeted reduction because it is only applied to state aid. While efforts are underway to seek state funding to backfill the remaining proration factor, the Governor's May Revision does not address the issue. The May Revision continues to provide funding for the now 0.85% special education COLA.

Federal Programs

Aside from adjustments for child care and development funds, there are no significant changes to federal funding for education in the May Revision. As noted in January 2014, the approved federal Balanced Budget Act restored a large portion of the sequestration cuts. The expectation is to see relatively flat funding in 2014-15.

President Barack Obama and Congress are now debating the 2015-16 federal budget. President Obama is proposing major new initiatives related to universal preschool and staff development and proposes small increases for Title I and special education formula programs.

Summary

The May Revision produced the increased revenues expected by many of us, but as can happen in budgets, some increased costs as well. Overall, after the past five years of budget cuts, we should perhaps be happy with a May Revision that shows continued economic recovery and sustained commitment to implementation of the LCFF. But with the spotlight clearly focused on improving education in January, many of us expected at least one more candle in May.

However, one thing is certain; no matter what your politics, it is undeniable that this Governor and his Administration have made a remarkable difference in the present state and future potential of the state of California.

We are in year two of the eight-year road to full LCFF funding, year one of the new LCAP process, year minus-one on implementation of Common Core and year minus-two of Smarter Balanced testing. Governor Brown has done so much so fast that it is hard to keep up with him. But we wish him continued success in directing what is turning out to be a very ambitious recovery.

—SSC Staff

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