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An Overview of the 2013-14 Governor's May Revision

Preface

The Governor's announcement of his May Revision to his January Governor's Budget Proposals was a mixture of good news and bad news. Against a backdrop of increased current-year and reduced future-year economic expectations, the Administration made decisions regarding the appropriate allocation of funds.

First, the good news: the Governor recognized increased revenues to be received by the state in 2012-13 of $4.5 billion above the level anticipated in January. From education's share of that amount, the Governor has proposed a much needed one-time augmentation of $170 per unit average daily attendance (ADA), a total of $1 billion, for the purpose of implementation of the Common Core standards. We are pleased that the Governor has proposed this augmentation.

The biggest downside is the Governor's revised revenue forecast for 2013-14. On the heels of a very positive revision for 2012-13 revenues, the Governor projects a downward adjustment to state revenues for 2013-14. This downward revision was unexpected and will have a chilling effect on the state's ability to meet its Local Control Funding Formula (LCFF) funding goals for 2020.

Likely, the most dramatic shift from his January proposal to the May Revision is in the area of accountability. In January, the Governor's proposal was the most meaningful move towards local control that public education has seen in 40 years. In his May Revision, he has reversed course by adding local expenditure parameters that appear to be the most restrictive ever seen, including maintenance-of-effort (MOE) requirements, increased external audit scrutiny, increased county office and Fiscal Crisis & Management Assistance Team (FCMAT) oversight including stay and rescind authority, accounting constraints, etc. All districts will likely find these restrictions onerous.

Additionally, we were disappointed to see that the Governor has chosen to put nearly all remaining Proposition 98 gains against a bigger buy down of deferrals. While we agree that deferrals need to be taken down, the pace of the buy-back competes with classroom dollars in the near term.

Finally, we at School Service of California, Inc., have written a series of articles detailing issues that we think need to be resolved to make the LCFF successful. The level of detail provided in today's materials does not allow us to make a full assessment of how the state treated these issues, but you can be sure we will be discussing each of them in our May Revision Workshops next week.

The May Revision

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 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 both 2011-12 and 2012-13. For 2013-14, the Governor's Budget projects that the Proposition 98 minimum guarantee will be determined by "Test 3," adjusting the guarantee based on the change in per-capita state General Fund revenues.

The Governor's May Revision shows an increase to the Proposition 98 minimum guarantee of $2.9 billion in the current year compared with his January Budget estimate, pegging the 2012-13 guarantee at $56.5 billion. However, because the Governor's May Revision also forecasts a weakening economy that results in a forecast of declining state revenues for 2013-14, the 2013-14 Proposition 98 guarantee is estimated to drop by $941 million in the Budget year, to $55.3 billion. In January, the Governor's Budget estimated that the 2012-13 Proposition 98 guarantee was "over appropriated" by $163 million, and proposed to use those funds to pre-pay obligations under the terms of the *CTA v. Schwarzenegger* settlement agreement for the Quality Education Investment Act (QEIA) program. Because of the revised estimate that increases the 2012-13 guarantee by $2.9 billion, that proposal is now rescinded and the QEIA payment will be made according to the settlement schedule.

While we are seeing dramatic swings in the calculation of the Proposition 98 minimum guarantee in 2012-13 and 2013-14 compared to the Governor's January Budget proposal, ongoing programmatic spending under the May Revision stays relatively unchanged. Current-year increases are proposed to be used for one-time purposes—to increase the deferral buy-back and fund future costs for Common Core standards implementation—and the impact of the Budget-year decrease in Proposition 98 funding is offset by reducing the amount of the deferral buy-back that was proposed in January for 2013-14 rather than adjusting spending proposed for other purposes.

Revenue Limits

Like the January Governor's Budget, the May Revision continues to propose the complete elimination of revenue limits as the statutory basis for determining funding levels for school districts in California (repeals Education Code Section 42238 et seq.). Instead, the Governor proposes a new funding model to allocate state aid—the LCFF.

In eliminating revenue limits as the state's funding model for general purpose entitlements, the May Revision makes no reference to the statutory cost-of-living adjustment (COLA) as it would pertain to revenue limit funding. However, the May Revision acknowledges that state General Fund support for selected categorical programs is reduced by $2.9 million as a result of a revised 1.565% cost-of-living factor, down from the estimated 1.65% factor in January. We estimate the "statutory COLA" to be 1.565% in 2013-14.

The 1.565% factor will also be used to adjust the ADA grade-span funding targets under the LCFF. However, as a result of the method by which funding increases are calculated from one year to the next during the implementation phase, districts will not receive the full 1.565% increase in funding, but rather only about 12% of this adjustment.

Similarly, the May Revision makes no reference to the deficit factor, which is 22.272% in the current year.

According to the Governor's plan, the deficit factor will be extinguished under the LCFF at full implementation, which is targeted for 2019-20.

LCFF

The Governor's May Revision leaves his LCFF, as proposed in January, mostly unchanged. The formula would replace revenue limits and most categorical program funding with base grants per pupil, plus supplemental funding provided via percentage "weights" for students who are English learners, from low-income families, or in foster care. If adopted, it would replace existing revenue limits and more than 40 categorical programs.

Proposing to fully phase-in the new formula by 2019-20, the Governor's May Revision leaves the target base grant at $6,816 per pupil in ADA, the same as the January proposal. This amount, which will be reached at the time when the formula is fully implemented, is equivalent to the 2012-13 undeficited average revenue limit for all school districts. This base grant amount is further adjusted by grade level, providing at full implementation $6,342 per ADA in kindergarten and grades 1-3; $6,437 per ADA for grades 4-6; $6,628 per ADA for grades 7-8; and $7,680 in grades 9-12. In addition, K-3 grants are increased by 11.23% to provide more funding in recognition of the benefit of lower class sizes in the early elementary years, and high school grants are increased by 2.8% to provide resources for career-technical education, all unchanged from the January proposal.

Each base grant target amount would be annually adjusted for a statutory cost-of-living increase, which is 1.565% in 2013-14. Class sizes in kindergarten and grades 1-3 would be limited to no higher than an average of 24 students per class at each school site once the new formula allocations are fully implemented, unless a different class size is agreed to locally. School districts would be required to phase-in compliance with the new class-size requirement at a rate that is proportional to the amount of funding received each year toward meeting the LCFF full funding level.

In addition to the base grant, school districts would be entitled to supplemental increases equal to 35% of the base grant for each enrolled student who is an English learner, eligible for the Free and Reduced-Price Meals (FRPM) Program, or in foster care. An additional 35% per-pupil increase would be provided as a concentration grant for each eligible student enrolled that exceeds 50% of total enrollment.

Charter schools would also be funded under the LCFF, and county offices of education would be funded under a modified formula that provides a separate allocation to counties for countywide services to school districts.

May Revision changes to the Governor's January LCFF proposal include:

- Increasing the funding allocated to implement the LCFF in 2013-14 by $240 million, from $1.6 billion to $1.9 billion. School districts would receive a proportional share of this additional funding toward achieving their funding goal as determined under the LCFF calculation.
- Using a three-year rolling average percentage of English learners, students from low-income families, and foster children for supplemental and concentration grant calculations.
- Requiring county superintendents of schools to review school district data for weighting factor-eligible students, and mandating that data be subject to the annual financial and compliance audit.
- Allowing local educational agencies (LEAs) to receive weighting-factor adjustments for English learners for up to seven years. The January proposal limited eligibility to no more than five years.

- Providing direct funded joint power authorities operating Home-to-School Transportation or Regional Occupational Centers/Programs with continued direct funding for two more years.

Federally-funded categorical programs, such as child nutrition and special education, will remain outside of the new formula. Two existing state categorical programs—pupil transportation and Targeted Instructional Improvement Grants—remain as separate add-ons to the new formula, but can be used for any educational purpose.

LCFF Accountability System

The Governor's January proposal eliminated most programmatic and compliance requirements that LEAs are currently subject to under the existing system of school finance, but did require the adoption of a District Plan for Student Achievement concurrently with the district's annual budget.

The Governor's May Revision proposes significantly more detail on an accountability system intended to shift state control of local spending to a system that provides LEAs with the authority to develop local spending plans based on local needs and priorities. The proposed accountability system provides LEAs with some discretion regarding the content of a local control accountability plan but comes with strict expenditure requirements. Specifically, the LCFF accountability system would require that LEAs spend supplemental and concentration grant funds only on those students generating the funds. Expenditure of these funds must be proportional to the number of English learners, foster youth, and students eligible for FRPM at each school site. This would appear to take nearly all new money off the negotiation table.

Spending in the 2012-13 year would establish each LEA's base year for purposes of determining expenditures that were used to benefit English learner students, foster youth, and FRPM eligible students. LEAs would have MOE requirements until full implementation of the LCFF, at which time they would be required to demonstrate that at a minimum all funds received from the base, supplemental, and concentration grants for these students were used for their primary benefit. An annual independent audit will be required to ensure that LEAs comply with expenditure and proportionality requirements.

The Governor's proposal includes academic performance oversight similar to the fiscal oversight contained in Assembly Bill 1200. Specifically, the county superintendent would be required to approve or disapprove the LEA's Local Control Accountability Plan. The county superintendent and/or the Superintendent of Public Instruction would have stay and rescind authority in limited cases where a district was failing to meet academic achievement targets and where a FCMAT review has been deemed necessary.

Deferrals

The May Revision includes $1.6 billion in one-time Proposition 98 funding applied in the current year (2012-13) for a total of $3.4 billion to buy back deferrals, which results in the reduction of the "Wall of Debt" earlier than anticipated. The Governor utilized part of the unanticipated $4.5 billion received in the current year for the purpose of early payment on the deferrals. With the accelerated deferral buy back schedule for 2012-13, the May Revision will reduce the $1.8 billion for deferral buy back in 2013-14 by $909.1 million. Dollars used to "buy back" deferrals count toward Proposition 98, but do not provide more spending authority to schools.

Common Core State Standards

The topic of much conversation recently is California's adoption and implementation of the Common Core State Standards (CCSS). The CCSS are the current subject-matter standards in English language arts and mathematics adopted by California in 2010. Full implementation of the CCSS will require professional development, instructional materials, and new technology. In the May Revision, the Governor proposes an increase of $1 billion in one-time Proposition 98 General Fund dollars in 2012-13 to support LEAs' implementation of the CCSS. LEAs should receive the funding in 2013-14, distributed on a per-ADA basis, estimated to be $170 per ADA. LEAs must develop a plan to spend the money over the next two years. Additionally, LEAs will be required to hold a public hearing on the plan.

Redevelopment Agencies

Assembly Bill 26 of the First Extraordinary Session (Chapter 5/2011) eliminated the state's redevelopment agencies (RDAs). The successor agencies that followed are tasked with retiring the former RDAs outstanding debts and utilizing the property tax revenue that the former RDAs would have received to retire the debts and other contractual or "enforceable obligations" they are required to pay. Any property tax revenue remaining after payment of enforceable obligations is distributed to cities, counties, special districts, and K-14 schools located within the boundaries of the former RDAs pursuant to the existing formulas. These residual pass-through payments that go to K-14 schools result in an offset of state Proposition 98 General Fund expenditures.

The May Revision estimates Proposition 98 General Fund savings resulting from the dissolution of RDAs to be $2.1 billion in 2012-13, which is the same as in the Governor's January Budget. In 2013-14, Proposition 98 General Fund savings are estimated to be $1.5 billion, which is $400 million higher than the amount provided in the Governor's Budget. This revision has no net effect on school district funding.

Adult Education

The Governor's May Revision proposes maintaining the status quo for existing K-12 and community college adult education programs for two years. His new proposal allows school districts to retain authority to independently continue existing adult education programs but provide that over time, they will join a regional adult education consortium to gain access to additional dedicated adult education funding and to ensure coordination with other local adult education providers.

The May Revision includes $30 million in 2013-14 for two-year planning and implementation grants and conveys the Administration's intent to provide $500 million in Proposition 98 funds effective 2015-16 to fund adult education schools jointly operated by regional consortia of K-12 and community college districts. The planning grant applications must identify how the consortia will integrate existing programs with the new partnership program, including how to best serve adults in local correctional facilities. The California Department of Education and Chancellor's Office are charged with jointly reviewing the plans and allocating future funding. At least $350 million of the proposed $500 million must be apportioned to existing adult education providers. Priority for funding will be given to English as a Second Language, citizenship, high school diploma, general education development, and workplace education. The consortia will be required to develop course sequencing pathways, providing adult learners with planning tools to attain their goals. The proposal requires districts in each consortium to maintain their current level of adult education spending in 2013-14, 2014-15, and into the future to generate the new funding.

Mandate Reimbursement and the Mandate Block Grant

The May Revision does not include any changes to the Governor's January Budget, which proposed to restructure requirements for the Behavioral Intervention Plan program in order to eliminate almost all reimbursable costs for the mandate. Included in the January Budget narrative was the statement that the Administration believed that most costs associated with the Graduation Requirements program mandate have run their course in the 30 years since inception; however, the Governor's Budget Proposal added an additional $100 million to the K-12 Block Grant to fund costs for these two additional programs.

Similar to the January Budget, the May Revision does not propose any significant funding to reimburse prior years' cost-based mandate claims. However, as part of a multiyear Budget plan, the May Revision dedicates billions to pay down state debt to reduce the state's liability for unpaid costs to local governments, schools, and community colleges for state mandates from $4.9 billion in 2012-13 to $3.1 billion by the end of 2016-17. Details on repayment have not been provided.

Proposition 39 Funding

In January 2013, the Governor's Budget allocated $400.5 million Proposition 98 General Fund to LEAs on a per-ADA basis to support energy efficiency projects consistent with the requirements of Proposition 39. After the proposal's release, concerns emerged about LEAs' ability to initiate and complete the energy efficiency projects as well as the absence of a minimum grant award level in the proposal. The May Revision proposes a minimum grant level of $15,000 for exceptionally small LEAs of less than 200 ADA, and other LEAs will receive the greater of $50,000 or their per-ADA distribution. A per-ADA amount was not included in the May Revision.

The May Revision proposes $4 million for the Energy Resources Programs Account and eight positions to enable the California Energy Commission to provide small LEAs with technical assistance, identify cost-effective energy savings opportunities, and provide guidance on establishing baselines and tracking performance.

Due to higher Proposition 39 revenues, the May Revision also proposes an increase of $12.5 million for K-12 energy efficiency projects.

Transportation

The May Revision proposes no changes to funding transportation as a fully-flexible (funds for use for any educational purpose) add-on to the LCFF for those districts that currently receive transportation funding. The May Revision includes an adjustment to the LCFF in the area of transportation, which provides Home-to-School Transportation joint powers authorities with continued direct funding for two additional years, 2013-14 and 2014-15.

Technology-Based Instruction

After the Governor released his proposal for technology-based instruction, both the California Department of Education and the Legislative Analyst's Office raised a number of calculation, accountability, and timing concerns.

While restating his commitment to expand the use of technology-based instruction, the Governor's May Revision proposes to "delay" his proposal to expand online learning programs until 2014-15.

Child Care and State Preschool Programs

The May Revision proposes reductions from the Governor's Budget to the California Work Opportunity and Responsibility to Kids (CalWORKs) child care system totaling $15.6 million non-Proposition 98 funds, reflecting a slight decline in the number of eligible beneficiaries for Stage 2 ($511,000 reduction) and updated caseload data which showed that the Stage 3 population was smaller than expected ($15.1 million reduction). Capped child care programs (nonCalWORKs) are proposed to see an increase of $1.7 million, and a net increase of $8.5 million in federal one-time funds is projected for 2013-14. Additionally, due to population growth of 0-4 year-old children, an increase of $1.2 million in Proposition 98 funds for state preschool is proposed.

Charter Schools

The May Revision makes no changes to the Governor's January Budget. The LCFF proposed by Governor Brown applies to charter schools in the same manner as for traditional school agencies. 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 to no more than the concentration grant increase provided to the school district where the charter school resides, as determined by the physical location.

Special Education

In anticipation that an agreement will not be reached by Congress to mitigate federal sequestration, the Governor's May Revision provides a $60.7 million augmentation to special education, including Early Start (Part C) programs and ROC/P handicapped to backfill the potential loss of funds. The May Revision also includes a proposal to consolidate two existing special education extraordinary cost pools and the ROC/P low-incidence funding into the low-incidence funding for materials, equipment, and specialized services.

Federal Sequestration

The Governor's May Revision notes that the funding implications of federal sequestration on the state are still unknown and federal agencies have not issued the necessary guidelines. Given that uncertainty, the Governor sets aside some funds for what he characterizes as "critical areas" related to children with disabilities and seeks budget control language that gives his office the authority to decrease spending authority once the final details are known, noting that there will be a legislative review before any reductions are made.

Summary

Our evaluation of the Governor's May Revision is influenced heavily by two elements. First, does the level of funding increase on a predictable path toward adequate funding for the education of every student in the state? Second, do the distribution formula and its supporting elements result in a funding model that supports the policy goals of the state?

Based upon our assessment of these two criteria, we would conclude that the May Revision is a work in progress. The level of funding increases provided in 2013-14 and beyond are widely disparate and it is not clear to us that the proposed formula will afford all school districts an equal opportunity to provide its students with appropriate educational opportunities. As proposed, the formula would still result in some districts falling way below their pre-recession funding levels each year while others advance quickly.

The policy interests of the state, as articulated by the Governor, have been consistent: more money for the most needy students and more local control for school districts. We think the first goal is only partially met because money that could have been used ongoing in classrooms is largely confined to creation of the new one-time categorical program to implement Common Core State Standards or used to buy down deferrals at a faster pace.

We think the second goal, local control, is significantly eroded from the Governor's position in January. As noted above, the restrictions placed upon the expenditure of all supplemental and concentration dollars by the accountability model are at least as severe as those in current law. This appears to be a major policy shift by the Governor in favor of the state retaining control of expenditures.

We continue to believe that, despite the Governor's unquestioned lofty aspirations for California's students, the funding formula as proposed still falls short. Further, we believe that the formula is worth saving and can be made viable with only a few fundamental structural changes.

We hope the Legislature will continue its rigorous assessment of the effect of the Governor's proposal on all of California's students. If this formula is adopted by the Legislature and enacted "as is" we believe that, while the "big strokes" may occupy the headlines, it will be the smaller details that produce adverse consequences. There is still plenty of time for the Administration to hear, assess, and amend provisions of the proposal to make it work for all of California's students. When that happens, we will be in full support of the Governor's plan.

—SSC Staff

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