

**Governor's 2014-15 Budget Proposal  
Issues and Positions  
January 25, 2014**

Fiscal tides have certainly changed for the State of California General Fund and for the Proposition 98 guarantee. With the release of the Budget Proposal for 2014-15, Governor Brown introduced a budget that provides some \$6 billion above the 2013-14 Prop 98 enacted budget level. The influx of revenues is definitely an improvement over the years of cuts and deferrals that marked the Great Recession. However, California's public schools remain woefully underfunded and well behind almost every other state in the country in per-pupil funding; The 2014 Quality Counts issue of *Education Week* shows California ranks 50<sup>th</sup> in adjusted per pupil expenditures for K-12 education.

On the positive side, the Governor proposed a continued investment in the Local Control Funding Formula and elimination of apportionment deferrals. This part of the proposal sends a strong signal to local governing boards that the state will stay committed to the implementation of the new funding formula.

On the other hand, the Governor sent strong signal once again that he is questioning the state's involvement in school construction, hinting rather strongly that he is concerned about the state's debt obligations and how a statewide school construction bond could impact the overall debt picture.

There was no mention in the budget proposal of an additional investment in the implementation of the Common Core State Standards. In the current year, some \$1.2 billion was provided in one-time money to assist governing boards with the more than \$3 billion in estimated implementation costs.

Overall, this budget proposal shows that Governor Brown remains committed to public education and that it is his top priority. It also shows that California's economy is growing stronger every day.

**Highlights and Recommendations:**

1. \$6.3 billion increase in Prop 98 from the 2013-14 enacted budget level. State General Fund growth, sustained by recent gains in personal income, continues to be strong in the current fiscal year and the near future. Bolstered by the temporary taxes included in Prop 30 from 2012, the year-to-year increase in the Prop 98 guarantee is also strong. This \$6.3 billion increase recognizes the ongoing portion of the Governor's budget proposal.

**CSBA position:** No position. CSBA tracks revenue projections as they become available and the Governor's projections seem accurate with a lean toward conservative. If there is a wide variance in estimates and actual current economic activity, CSBA would join in challenging those estimates during the budget process.

2. \$3.3 billion in additional funds from previous years (\$1.8 billion from 2012-13 and \$1.5 billion from 2013-14). The economy outperformed projections and produced additional revenues in the prior year (2012-13) and current year (2013-14). As monthly state income totals are tallied in the current year, these figures are likely to change in our favor as these are usually conservative estimates.

**CSBA position:** No position. Similar to Item 1 above.

3. Per pupil Prop 98 spending (ongoing) up \$725 between 2013-14 and 2014-15 and up \$2,188 since 2012-13. The Governor's Budget estimates that per pupil spending in 2014-15 will reach \$9,194 in Prop 98 funds and \$12,833 when all funds are considered, which includes federal money.

**CSBA position:** No position. Similar to Items 1 and 2. These calculations vary depending on total amounts allocated to K-12 schools and will change throughout the budget process based on updated financial estimates.

4. Provides \$4.5 billion in new ongoing funding for the Local Control Funding Formula (LCFF) for school districts and charter schools and \$25.9 million in new ongoing money for LCFF in county offices of education. In the current year, the budget funded LCFF approximately 11.8 percent towards the full funding of school district and charter school targets and about half of the county office of education targets. The Governor's Budget Proposal would fund another 28 percent of the remaining amount for school districts and charter schools and fully fund county offices of education. The Governor also proposes to fold two programs into the LCFF that were left out in the original bill: Specialized Secondary Programs and Agricultural Vocational Education.

**CSBA position:** Support the additional funding. Funding LCFF is a top priority of CSBA. When there are sufficient funds as are projected in 2014-15, committing more money toward LCFF makes sense as opposed to creating new programs. This amount of funding, added to what was originally funded in the current year, would take school districts and charter schools approximately one-third of the way to a fully-funded LCFF. County offices would be fully funded. Note however that the Department of Finance (DOF) does not describe this investment as fast-forwarding the original eight-year implementation plan. DOF recognizes that future growth in the Prop 98 guarantee will likely wane in the out years as growth in the economy softens and the temporary revenues of Prop 30 begin sunseting (Sales tax sunsets in 2016-17 and income tax sunsets in 2018-19). At this point in time, DOF is still saying that LCFF will be fully funded by the close of the 2020-2021

fiscal year. Districts and charters relying on Economic Recovery Targets (ERT) to restore funding levels to 2007-08 levels will move another 1/8<sup>th</sup> of the distance to the full target. On the issue of folding the two programs into the LCFF, CSBA remains concerned about the impact on the LEAs that have been getting those specific dollars.

5. Proposes legislation to create a continuous appropriation for LCFF. While exact language of the continuous appropriation was not public when this issue was discussed with the CSBA Board of Directors, DOF has described the proposal as including a provision that continues LCFF funding automatically across fiscal years to ensure that late budget will not impact this portion of school funding. The proposal would include specifying a percentage of the Prop 98 guarantee for LCFF.

**CSBA position:** Support and seek amendments. A continuous appropriation in itself is a critical fix needed in statute. Prior to LCFF being enacted, the portion of school funding dedicated to revenue limits was continuously appropriated and in times of late budgets, that amount of funding continued to flow. Categorical programs that were not part of the continuous appropriation were often held up until a budget was passed. Even though recent changes to budget vote requirements substantially reduce (if not eliminate) the risk of late state budgets in the future, restoring the continuous appropriation for the lion's share of school funding has been a request of CSBA and several others in the K-12 budget arena since it was eliminated as part of the enactment of the LCFF law. However, DOF reports that they may propose as part of a continuous appropriation a provision to dedicate a percentage of the Prop 98 guarantee to LCFF. While DOF is attempting to create a sense of stability for local educational agencies (LEAs), it could have a negative impact which could lead the Legislature and future Governor's to steer additional monies to other programs once that threshold is met. This would violate the very foundation of LCFF that the best decisions for meeting the needs of students, especially those targeted under LCFF, are made locally. CSBA will work in support of the continuous appropriation without any other requirements. This would work to preserve the flow of LCFF funding to LEAs in times when there is a late budget based on the amounts allocated in the previous budget, and leave the door open to years like we are seeing in 2014-15, where the Governor wants to essentially make a double payment toward LCFF.

6. Combines \$3.3 billion in prior year money (\$1.8 billion from 2012-13 and \$1.5 billion from 2013-14) with \$2.2 billion in 2014-15 money to fully pay off and eliminate remaining apportionment deferrals. This is one year earlier than originally proposed.

**CSBA position:** Support and seek amendments. CSBA supports paying down one-half of the remaining \$5.6 billion in deferrals in 2014-15 and the remaining portion in 2015-16, thus freeing up some \$2.75 billion in 2014-15 for additional high priority needs. While paying off and eliminating

apportionment deferrals is a top priority for CSBA in that it improves cash flow for LEAs, doing so eliminates the ability to use that money for potential expenditures on Common Core implementation, paying down the debt owed to schools for unpaid mandate claims or on other one-time or ongoing needs. CSBA's current position is supportive of the original plan of the Governor to repay and eliminate deferrals by the end of 2015-16. As mentioned above, honoring that schedule would free up \$2.75 billion in the budget for other critical needs. Without engaging on how much of this money should be counted as one-time vs. ongoing, the amount should be split between an additional investment in Common Core implementation (\$1.25 billion was provided in the current year for technology, professional development and instructional materials) and paying down the nearly \$5 billion owed to schools for mandates. Both of those expenditures would be one-time payments. Additionally, a portion could be committed on an ongoing basis to equalizing home-to-school transportation funding. A proposal is being discussed by CSBA and other K-12 organizations to level all LEAs up to cover 50 percent of their transportation costs and add a COLA to the program.

7. Proposes \$363 million for energy efficiency projects funded from Prop 39.

**CSBA position:** Support. Prop 39 from 2012 eliminated a tax loophole for out-of-state corporations and requires that through the 2017-18 fiscal year, half of the revenue raised, up to \$550 million, be allocated to schools (K-12 and Community Colleges) to fund energy efficiency projects. The Governor's proposal is to allocate that money as follows:

- a. \$316 million to K-12
  - b. \$39 million to Community Colleges
  - c. \$5 million to the CA Conservation Corps for technical assistance to K-12 entities
  - d. \$3 million to the Workforce Investment Board for related job training
8. Transfers \$211 million in remaining state bond authority to new construction (\$105.5 million) and modernization (\$105.5 million). The proposal does not contain a call for a school construction bond on the November 2014 ballot yet cites a need to revamp the overly bureaucratic and complex state school construction program. The Governor's Five-Year Infrastructure Plan includes this item and the next item, and a statement against issuing long term debt other than lease-revenue bonds.

**CSBA position:** Support the transfer of money and continue working with stakeholders to place a bond on the November 2014 ballot.

9. Funds \$188.1 million from Prop 98 for the Emergency Repair Program (ERP).

**CSBA position:** Support. The Emergency Repair Program (ERP) is part of the 2004 settlement in the Williams case, where the American Civil Rights

Union (ACLU), Public Advocates and others accused the state of not providing adequate and safe school facilities and sufficient instructional materials and credentialed teachers. The ERP was funded the first two years after the settlement but nothing has been allocated since. The settlement called for annual allocations to those schools in the bottom three deciles of the API. Governors Schwarzenegger and Brown have proposed allocations in their January budgets but those monies were eventually allocated for other items in the final budgets.

10. Proposes a Constitutional amendment to help strengthen the state's rainy day fund and to establish a Proposition 98 reserve account. The intent is to smooth out spikes in Capital Gains income tax revenues and to set money aside to be used in downturns. In Prop 98, money would be contributed to a newly created Prop 98 reserve account when Capital Gains revenues exceed 6.5 percent of the state General Fund. In that instance, the Prop 98 share of those revenues would be set aside in the reserve for use when the guarantee falls. The set aside would occur only when COLA and growth are fully funded. The reserve account would never exceed 10 percent of the guarantee.

**CSBA position:** CSBA is concerned about the implications of setting aside money within the guarantee and not being able to use any of it unless there is a crisis. The state has continued its reliance on defining a portion of Prop 98 monies as one-time for the same reasons that one would advocate for a reserve account. One-time expenditures do not get added to LEA base expenditures and if overall revenues fall, ongoing monies are protected while one-time moneys are not allocated to LEAs in subsequent years. If the Governor's proposal was in place currently, the 2014-15 budget could have an untouchable reserve account of some \$6 billion sitting out of reach. Compare that to the \$5.5 billion being proposed this year to retire deferrals, which is a one-time use of that money. If Prop 98 falls by \$5 billion next year, then one-time expenditures could be curtailed without touching ongoing LCFE monies or funds allocated to Special Education or other ongoing programs. It has the same effect as a reserve account except there is access to the money.

11. Proposed eliminating the \$24 billion "Wall of Debt" by the end of 2017-18, including \$5 billion in unpaid mandate claims and the Prop 98 maintenance factor.

**CSBA position:** Support. CSBA continually makes paying state mandates and the Prop 98 maintenance factor a priority. Payment of the maintenance factor is an annual allocation in the Budget Act based on the growth in the guarantee. Payment of mandate claims is a one-time allocation. Item 6 above describes how to use one-time monies and using those monies to retire mandate claims makes a great deal of sense. However, CSBA believes there may be sufficient one-time money available to pay off mandates earlier than 2017-18.

12. Proposes \$46.5 million to implement AB 484 (Bonilla, D-Concord), the revised student assessment system aligned to Common Core State Standards.

**CSBA position:** Support. This allocation would fund the development and administration of additional assessments that would supplement those developed by the Smarter Balanced Assessment Consortium (SBAC).

13. Proposes \$33.3 million in ongoing funds for cost-of-living adjustments (COLA) of 0.86 percent to those non-LCFF programs that get a COLA: Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program. Note that COLA for the LCFF is already factored into the funding for that program.

**CSBA position:** Support.

14. Calls for a new Adult Education program in the 2015-16 budget for K-12 and community colleges as a separate new categorical program.

**CSBA position:** As details become available, conversations will ensue with the Legislative Committee. CSBA has been supportive of Adult Education being part of the K-12 system.

15. The Governor mentioned in his proposal that the annual shortfall in funding to CalSTRS has now reached \$4.5 billion. The total unfunded liability of the system is about \$80 billion. This is the same issue raised by State Treasurer Bill Lockyer when he spoke at CSBA's Annual Education Conference in San Diego. The Governor does not include a proposal for the 2014-15 budget, but commits to developing a multiyear plan, beginning in 2015-16, that would include a cost sharing plan for employers, employees and the state.

**CSBA position:** Support for a cost sharing plan between employers, employees and the state which includes keeping the state's contribution out of the Prop. 98 guarantee. CSBA will engage in the stakeholder discussions throughout this year. The CalSTRS liability does need to be addressed and since its governing board does not have the authority that the CalPERS board does to set rates, the issue has not been addressed.

16. Proposes legislation to streamline and expand instructional opportunities available through non-classroom based independent study, citing the current program as being too burdensome administratively, requiring teachers to spend more time on paperwork than teaching.

**CSBA position:** Once the exact language becomes public, staff will work with the CSBA Legislative Committee.