



Preliminary Overview of the 2014-15 May Revision
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Governor Brown released the May Revision on Tuesday, May 13, 2014. The proposal adheres to the fiscal restraint the Governor has espoused and advances his priorities to pay down on the state's wall of debt and build up a reserve. State revenues are forecast to increase by \$2.4 billion above projections in January. The May Revision recognizes and assumes "the continued modest economic expansion of the past couple of years" and notes that "another recession is inevitable." The Governor proposes to put significant amounts into health care to cover increased Medi-Cal participation, measures to address the drought and paying off the wall of debt.

May Revision proposals for K-12 education do not change significantly from those contained in the January Budget. The May Revision does propose a plan to address the estimated \$74 billion unfunded CalSTRS pension liability starting in the budget year. This proposal and other major K-12 elements are outlined below.

Proposition 98 Guarantee

Proposition 98 funding over the three years 2012-13 through 2014-15 increases by \$242 million above the January budget proposal. As outlined in the May Revision, Proposition 98 decreased by \$547 million in 2102-13, increased by approximately \$1.5 billion in 2103-14 and decreased by approximately \$700 million in 2014-15. The projection for the Proposition 98 guarantee drops from \$61.6 billion in the Governor's January budget to \$60.9 billion in the May Revision.

Deferrals and One-Time Allocations

The Governor maintains his January schedule to eliminate K-12 apportionment deferrals in the budget year; however, the mix of one-time and ongoing funds used to make these payments is different. The May Revision identifies \$742.2 million in one-time funds attributable to prior years to accelerate repayment of deferrals in those years. The acceleration is to be offset by a reduction in the same amount in ongoing Proposition 98 fund for repayments of deferrals in the budget year.

- CSBA continues to support the Governor's original proposal to pay off the deferrals over two years and completely eliminate them by end of 2015-16 as this would free-up funds for another significant allocation for local implementation of the Common Core State Standards (CCSS) and to improve funding for Home to School Transportation.

- CSBA will continue to advocate for funding for these two priority items as the legislative budget process moves into high gear.

Local Control Funding Formula (LCFF)

The May Revision continues to put \$4.5 billion for implementation of LCFF for districts to meet their targets. It also contains language regarding the issue of counts of low income students in schools that participate in the Provision 2 and 3 options of the federal school meals program:

- Authorizes schools participating in Provision 2 or 3 options to establish base-year student eligibility for Free or Reduced Price Meal (FRPM) no less than once every 4 years, if they provide annual updates to newly enrolled or dis-enrolled students in intervening years
- Requires the State Superintendent of Public Instruction to revise the 3-year rolling average unduplicated enrollment percentage using 2014-15 data in place of 2013-14, if doing so increases LEA's rolling average

CSBA has worked with member districts, California Association of School Business Officials, California Food Policy Advocates and the California School Nutrition Association to highlight the challenges of Provision 2 and 3 schools in obtaining annual income verification of students and the conflict the annual verification poses with the federal meals program options. This language significantly addresses the ongoing issues.

K-12 High Speed Internet Access. Although he does not include an allocation for local implementation of CCSS, the Governor does recognize that local education agencies (LEAs) continue to have needs to address the technology requirements related to CCSS. The May Revision proposes an increase of \$26.7 million in one-time funds for the K-12 High Speed Network to provide technical assistance to those LEAs in most need of help securing connectivity and infrastructure to implement the computer adaptive tests.

K-12 Mandates.

- The May Revision does not contain proposals to repay outstanding K-12 Mandate Claims. In January, the Governor's Budget showed a schedule that included paying off the outstanding claims by 2016-17.
- The May Revision contains a proposed increase to the Mandate Block Grant of \$1.6 million to align funding with revised ADA.
- And it contains a proposed increase of \$5,000 for five additional mandates that were added to the mandate claiming process: Three new mandates: Parental Involvement Program; Williams Case Implementation I, II, III; Developer Fees and two mandates were omitted from the claims process budget bill item last year: Student Records; Graduation Requirements.

Proposition 39 The California Clean Energy Jobs Act funds, decreased. The May Revision decreases the amount of funds available for K-12 schools in 2014-15 by \$9 million to \$307 million because of lower revenues.

Cost Of Living Adjustment (COLA) is decreased from 0.86% in January to 0.85%. The May Revision contains a decrease of \$258,000 for selected categorical programs, e.g., special education and child nutrition, reflecting the lower COLA.

Average Daily Attendance (ADA) projected to increase. The May Revision projects increases in ADA and funds of \$103.1 million for 2013-14 and \$121.1 million in 2014-15.

CalSTRS Liability and Plan to Address the \$74.4 Billion Shortfall. The May Revision contains a plan to start in the budget year with increased shared responsibility by teachers, employers and the state with the goal to eliminate the liability completely in approximately 30 years. In January, the Governor proposed working with stakeholders to develop a plan to address the CalSTRS unfunded liability. Recognizing that those conversations had traction, the Administration put forward a proposal in the May Revision to initiate increases in the budget year.

- The increased contributions in the first year from all three entities is \$450 million but would grow to more than \$5 billion annually in 2020-21.
- The contributions of teachers will rise from 8% to 10.25% of pay over 3 years.
- The contributions of schools will rise from 8.25% to 19.1% of payroll over 7 years. These contributions are to be paid from existing funding sources.
- The state's contribution will rise from 3% to 6.3% in 2016-17. In addition, the state will contribute to pay 2.5% of payroll annually for a supplemental inflation protection program, for a total of 8.8%.
- As described by Department of Finance officials, the plan includes vesting the 2% COLA that retired CalSTRS members receive.

The trailer bill on the CalSTRS proposal is not yet available. CSBA will provide more detailed information and analysis once the language is posted by DOF.

Proposal to streamline and expand instructional opportunities available through independent study: changes to the January proposal.

- Eliminate the requirement that certificated teachers and students meet weekly to assess if student is making satisfactory progress in school site-based blended learning independent study program.
- Provide schools with the ability to offer site-based blended learning, utilizing a universal learning agreement.
- Promote equitable funding by funding students enrolled in course-based independent study programs on the basis of ADA and not enrollment, and apply the statewide excused absence rate to the ADA claimed by LEAs.

Accessible Instructional Materials for Visually Impaired Students. The Governor's Budget proposed amending Education Code section 60313 to require the California Department of Education (CDE) to assess a fee on local educational agencies that choose to acquire accessible materials from the CDE.

- The May Revision proposes to return to current law and fund the CDE's activities to produce, warehouse and distribute accessible instructional materials with federal IDEA funding. In its Finance Letter, DOF requests \$3 million in ongoing federal special education funds to support the ongoing statewide activities, and a onetime

investment of \$1.5 million to transcribe and emboss recently adopted mathematics instructional materials.

- CSBA, other statewide associations and LEAs sent a joint letter and participated in meeting with DOF on this issue.

School Facilities. The Governor's January proposals and comments remain, including the proposal to shift funds from underutilized facilities funding programs into school modernization and construction. CSBA will continue to advocate for a statewide school facilities bond. In the January proposal the Governor noted that he wants to examine the state's role in facilities funding. This issue will remain a CSBA priority.

Budget Reserve and Rainy Day Fund (RDF).

The Governor and the Legislature (Dems and Reps) reached a deal last week on the Budget Reserve/RDF. There were two significant changes to the proposal contained in ACA 1 2X:

- It will now require an annual contribution from the state General Fund to the RDF in an amount equal to 1.5% of the state General Fund. This would be done without impacting the Proposition 98 guarantee and would come from the non-98 side of the General Fund.
- The capital gains trigger was increased from 6.5% to 8%. This means that a contribution to the Proposition 98 reserve would come into play when capital gains revenues make up more than 8% of the General Fund. That scenario is a lot less likely than the 6.5% scenario and if capital gains ever reaches 8% of the General Fund, the contribution to the 98 reserve would be a lot less than if the trigger was 6.5%. The other caveats remain, i.e. no contribution required unless COLA and growth are funded or unless the current maintenance factor is paid.

We are confident that the proposal is now much friendlier to Proposition 98 and believe that our advocacy of expressing concerns opened the door to the changes that were made. The Senate Budget Committee will meet in special session on Wednesday, May 14, 2014 to consider the Budget Reserve/Rainy Day Fund. Floor action is expected by the end of the week. We expect the proposal to pass with a 2/3rds vote as this agreement is bipartisan. Once that vote occurs, then this measure will replace ACA 4 which is on the November ballot.

Timing and Tone of the Budget Process.

- We continue to expect an on-time budget, which is by midnight June 15, 2014.
- The budget subcommittees have scheduled hearings through May 23, 2014 and then the items will move to consideration by the full committees and perhaps conference committee.
 - Initial comments from Senate Budget Chair Mark Leno and Assembly Speaker Atkins indicate that legislators are prepared to consider safety net and education proposals and to examine, before accepting, the Department of Finance revenue projections. As one news story noted, the budget negotiations between the Legislature and the Governor are likely to be tense.