K thru 12 Education

The May Revision includes total funding of $67.5 billion ($38.2 billion General Fund and $29.3 billion other funds) for all K-12 Education programs.

Proposition 98

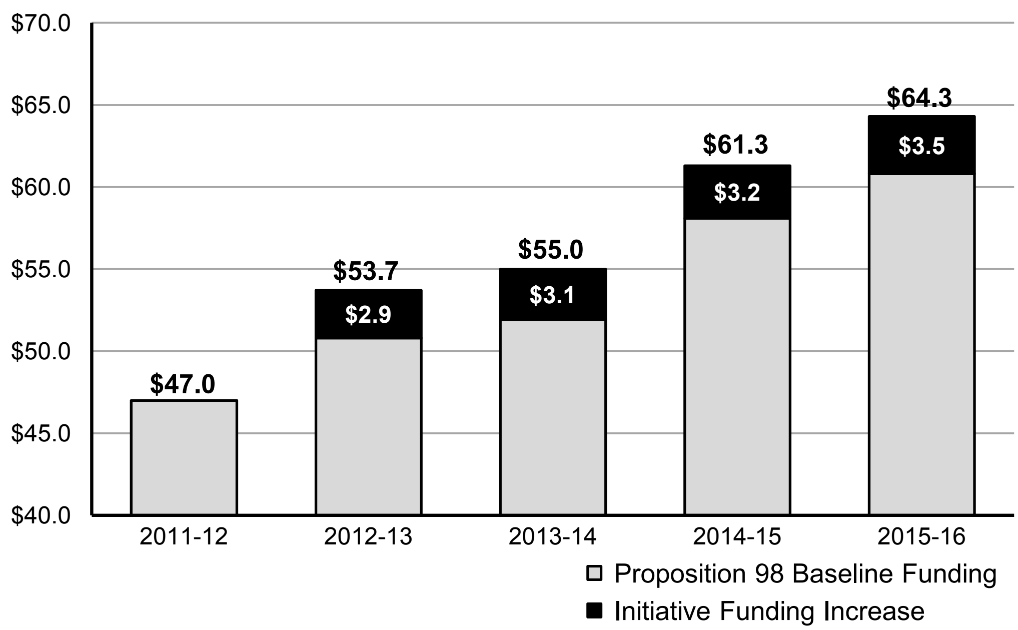
A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income and school attendance growth or decline.

The May Revision continues to address the several most significant issues facing schools. Over time, it restores the $9.6 billion in reductions that have been made to Proposition 98 funding since 2007-08, reduces the "wall of debt" by eliminating deferrals, and restores the deficit factor reductions to general purpose school revenue limit funding in the same manner in which the reductions were made. The May Revision will increase funding to schools by more than $15 billion over four years, an increase of over $2,500 per pupil. After restoring cuts to revenue limits, increased funds will be allocated based on students' needs. The May Revision also replaces the current complex, administratively costly and imbalanced school finance system with a simpler, more transparent funding formula that removes the various spending restrictions that prevent schools from effectively and efficiently managing their funds based on local educational priorities.

For 2012-13, the Proposition 98 Guarantee is $53.7 billion. Although revenues are, in aggregate, down from the Governor's Budget level in both years, the difference between 2011-12 and 2012-13 is larger than it was in the Governor's Budget and this results in a $1.2 billion higher calculation for the Proposition 98 minimum guarantee. The May Revision proposes to maintain level Proposition 98 funding for every school district, reduce the "wall of debt" by reducing the payments to schools that are deferred each year from $10.4 billion to $7.6 billion, and to fund the Quality Education Investment Act (QEIA) program within the Proposition 98 guarantee.

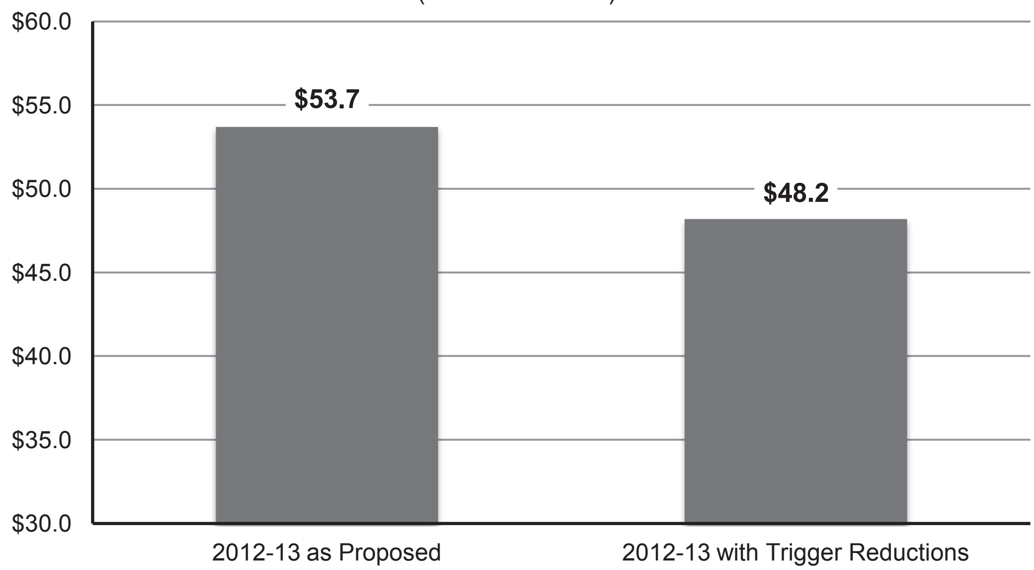
The May Revision assumes passage of the Governor's tax initiative, which increases Proposition 98 funding by $2.9 billion in 2012-13. This builds on the Governor's Budget proposal to begin restoring the significant reductions imposed on K-12 schools and community colleges since 2007-08. In 2013-14, more than $4 billion in additional funding will be available for allocation to schools, of which half will fund COLA and restore the deficit factor reduction to general purpose revenue limit funding and the other half will further reduce the payment deferrals. By 2015-16, Proposition 98 is projected to grow by more than $17 billion higher than the 2011-12 level, the payment deferrals will have been fully restored, and the deficit factor reductions will be close to fully restored. (See Figure K12-01).

Figure K12-01
K-14 Funding Increases by $17 Billion Over 4 Years
(Dollars in billions)



The May Revision outlines the reductions that would be necessary to restore balance if the November initiative is not approved by the voters. Specifically, $5.5 billion in reductions to schools would be triggered in 2012-13. A reduction of this magnitude would result in a funding decrease equivalent to the cost of three weeks of instruction. It will also continue to provide 20 percent of program funds a year in arrears. (See Figure K12-02).

Figure K12-02
Proposition 98 as Proposed and with Trigger Reductions
2012-13 May Revision
(Dollars in Billions)



The May Revision continues to provide significant and permanent additional flexibility to schools by consolidating the vast majority of categorical programs and revenue limit funding into a weighted student formula that provides funding to schools based on the needs of their students. The new funding formula will ensure that the billions in additional funding schools will receive within the next few years can be used for locally determined priorities. In addition, the existing deficit factor reductions to revenue limits will be restored before the formula is fully implemented and COLAs will be provided on both revenue limits and the new formula. As structured, this proposal holds school districts harmless next year, fully restores cuts to revenue limits, and distributes increased funds based on the needs of students.

The sections that follow provide an overview of K-12 funding adjustments, while the Higher Education section contains the Proposition 98 adjustments for the Community Colleges.

K-12 Budget Adjustments

Proposals to Balance the Budget:

- *Redevelopment Agency Asset Liquidation*—An increase of $1.2 billion in offsetting local property taxes for 2012-13 to reflect the distribution of cash assets previously held by redevelopment agencies. The increase in local revenue reduces Proposition 98 General Fund by an identical amount. An additional $90.9 million in property tax funds will be retained by school districts and county offices of education.
- *Proposition 98 Adjustments*—A decrease of $558.6 million, reflecting the elimination of the hold-harmless adjustment provided to schools from the elimination of the sales tax on gasoline in 2010-11, maintaining the rebenching methodology used in the 2011 Budget Act for mental health services for children and Child Care, and using the traditional "1986-87 look back methodology" for the ongoing shift of Redevelopment Agency property tax revenues to schools. The May Revision also redesignates a $785.3 million overappropration of the guarantee in 2011-12 towards existing settle up debt owed to schools and the *California Teachers Association v. Schwarzenegger* settlement agreement payment requirement for 2012-13. The cumulative effect of these changes is $931.8 million in Proposition 98 savings for 2012-13.
- *Quality Education Investment Act*—A decrease of $450 million General Fund for 2012-13. The overappropriation in 2011-12 will be used prepay the $450 million required to be provided on top of the minimum guarantee in 2012-13 pursuant to the *California Teachers Association v.Schwarzenegger* settlement agreement. The program will be funded within the guarantee to achieve one-time savings of $450 million for 2012-13.

Other Significant Adjustments:

- *K-12 Deferrals*—An increase of $392.9 million Proposition 98 General Fund, for a total of $2.6 billion, to reduce inter-year budgetary deferrals from $9.5 billion to $6.9 billion.
- *Transitional Kindergarten*—A decrease of $132.2 million in projected savings associated with the proposed elimination of transitional kindergarten requirements. The projected erosion in savings is attributable to anticipated declining enrollment costs as well as an expected increase in two-year kindergarten costs. The remaining projected savings of $91.5 million from the elimination of transitional kindergarten requirements will be used to restore reductions to Preschool included in the Governor's Budget and support the expansion of preschool enrollment as discussed in the Child Care section below.
- *Charter Schools*—An increase of $3.4 million Proposition 98 General Fund for charter school categorical programs due to charter school growth.
- *Local Property Tax Adjustments*—An increase of $459 million in 2011-12 and an increase of $398 million in 2012-13 for school district and county office of education revenue limits as a result of lower offsetting property tax revenues.
- *Average Daily Attendance (ADA)*—An increase of $122 million in 2011-12 and an increase of $169 million in 2012-13 for school district and county office of education revenue limits as a result of an increase projected ADA in both years.

Ballot Trigger Reductions:

- If new revenues are not achieved, the potential trigger reduction for K-14 programs is $5.5 billion, an increase of $656.7 million over the $4.8 billion trigger reduction proposed at the Governor's Budget. If this trigger reduction is implemented, the $2.8 billion repayment of deferrals in 2012-13 will not occur. The remaining $2.7 billion will be a reduction in programmatic funding for schools. Schools will be provided flexibility to reduce the school year by a combined total of 15 days in 2012-13 and 2013-14. This will allow schools to use a combination of reserves, reductions in the school year and other savings options to absorb this cut over a two year period.

Significant Other General Fund Policy Issues:

- *Weighted Pupil Funding Formula*—The Governor's Budget proposed implementing a weighted student funding formula to replace California's complex, administratively costly and imbalanced school finance system. The Governor's Budget also proposed that school districts and charter schools receive significant and permanent flexibility to expend the majority of their educational funds on any locally determined educational purpose. The May Revision addresses concerns raised by the Education community with the following modifications to the proposed weighted student funding formula:
    - *Increase the Base Grant to the Revenue Limit Level*—The base grant portion of the weighted student formula will be approximately $5,421, instead of the $4,920 level proposed in the Governor's Budget. This will set the base grant portion of the weighted student formula equal to, or slightly higher, than the current average revenue limit for unified school districts (which is $5,203). In addition, COLAs will be provided on both revenue limits and the new formula.
    - *Repay Deficit Factor*—The proposal will require that the existing deficit factor reduction to revenue limits be restored before the weighted student formula is fully implemented. Also, the phase in period is increased from five years to seven years. Further, implementation will be contingent on school funding being at the levels proposed in the May Revision.
    - *Add Grade Span Adjustments*—Base grants, supplemental grants, and concentration grants are revised to provide grade span differentials to reflect the cost of educating students in grades K-3, 4-6, 7-8 and 9-12, respectively.
    - *Supplemental and Concentration Grant Weights*—School districts and charter schools will receive a supplemental grant factor equal to 20 percent of the base grant for low-income and English learner students, with concentration grants adjusted accordingly. The concentration grant factor for charter schools will be capped at the districtwide average. In addition, school districts will be required to spend the funding provided by the supplemental and concentration grants for the benefit of the low-income and English learner students for which the district received the funding.
    - *Fund Add On Programs*—The current Home-To-School Transportation and Targeted Instructional Improvement Grant program funding formula allocations

are continued as weighted student formula "add-on" programs. However, the funding will be flexible.

- *Make Contingent on Accountability System Changes*—Continued phase-in of the formula in 2013-14 will be contingent on legislation identifying additional indicators of district and school success such as professional development opportunities for teachers, college enrollment and employment rates for students, and provision of the necessary conditions for learning, which would be linked to incentive funding.

- *Mandates Block Grant*—The Governor's Budget proposed to eliminate nearly half of the existing K-12 and community college mandates and provide $200 million to fund a mandates block grant incentive program to reimburse K-12 schools and community colleges for all remaining mandated activities. The May Revision proposes the following changes to the block grant program:

  - *Distribute Funding Equally on a Per-Student Basis*—The block grant would distribute funding to school districts, county offices of education, charter schools, and community colleges equally based on average daily attendance for K-12 schools and funded full-time equivalent students for community colleges. Of the $200 million proposed for the block grant, $166.6 million would be available for K-12 schools and $33.4 million would be available for community colleges, providing a uniform funding rate of approximately $28 per student.

  - *Eliminate the Existing Mandates Claiming Process*—The existing claiming process would be eliminated as an option for K-12 schools and community colleges to seek reimbursement for the mandates funded in the block grant. Eliminating this option will ensure that K-12 schools and community colleges are reimbursed at the same rate for performing the same mandated activities.

  - *Repeal High-Cost Mandates*—The six highest cost mandates would be permanently repealed. These programs include Graduation Requirements (Second Science Course), Behavioral Intervention Plans; Habitual Truants; Notification of Truancy; Notification to Teachers and Pupil Discipline Records; and Pupil Suspensions, Expulsions, and Expulsion Appeals. The remaining mandates slated for elimination will be suspended in 2012-13 until subsequent legislation is introduced to permanently repeal those activities.

- *Charter School Reforms*—Charter schools receive less per average daily attendance funding than traditional public schools and are not eligible for reimbursement of state-mandated costs. In addition, they have limited access to educational facilities, limited options for borrowing funds at affordable interest rates and cannot issue bonds. The May Revision proposes the following modifications to the charter school trailer bill legislation included in the Governor's Budget:

- *Allow Surplus Property Conveyance Under Specific Conditions*—The Governor's Budget proposed requiring school districts to convey surplus property to any charter school opting to claim that property. It also provided school districts with an incentive to sell property to charter schools without having to declare the property surplus and without losing eligibility for the school facilities program. The May Revision limits the surplus property conveyance requirement to facilities with an educational purpose that were purchased with state funds.

- *Eliminate the State Funding Determination Process for Non-Classroom-Based Charters*—The Governor's Budget proposed to allow all new and existing non-classroom-based charter schools to receive full funding without needing State Board of Education review and approval. The proposal continues to eliminate the State Board of Education funding determination process, but will grandfather in the existing funding levels for all non-classroom-based charter schools, including those currently receiving a reduced funding level. Non-classroom-based charter schools currently receiving a reduced funding level will only be allowed to receive full funding upon renewal of their charter after 2012-13. This is a cost-neutral modification that will remove an overly burdensome and unnecessary process at the state level.

- *Increase Financial Assistance to Charters*—County treasurers will be authorized to lend to charter schools. Also charter schools, as a condition of directly applying to the state for a deferral exemption, will be required to provide a copy of their application for a deferral exemption to their charter authorizer.

Child Care and State Preschool

Subsidized Child Care includes a variety of programs that are designed to support low-income families so they may remain gainfully employed. These programs are primarily administered by the State Department of Education (SDE) through non-Proposition 98 funding and the annual federal Child Care and Development Fund (CCDF) grant. Additionally, part-day preschool programs, funded through Proposition 98, meet a child care need, but are also designed as an educational program to help ensure children develop the skills needed for success in school. The SDE and the Department of Social Services (DSS) also jointly administer the three-stage CalWORKs child care system to meet the needs for child care of recipients of aid while they participate in work activities and as they transition off of cash aid. Families can access services through centers that contract directly with the SDE (Title 5 centers), or by receiving vouchers from county welfare departments or alternative payment program providers.

Proposals to Balance the Budget:

- *Reduce Child Care Costs:* The May Revision reflects total child care savings of $452.5 million in Non-Proposition 98 General Fund (including CalWORKs Stage 1 funded in the DSS budget), and the elimination of 29,600 child care slots. The Governor's Budget proposed a decrease of $452.2 million and the elimination of 54,800 slots to align eligibility and need criteria for low-income working family child care services with federal income eligibility rules and welfare-to-work participation requirements, consistent with the Administration's proposal to restructure CalWORKs, and to reduce reimbursement rates. Concerns were raised that by eliminating child care services for non-cash-aided families who are engaged in education or training, families will not be able to achieve their employment goals. The May Revision proposes the following major adjustments to address these concerns, while maintaining the level of savings reflected in the Governor's Budget.
  - *Allow Families Engaged in Education or Training to Receive Child Care Services* —An increase of $180.1 million to allow families who are engaged in education or training to receive child care services on that basis for up to two years.
  - *Reduce Reimbursement Rates for Voucher-Based Programs*—A decrease of $184.2 million by reducing reimbursement rate ceilings for licensed voucher-based providers from the 85th percentile to the 40th percentile of the private pay market, based on the 2005 Regional Market Rate (RMR) survey data. License-exempt providers will be reimbursed based upon 71 percent of the lowered licensed ceilings.

Significant Adjustments:

- *Restructure Administration of Child Care:* The Governor's Budget proposed to shift the eligibility and payment functions for child care services from the alternative payment programs and Title 5 centers to the county welfare departments, beginning in 2013-14. All eligible families, including those currently enrolled in Title 5 centers, will receive a voucher for payment to a provider of their own choice. Concerns were raised that shifting to a voucher-only child care system administered by the counties will reduce access to higher quality Title 5 centers. In addition, concerns were raised that non-cash-aided families will not be able to access services because funding associated with child care services will be capped at the appropriation level and prioritized for cash-aided families. The May Revision proposes the following policy changes to address these concerns:

- *Establish a County Child Care Block Grant*—A child care block grant will be created, separate from the county single allocation, to ensure that eligible low-income working families can continue to access child care services.

- *Preserve Title 5 Center Infrastructure*—County welfare departments will contract with Title 5 centers, based on the allocation of Title 5 center slots in 2012-13, as a condition of receiving child care block grant funds. Counties will be provided flexibility to deviate from this allocation up to 10 percent. After a specified period of time, counties will be allowed to reallocate Title 5 center slots to voucher-based providers within the county to align service needs with available resources. A Title 5 center will be required to maintain its designation through SDE, primarily through submitting an annual assessment of its educational program.

- *Facilitate Transition of Child Care Services to County Welfare Departments*—Some funding will be shifted from SDE to DSS to fund state operations costs associated with the transition of child care services to the county welfare departments, and to enable counties that are prepared to assume responsibility for these services to implement the transition in 2012-13.

- *State Plan for Quality Activities*—The DSS will develop a plan in 2012-13, in consultation with SDE, that outlines the quality activities to be funded in 2013-14. The plan would require that DSS conduct quality activities to promote the health and safety of children in care, and that SDE conduct activities to promote early learning and readiness for school. The plan would also reflect an allocation to county welfare departments to target quality funds to local needs and priorities.

- *Part-Day Preschool Programs:* The May Revision redirects $91.5 million in savings from the proposed elimination of transitional kindergarten to: (1) restore the 10-percent reduction to the Standard Reimbursement Rate for part-day preschool programs included in the Governor's Budget ($34.1 million), and (2) to expand access to part-day preschool for 15,500 children from low-income families ($57.5 million).