
The State Legislature Passes 2014-15 State Budget Plan

by ACSA Governmental Relations

The best gift a father could ever receive is the passage of a state budget on Father's Day. On Father's Day, the June 15th Constitutional deadline for passing a state budget, the Assembly and Senate each took the floor to pass the State Budget Act of 2014. Now that California no longer requires a "Supermajority" (i.e. Republican votes) to pass the state budget, there is very little drama about passing the budget at the last minute. The most dramatic event to occur during the 2014 budget vote was the concern from ACSA and other school management groups on budget trailer bill language that highlights local budget reserves and caps these reserves when the state makes a contribution to the Public School System Stabilization Account (i.e. proposed Proposition 98 reserve account). While the Legislature negotiated a budget that met many of their needs such as increases in preschool investments and expanding health care services, Governor Brown received a budget very similar to his proposals in January and May. The revenue package is significantly closer to the governor's estimates and many of the policy objectives proposed by the administration were adopted. Some of the key components of the budget include the following:

- \$108 billion budget
- \$60.9 billion dedicated to Proposition 98
- \$2.1 billion reserve
- \$5.1 billion to retire funding deferrals

It is expected that Governor Brown will sign the budget within the next few days.

Education Budget Overview

[Proposition 98 and Funding Deferrals](#)

The 2014 Budget Act uses the governor's revenue projections to provide \$60.8 billion for the 2014-15 fiscal year. In addition, the Budget Act increases the 2012-13 minimum guarantee to \$57.8 billion (up \$1.3 billion from the 2012 Budget Act) and increases the 2013-14 guarantee to the tune of \$58.3 billion (up \$2.8 billion from the 2013 Budget Act). The increase from the previous budget years as well as resources for the current year are used to repay K-14 funding deferrals to the tune of \$5.1 billion. The Budget Act also includes a revenue trigger to pay \$991 million of the remaining K-14 funding deferrals. This final payment is contingent upon a determination of the Proposition 98 minimum guarantee made by the Director of Finance on May 13, 2015. The deferrals are paid-off if the guarantee is higher than the current estimated amount for the Budget Act.

Local Control Funding Formula

The Budget Act provides several technical changes to the Local Control Funding Formula (LCFF) as well as additional resources for implementation. The Budget Act provides \$4.8 billion for the implementation of LCFF. This amount is \$250 million above the amount proposed by the governor and includes \$25.9 million for County Offices of Education. It is implied that this increase in LCFF funding is provided to support the increase in the employer contribution for the California State Teachers Retirement System (CalSTRS). However, this is not specifically stated in the budget bill language. These are some the major technical changes related to LCFF:

- **National School Lunch Provision 2 and 3 Schools** – The Budget Act authorizes schools that are Provision 2, Provision 3, or Community Eligibility Option schools to establish a base year for LCFF by collecting household income data to determine whether a student meets free and reduced-price meal income eligibility criteria. Establishing this eligibility can occur at least once every four years provided that schools annually update their counts of eligible students. A school may choose to establish a new base year for purposes of the National School Lunch Program at the same time the school establishes a new base year for purposes of LCFF.
- **Necessary small schools** – The Budget Act clarifies that the Superintendent of Public Instruction, instead of the county superintendent of schools, calculates the Necessary Small Schools funding. Further, the Budget Act reestablishes the definition of necessary small high schools. This definition defines a necessary small high school as a high school maintained by a unified school district as the only comprehensive high school with an average daily attendance of less than 286 pupils and the school district has 50 or fewer pupils per square mile of school district territory. This definition sunsets on July 1, 2017.
- **State Board of Education (SBE) LCFF Study** – The Budget Act requires the SBE in collaboration with CDE to provide a report on the status of implementation of LCFF. The report is required to include:
 - A description of the implementation roles and responsibilities of CDE, SBE, the California Collaborative for Educational Excellence, the Fiscal Crisis Management and Assistance Team (FCMAT), and county offices of education for LCFF oversight and technical assistance to local educational agencies.
 - A description of implementation challenges to date and efforts made by state and local entities to address those challenges.
 - Observations of CDE and the SBE about the first year that local educational agencies completed their local control and accountability plans (LCAPs).
 - The SBE’s long-term vision for local control funding formula support and guidance to the field and which agency or agencies would provide that support and guidance.
- **LCAP template adoption** – Allows the SBE to adopt the LCAP template pursuant to the Bagley-Keene Open Meetings Act process instead of the Administrative Procedures Act. This will allow the LCAP template to become more user friendly and streamline the process to make changes to the template in the future.

District Budgetary Reserves for Economic Uncertainty and Ending Balances

The most controversial aspect of the budget is the correlation between the state's Rainy Day Fund for public education and local district reserves. It is important to note that there are two separate requirements. One requirement applies to school district budgets adopted on or before July 1, 2015 for 2015-16 fiscal year, and another that will apply only in some future year if certain conditions related to the Public School System Stabilization Account (also known as the Proposition 98 "rainy day" reserve) are met.

The first requirement relates to the public hearing at which school district budgets are adopted by governing boards. In addition to existing requirements, commencing with budgets adopted for the 2015-16 fiscal year, any governing board that proposes to adopt a budget that includes a reserve greater than the minimum recommended reserve for economic uncertainties must provide the following for public review and discussion:

1. The minimum recommended reserve for economic uncertainties for that fiscal year;
2. The combined assigned and unassigned ending fund balances that are in excess of the minimum recommended reserve in the budget proposed to be adopted for that fiscal year; and,
3. A statement of reasons that substantiates the need for an assigned and unassigned ending fund balance that is in excess of the minimum recommended reserve.

The requirement for 2015-16 school district budgets does not include a cap on reserves, but it does require school district governing boards to publically discuss and defend proposed reserve amounts above the minimum recommended reserve for economic uncertainties.

The second requirement contained in the budget attempts to create a cap on budget reserves. This provision is only triggered if a transfer is made into the Proposition 98 reserve. Therefore, the provision will not become effective unless the "Rainy Day" initiative (placed on the ballot by enactment of ACA 1) is passed by California voters in November 2014. Assuming the initiative passes, the specific provisions for a transfer to the Proposition 98 reserve must be met before the trailer bill "cap" on budget reserves is effective. As a reminder:

- There is no transfer to the Prop. 98 reserve until after the maintenance factor for all fiscal years prior to 2014-15 is paid off.
- There is no transfer to the Prop. 98 reserve unless we are in a "Test 1" year, meaning the amount calculated under Article XVI, section 8(b)(1) [Test 1] is greater than the amount calculated under section 8(b)(2)[Test 2].
- There is also no transfer to the Prop. 98 reserve in any year in which maintenance factor is created, or if Prop. 98 is suspended.

Assuming the above conditions are met, then in the fiscal year following the year of a transfer into the Proposition 98 reserve, there is a cap on school district budget reserves as follows:

- For districts with less than 400,000 ADA (everyone but LAUSD), the proposed adopted budget may not have a combined assigned and unassigned ending fund balance that exceeds twice the amount of the minimum recommended reserve for economic uncertainties.

- For districts with more than 400,000 ADA, the cap is three times the minimum recommended reserve.

A district that wishes to exceed this cap must request an exemption from the county superintendent of schools, who may grant the exemption for up to two consecutive years within a three year period, if the district provides documentation of extraordinary fiscal circumstances that includes:

1. A statement that substantiates the need for a reserve in excess of the “cap”;
2. Identification of the funding amounts associated with the extraordinary fiscal circumstances;
3. Documentation that no other fiscal resources are available to fund the extraordinary circumstances.

California State Teachers Retirement System (CalSTRS)

The budget establishes a plan to address the CalSTRS Defined Benefit Program’s unfunded liability of approximately \$74 billion. The plan increases contribution rates, beginning July 1, 2014, of teachers, employers, and the state.

The employer contribution rate increases by the percentages of creditable compensation upon which members’ contributions under the Defined Benefit Program are based, as follows:

13/14	0.00%	8.25%
14/15	0.63%	8.88%
15/16	1.85%	10.73%
16/17	1.85%	12.58%
17/18	1.85%	14.43%
18/19	1.85%	16.28%
19/20	1.85%	18.13%
20/21	0.97%	19.10%

For members who are not subject to the Public Employees’ Pension Reform Act of 2013 (PEPRA), the rate increases by the percentage of the member’s compensation that is creditable to the Defined Benefit Program as follows:

- 1) July 1, 2014, increased by .15%
- 2) July 1, 2015, by 1.20%
- 3) July 1 2016, by 2.25%

For members who are subject to PEPRA, the rate increases the percentage of the member’s compensation that is creditable to the Defined Benefit Program as follows:

- 1) July 1, 2014, increased by .15%
- 2) July 1, 2015, increased by .56%
- 3) July 1 2016, increased by 1.205%

The state's contribution rate increases as follows:

- 1) July 1, 2014, increased by 1.437%
- 2) July 1, 2015, increased by 2.874%
- 3) July 1, 2016, increased by 4.311%

The budget also requires the CalSTRS Board to report to the Legislature on or before July 1, 2019, and every five years thereafter, on the fiscal health of the Defined Benefit Program and the unfunded actuarial obligation with respect to service credited to members of the program, before July 1, 2014. The report must identify adjustments required in contribution rates in order to eliminate, by June 30, 2046, the unfunded actuarial obligation of the Defined Benefit Program with respect to service credited to members of the program before July 1, 2014.

State Mandates and Common Core State Standards

The budget provides \$450 million to pay down the K-14 education mandates backlog. This investment includes legislative intent language stating that school districts may use this one-time money to assist in the implementation of Common Core State Standards. This includes using the resources for professional development, instructional materials, and/or technology infrastructure. Additionally, the budget includes six more state mandates to the State Mandated Block Grant. The budget provides \$26.7 million for the K-12 High Speed Network, to help schools secure internet connectivity and infrastructure in order to implement Common Core's new computer-based assessments.

Early Childhood Development and Transitional Kindergarten

Former Senate Pro Tem Steinberg was unsuccessful in pursuing his broader goal of providing a significant reform for Transitional Kindergarten. In the place of this reform, the Budget Act provides additional resources for early childhood development programs that is focused on the neediest children and families. In addition, the Budget Act states legislative intent that California will provide all low income four year olds from working families with a full-day, full-year early education and care. The budget calls for a \$264 million investment in early learning and child development that increases quality and expands access. Specifically, the budget agreement includes the following:

- Enhance preschool quality with \$50 million in ongoing Quality Rating and Improvement System (QRIS) block grants and one-time funds for professional development, quality projects and facility loans.
- Provide \$70 million to expand full-day, full-year California State Preschool Program for 11,500 more children by the end of the budget year.
- Provide \$17 million to restore 1,500 slots for other child care programs: an additional 500 children will be served through the Alternative Payment Program and 1,000 additional children served in General Child Care.
- Repeal the part-day California State Preschool Program family fee.

- Provide \$69 million in increases to reimbursement rates for all early learning and child care programs (ages 0-5). The proposal increases the Standard Reimbursement Rate and Regional Market Rate.
- Call for multi-year strategy to serve an additional 31,500 children in out-years to reach the agreement to provide pre-kindergarten opportunities for all low-income 4 year olds.
- **Preschool Facilities** - The budget includes \$155 million to expand access to the State Preschool Program. Of that, \$10 million is dedicated to the Child Care Facilities Revolving Fund for preschool facilities. These funds may be used for renovation or repair of existing facilities, or for lease of preschool facilities under the Child Care Facilities Revolving Fund. This is a lease-purchase program administered by the California Department of Education for the acquisition of relocatable buildings.

The budget also includes additional requirements for transitional kindergarten teachers. Any teacher hired after July 1, 2015 to teach in a transitional kindergarten classroom is required to meet specific requirements. Further, a teacher who does not meet these requirements will have until August 1, 2020 to meet the requirements. Transitional kindergarten teachers will have to meet at least one of the following requirements:

- 1) At least 24 units in early childhood education, or childhood development, or both.
- 2) As determined by the local educational agency employing the teacher, professional experience in a classroom setting with preschool age children that is comparable to the 24 units of early childhood education, or childhood development
- 3) A child development permit issued by the Commission on Teacher Credentialing.

Lastly, the Legislature states the intent that transitional kindergarten curriculum be aligned to the California Preschool Learning Foundations.

[Independent Study](#)

The Governor’s January Budget contained a proposal to streamline non-classroom based instruction (i.e., independent study programs). Specifically, the Governor proposed to create a new "course based" independent study (IS) option for grades 9-12 and a site-based blended learning program for grades K-12. The proposal exempted charter schools using the new IS and blended learning programs from special fiscal review (i.e., SB 740) currently required of certain charter schools using IS.

The Budget Act adopted IS language that is almost identical to the language contained in Senate Bill 1143 (Carol Liu) with the exception of exempting charter schools from the SB 740 fiscal review process. Specifically, the budget does the following:

- Establishes, beginning with the 2015-16 school year, a “course based” IS program for grades 9-12, which enables local education agencies (LEAs), including charter schools, to earn average daily attendance (ADA) based on the type of courses offered in this program. The measure also establishes other requirements under this “course-based program,” including developing a learning agreement, specifying communication protocols between the

certificated employee and the student, and establishing pupil-to-teacher ratio requirements consistent with grade-spans specified under LCFF.

- Prohibits LEAs from being required to sign and date pupil work product in order to earn ADA.
- Revises the pupil-to-teacher ratios in order to conform to LCFF grade span requirements, as specified.

Career Trust Pathways

The budget provides \$250 million for the California Career Pathways Trust. The budget also includes statutory language for the California Career Pathways Trust. The Trust is a competitive grant program for grades kindergarten to 14 for school districts, county offices of education, charter schools and community colleges. Grant recipients are required to meet the following guidelines:

- b) Prioritize work-based learning opportunities
- c) Define the labor market of the regional economy in a manner that identifies high-skill, high-wage and high-growth jobs in the current regional economy or in emerging economic sectors.
- d) Establish or strengthen existing regional collaborative relationships and partnerships among business entities, schools and postsecondary educational agencies, organizations that provide apprenticeship opportunities, and nonprofit or government entities.
- e) Develop and integrate standards-based academics with a career-relevant, sequenced curriculum following industry-themed pathways that are aligned to high-skill, high-wage and high-growth jobs.
- f) Provide articulated pathways from high school to postsecondary education and training that are aligned with the workforce development needs of regional economies.
- g) Ensure that career pathway programs are designed and implemented in a manner that leads students to a postsecondary degree or certification in a high-skill, high-wage, and high-growth or emerging field.
- h) Leverage existing resources and grants.

Grant recipients are also required to annually collect and submit data on outcome measures to the California Department of Education. These data elements include all of the following:

- Pupil and student academic performance indicators.
- The number and rate of school or program graduates.
- Attainment of certificates, transfer readiness, and postsecondary enrollment.
- Transitions to appropriate employment, apprenticeships, or job training.

School Facilities

The state budget includes several investments and changes to the school facilities program. The most significant change is shift of funds within the school facility program. The budget shifts the remaining fund balances from the Career Technical Education and High Performance Incentive Grant programs to the main New Construction and Modernization programs, effective January 1, 2015. In addition, the budget requires the Office of Public School Construction to report to the State Allocation Board and Legislature by March 1, 2015 regarding efforts to speed up and streamline the award of Seismic Mitigation Program funds. This action does not include a shift of remaining funds for the Seismic Mitigation Program, Overcrowded Relief Grant Program, or Charter School Facilities Program, which were all considered by the Legislature. The budget also includes the following investments:

- **Proposition 39** – Provides \$279 million for K-12 grants, to be allocated on a per-ADA basis, plus \$28 million for the Energy Conservation Assistance Act (ECAA) loan program, which is administered by the California Energy Commission.
- **Emergency Repair Program** – Provides \$188.5 million in one-time funds for the Emergency Repair Program.

Other Items:

QEIA payment – The budget provides the final payment of \$409.6 million non-Proposition 98 General Fund to fulfill the settlement of the *California Teachers' Association v. Schwarzenegger* lawsuit that established the QEIA. The funds would be appropriated to the QEIA program (\$267 million), the CCC QEIA Career Technical Education program (\$48 million), and the Emergency Repair Program (\$94.6 million).

Instructional materials for visually impaired students – The state budget include legislative intent language that beginning in fiscal year 2015–16, local educational agencies will be required to pay a portion of the state's costs to produce instructional materials for visually impaired pupils. The amount charged to each local educational agency that accesses materials from the statewide clearinghouse shall be similar to the amount the local educational agency pays.

Administrator Induction Programs – The budget provides \$600,000 in one-time Title II federal carryover funds for purposes of Administrator Induction Programs that are approved by the Commission on Teacher Credentialing.

Regional Occupational Centers and Programs, Beginning Teacher Support and Assistance and future categorical programs – As part of the adoption of the budget, the Legislature asked for "Supplemental Report Language" to be adopted as part of the Proposition 98 budget package. The Legislative Analyst's Office (LAO) will publish their reports back to the relevant budget subcommittees each year. The Supplemental Report Language states the following:

It is the intent of the Legislature to develop long term policy for the services formerly funded through certain categorical education programs. To that end, concurrent with the release of the Governor's Budget for the 2015-16 fiscal year, the Director of Finance shall report to the Legislature regarding recommendations for the appropriate future treatment of funding for any former categorical education programs where a local education agency was the fiscal agent or intermediary for the program. The recommendations shall address, but need not be limited to, former

programs for which one local education agency was the fiscal agent or intermediary for one or more other local education agencies that provided services, including but not limited to Regional Occupational Centers and Programs and Beginning Teacher Support and Assistance. The recommendations shall address (1) maintenance of effort requirements, (2) the future treatment of funding within the Local Control Funding Formula, (3) compliance with state law and regulation, (4) funding structures and policy changes to minimize disruption of, and assure continuity and quality of, critical services to students and school employees. It is the intent of the Legislature that in developing the recommendations the Director shall consult with the Superintendent of Public Instruction, the State Board of Education, legislative staff, and those education stakeholders the Director deems appropriate.

ACSA Perspective

Once again the governor is the driving force in the budget discussions. Even though legislative leadership received a few items on their wish lists (preschool, Career Pathways funding, health care increases) overall the budget is very similar the governor's initial January proposal. While the budget continues significant investments in public education and paying down long time funding deferrals, there are various items that legislative leaders failed to include.

ACSA advocated for several items to be included in the state budget. These include funding for common core, a plan for the CalSTRS unfunded liability that included a shared responsibility for members, employers and the state, a 5-year review for the CalSTRS plan and additional funding for LCFF. Unfortunately, there is no funding dedicated specifically to the implementation of common core. Although paying down the back mandated costs is certainly laudable and much needed, ACSA believed that common core is such an immediate need that another investment was paramount. Conversely, the budget did provide additional funding for the LCFF implementation and the CalSTRS agreement includes a continuous five year review of the Defined Benefit actuarial reported to the Legislature.

Lastly, the attack on local budget reserves is a frustrating proposal that calls into question the trust of school district leadership and is inconsistent with the governor's approach on local decision making. It is clear that the fight to maintain local control will be ongoing throughout the implementation of the Local Control Funding Formula and for the foreseeable future.

If you have any questions regarding the 2014-15 state budget plan, please contact Adonai Mack at amack@acsa.or or (800) 608-2272.