**State Budget Update: The Governor’s FY15-16 Budget Proposal**

California’s economy continues to improve with strong and steady job growth and rising export levels. The Governor’s 2015-16 budget proposal reflects this economic growth – General Fund revenues over the “budget window” (2013-14 to 2015-16) are $4.1 billion higher than assumed in the FY 2014-15 enacted budget. These increases boost the minimum funding guarantee for K-14 education under Proposition 98, which was approved by voters in 1988.

For FY 2014-15, the minimum guarantee increases by $2.3 billion to $63.2 billion. The Governor’s budget projects Proposition 98 funds to increase by another $2.5 billion to $65.7 in FY 2015-16. The governor proposes to spend the bulk of the additional Prop 98 dollars to further implement the Local Control Funding Formula. The proposed $4 billion investment would close the gap between current 2014-15 funding levels and LCFF full target implementation by 32.19%, which is significantly more than the 20.68% anticipated in the FY 14-15 adopted budget. The new funding, coupled with FY 13-14 and 14-15 funding, closes almost 58% of the gap between FY 12-13 funding and the LCFF target.

The Governor also proposes to spend a portion of the additional Prop 98 dollars by allocating $1.1 billion for discretionary one-time uses in FY 2015-16. At approximately $180 per FY 14-15 P2 ADA, the one-time funds are meant to both offset existing mandate claims the state owes to school districts and to allow districts and charter schools to allocate funds to support the implementation of Common Core State Standards or other newly adopted standards (English language development and Next Generation Science standards).

Another $1 billion would go to eliminating the last of the revenue deferrals, which at their peak pushed 45% of state revenue earned in one year into the next. This year’s (FY 14-15) adopted budget included a trigger to eliminate the remaining deferral should revenues exceed forecasts. It is very likely that California has met this threshold and the last of the deferrals will be eliminated this year.

For the past several years, the Governor has budgeted revenues conservatively and this year is likely to be no exception. The Legislative Analyst predicts that the state will collect more tax revenue in FY 14-15 than the Governor currently assumes. However, the Legislative Analyst and other budget watchers believe the Governor is right to be prudent in his revenue assumptions. California’s tax structure results in significant volatility in state funding for education and the rest of the state budget areas. FY 15-16 also marks the last full year of Prop 30 tax revenue.[[1]](#footnote-1) An economic downturn in the absence of Prop 30 would have significant revenue impacts. And, while the Governor has worked to reduce the “wall of debt,” significant liabilities still exist. Indeed schools will see their State Teacher Retirement expense more than double by 2020-21 as part of last year’s budget effort to shore up the CalSTRS liability. CalPERS expense will also almost double by 2020-21. With no new dollars to address these expenses, increases in LCFF funding will need to fund these costs instead of additional services for students.

All of this leads ExED to recommend that charter schools exercise caution as they begin developing their FY 15-16 budgets so that local stability is maintained in the long term – this means maintaining strong cash reserves and conservative multi-year budgeting.

1. Prop 30 temporarily increases the personal income tax rates for upper-income taxpayers and the sales tax rate for all taxpayers. The .25 sales tax increase will expire at the end of 2016; the income tax increase will expire at the end of 2018. [↑](#footnote-ref-1)