

Report on Governor's Budget Proposal for Fiscal Year 2013/14

January 29, 2013



Themes for 2013 Governor' s Budget

- For the first time in five years, education funding goes up on a per-student basis – recovery starts now
- The Governor' s proposed Weighted Student Formula of 2012 is reprised as the Local Control Funding Formula (LCFF) and redistributes funding gains
- Passage of Proposition 30* provides opportunities and options
- Economics still place boundaries on funding expectations
- Even slightly higher funding drives expectations to an unrealistic level
- Our state has suffered greatly from the Great Recession
 - We have proven we can survive it
 - But can we thrive and regain our competitive advantages?
- We still have plenty of challenges, but there are opportunities to be seized as well
- As in the ancient proverb, “Will our children learn to be dependent on others or will we choose to teach them to fish and make them independent?”

* Schools and Local Public Safety Protection Act of 2012 (sponsored by Governor Jerry Brown)

Education Receives More . . .



- For the first time in five years, local educational agencies (LEAs) will see an increase in per-student funding
 - The revenue limit deficit continues to be more than 20%, but for the first time since 2007-08 does not grow
 - The Governor continues to deal with the “wall of debt,” but does not dedicate all of the growth in Proposition 98 to this single purpose
 - The Legislative Analyst’s Office (LAO) forecasts that the Proposition 98 guarantee will grow at a 3.4% to 5.3% rate over the next several years
 - Other forecasts have proven to be overly optimistic
 - But even if this forecast proves to be correct, a continuation of past manipulations of Proposition 98 could strangle education funding
- Our past “glory years” were fueled by one of the most highly educated workforces in the world
- We have a long way to go if we are to recapture that reputation



The Distribution Method is Different

- **Along with slightly higher funding, the Governor proposes a different method of distribution – the LCFF**
 - **Revenue limits and categorical programs are replaced by base grants and supplemental grants over a phase-in period**
 - **The stated goal is to focus more resources on California's most needy students**
- **But by any measure, all of California's students receive resources far below the average of other states**
- **The level of funding has to be addressed first**
 - **All districts need to be able to offer programs, not just at the currently depressed level, but at a level that advances the achievement of all students**
- **It is a mistake to simply redistribute funding unless there is a commitment to higher funding as well**
- **If California remains at the bottom of state rankings in funding, any distribution mechanism will fail**

Passage of Proposition 30 Provides Opportunities and Options



- The recent passage of Proposition 30 can be largely attributed to the Governor's leadership and the education community uniting for passage
- It provides a narrow window during which further Budget cuts are avoided and some hope of future gains is offered
- But this window is a temporary solution; how we use this opportunity matters
 - Thus far, state and federal sources of funding have been used to buffer those most negatively affected by the economic collapse
 - But we believe that now is the time to channel funding into those areas that truly make a difference in the long term
- Public education is a game changer
 - Now is the time for a shift in state policy toward preparation of our children for what is sure to be a challenging future
- Proposition 30 is an investment in our future by taxpayers
 - If we use Proposition 30 for consumption spending, we will have missed a huge opportunity to move our state forward

More Funding Leads to Higher Expectations

- The first increase in per-student funding in five years creates higher expectations
 - Funding is still about 10% less than the amount received in 2007-08
 - The deficit factor is still more than 20% because of past cuts and unpaid cost-of-living adjustments (COLAs)
- But pent-up demand for dollars will be strong
 - Bargaining units have made sacrifices and want to share in gains
 - Boards will want to restore programs
 - The cost of built-in increases for health benefits and seniority-driven pay raises remains high
- Under the LCFF, not all districts share equally in new dollars
 - Some will be able to do more and others less
- As a result, it is unlikely that all expectations will be met
 - We are still at the beginning of a turnaround, not the end

Governor' s Budget Solutions

- **Two years ago, the Governor faced a Budget gap of \$26.6 billion, with ongoing shortfalls projected in the range of \$20 billion annually thereafter**
 - **Major reductions in state expenditures, an improving economy and revenues, and additional revenues from Propositions 30 and 39 have combined to significantly improve the Budget outlook**
- **The Governor' s Budget asserts that, absent any changes, projected revenues in 2013-14 will be sufficient to meet state expenditure demands, as specified in statute**
 - **It is important to note that, for most programs, statutory COLAs have been eliminated**
 - **Absent any expenditure reductions or additional revenues, the Budget would have no reserve**



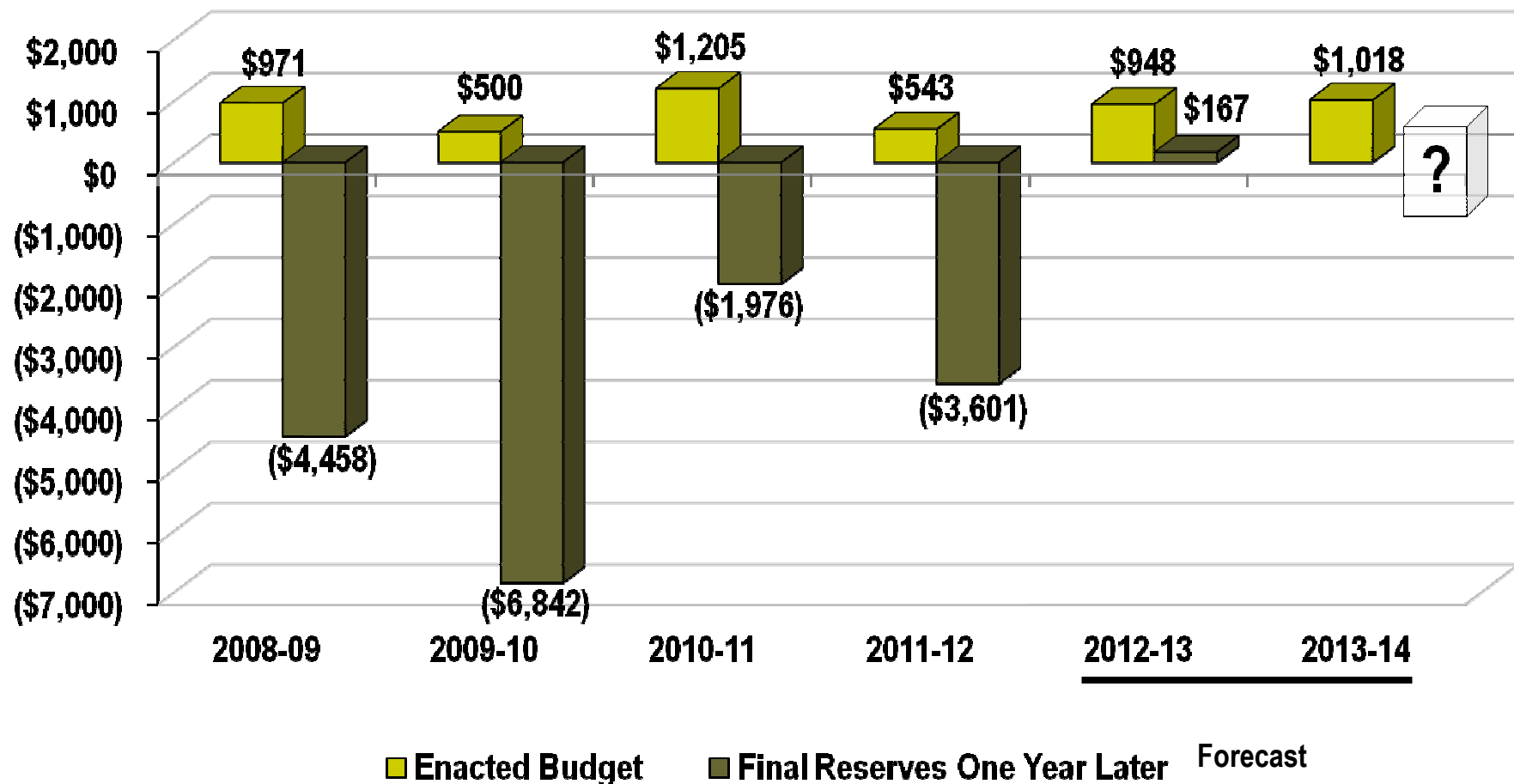
Governor's Budget Solutions

- In order to establish a \$1 billion reserve for 2013-14, the Governor's Budget proposes the following actions:
 - \$364 million from extending the tax on Medi-Cal managed care plans
 - \$310 million from extending the hospital quality assistance fee
 - \$172 million in funds appropriated in 2012-13 above the revised Proposition 98 guarantee allocated to prepay obligations under CTA v. Schwarzenegger (The Quality Education Investment Act [QEIA])
 - \$104 million savings from suspending four new noneducation mandates
 - \$67 million from State Highway Account revenues to pay debt service on transportation bonds
- The Administration acknowledges that the Budget is balanced by only a narrow margin and that revenues from Proposition 30 are only temporary

State Budget Reserve

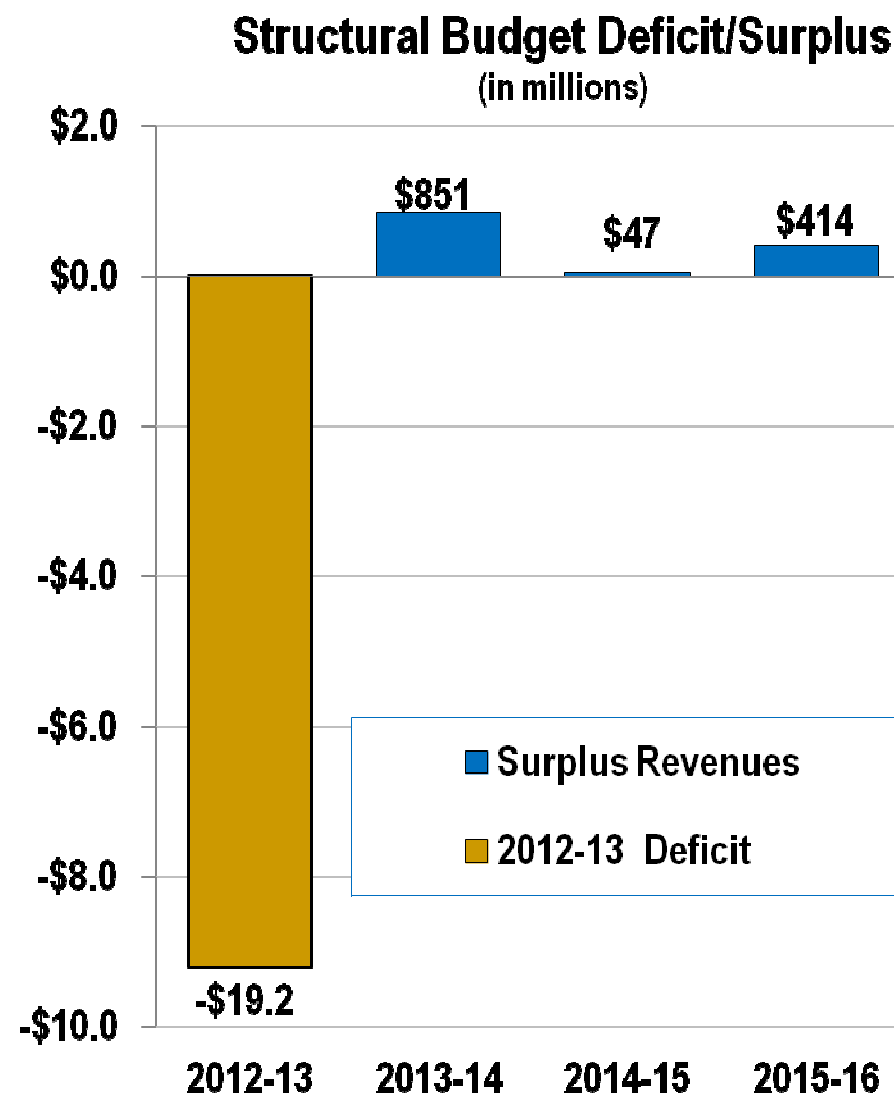


**General Fund Reserve
Enacted Budget vs. Final Reserve
(in millions)**



The Structural Budget Gap Eliminated in 2013-14

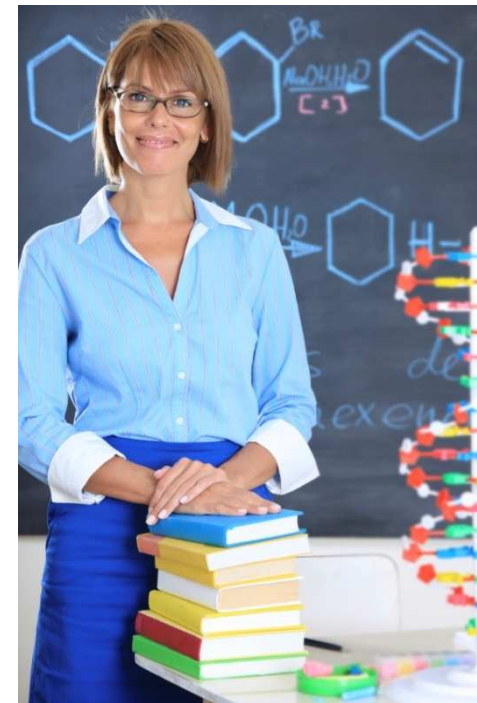
- The 2012-13 Budget had a \$19.2 billion deficit
- The proposed 2013-14 Budget eliminates the deficit
 - Budget surplus is admittedly tenuous
 - Revenue is temporary, and economic growth is uncertain
 - Ongoing fiscal austerity is necessary



Tough Times Are When Others Think It Is Not Tough



- Everyone knows that yesterday you were broke
- But after Proposition 30, everyone knows you are okay
- Educate and educate again to the reality of 2013
- And again in 2014 and in 2015
- Manage the expectations



Don't Try to Reattach Dead Branches to a Growing Tree



- Don't restore a program just because it was there yesterday
- Recovery gives you the opportunity to design a better education plan
- Use today's knowledge for tomorrow's delivery
- It is a once-in-a-career opportunity to redesign the delivery model needed for tomorrow





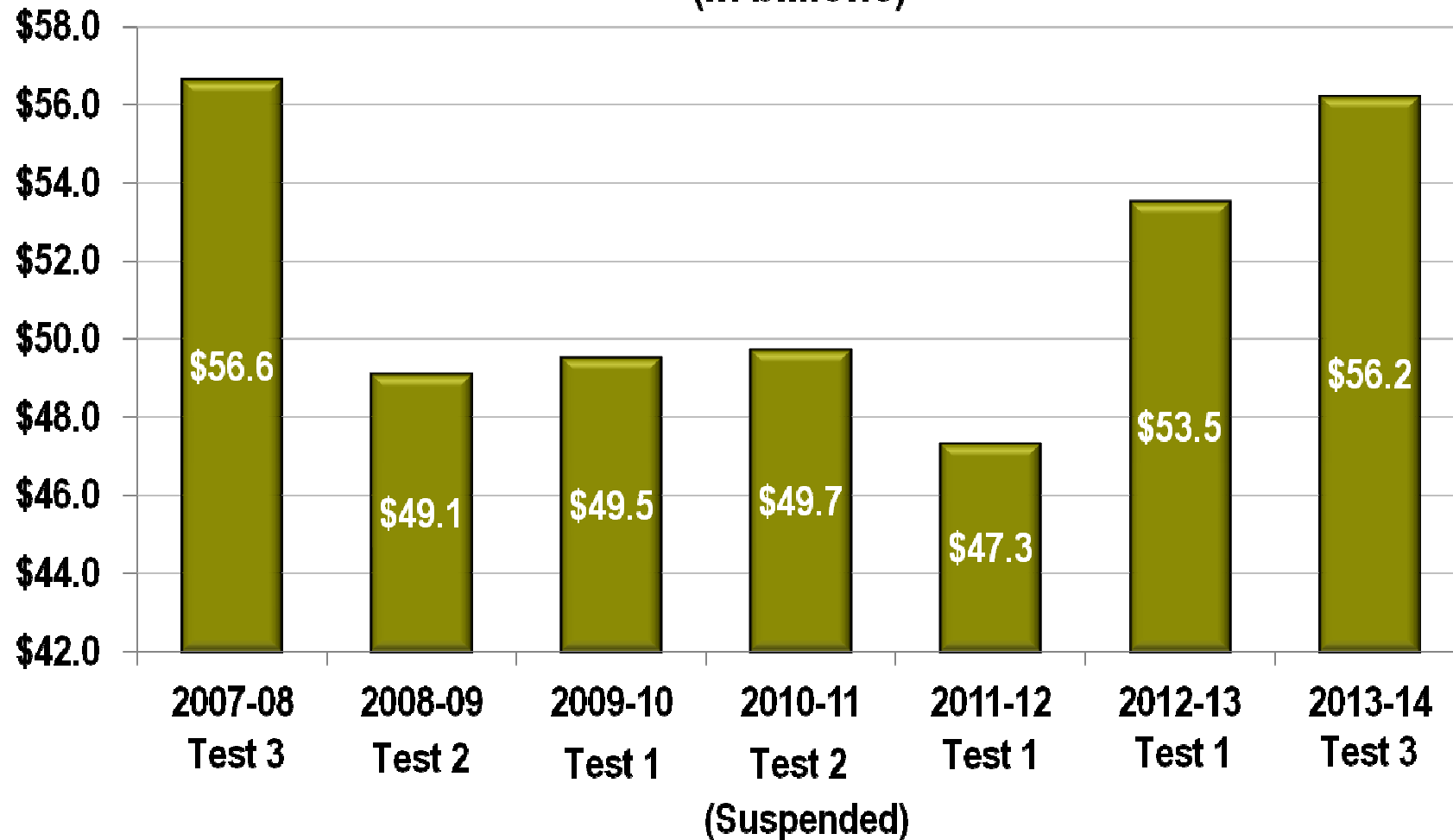
Proposition 98 Minimum Funding Guarantee

- One of three tests determines the level of the Proposition 98 minimum guarantee
- “Test 3” governs the guarantee in 2013-14
 - Test 3 increases the prior-year minimum guarantee based on percentage changes in ADA and in state General Fund revenues
- Minimum guarantee funding grows by \$2.7 billion, to a total of \$56.2 billion for 2013-14 – a 5% increase
 - \$2.4 billion of Proposition 98 funding used in 2012-13 to “buy back” interyear payment deferrals for K-12 schools and community colleges is also available

Proposition 98 Minimum Funding Guarantee



**Proposition 98 Funding
(in billions)**



Proposition 98



- **Major Proposition 98 budget changes for K-12 education include:**
 - **\$1.8 billion to reduce interyear deferrals to \$5.6 billion**
 - **\$1.6 billion to begin implementation of a new school finance formula (LCFF) for school districts and charter schools**
 - **\$400.5 million to support energy efficiency projects in schools from Proposition 39 revenues**
 - **\$100 million increase for the K-12 Mandate Block Grant to fund the Science Graduation Requirement and Behavioral Intervention Plan mandates**
 - **\$62.8 million for a 1.65% COLA for selected categorical programs**
 - **\$48.5 million for charter school ADA growth**
 - **\$28.2 million to begin implementation of a new funding formula for county offices of education (COEs)**

Revenue Limits and Local Control Funding Formula



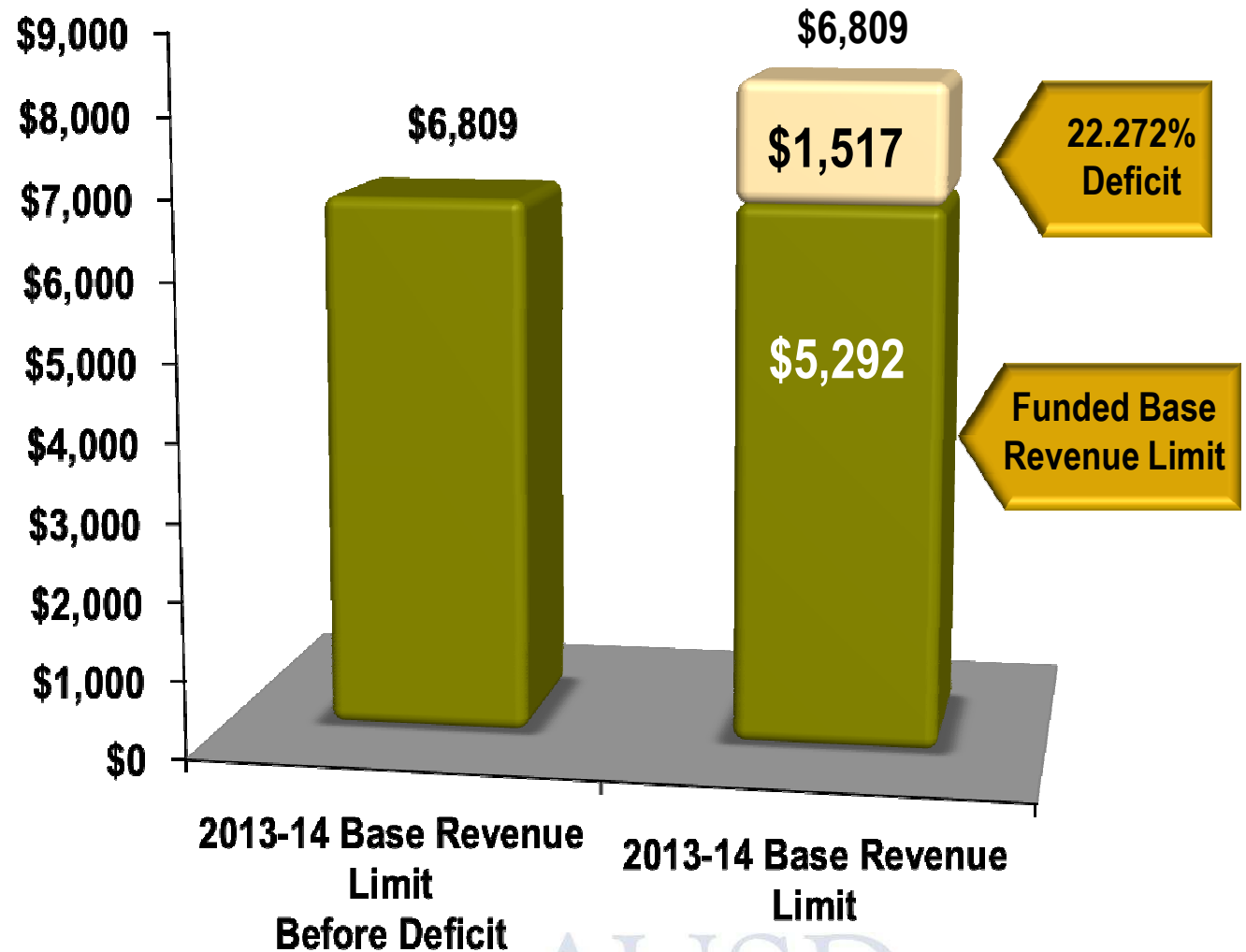
- The Governor proposes a sweeping reform of the state's school finance system with the LCFF
- The Governor's Budget makes no reference to current law and revenue limit funding
 - There is no direct reference to the statutory COLA
 - However, the Budget acknowledges providing a 1.65% COLA for selected categorical programs and sufficient funding to increase support for LEAs by 4.5% under the LCFF
 - There is no reference to the current 22.272% deficit factor
- Nevertheless, until state law is changed, revenue limits are the means by which state apportionment aid is distributed to LEAs statewide

Base Revenue Limit After Deficit Factor

- Apply the 2013-14 deficit of 22.272% to the undeficited base revenue limit (BRL)

Alameda USD:

Funded revenue limit
= $\$6,809 \times (1 - 0.22272)$
= $\$6,809 \times 0.77728$
= $\$5,293$



2013-14 K-12 Revenue Limits – Alameda Unified School District

	Alameda Unified School District for 2013-14	Base Revenue Limit per ADA (A)	Proration Factor (B)	Funded Base Revenue Limit (C) = (A) x (B)
1.	2012-13 Base Revenue Limit	\$6,698	0.77728*	\$5,506.33
2.	2013-14 COLA per ADA	\$111	–	–
3.	2013-14 Base Revenue Limit	\$6,809.14	0.77728*	\$5,592.61
4.	Dollar Change (Line 3, Column C, Minus Line 1, Column C)			\$86.28
5.	Percentage Change (Line 3, Column C, Divided by Line 1, Column C)			1.66%

*0.77728 = 1 – 0.22272 (2012-13 and 2013-14 deficit factor)



Apportionment Deferrals

- **The Governor's Budget proposes \$1.8 billion in 2013-14 to further reverse the interyear K-12 apportionment deferrals that were implemented before and during the economic downturn beginning in 2008-09**
 - **During the peak of the downturn, approximately 45% of state aid payments owed to school districts were deferred to the following year**
 - **This policy imposed the greatest hardship on districts that relied most heavily on state aid to meet their revenue limit**
 - **Districts with significant property tax income were not harmed as much**
- **This deferral buy down is a one-time expenditure and does not impose a similar cost on the state in subsequent years**
 - **For 2012-13, the state reduced K-12 deferrals by \$2.2 billion**
 - **At the end of 2013-14, the Governor's Budget estimates that \$5.6 billion in deferrals will remain**



The Local Control Funding Formula

- **Governor Brown is again proposing a major overhaul of California's system of school finance**
- **California's current school finance system is "overly complex, administratively costly, and inequitably distributed"**
 - **Complexity – There are too many categorical programs with separate funding streams, allocation formulas, and spending restrictions**
 - **Administrative burden – These programs require staff in school districts to administer the programs and staff at the California Department of California to ensure compliance**
 - **Lack of equity – Many program allocations have been frozen at the 2008-09 funding level and do not reflect demographic changes**
- **The Governor's Budget calls for a major change: implementation of a new LCFF – previously known as Weighted Student Formula**



Major LCFF Elements

- The LCFF would replace revenue limits and most categorical program funding
 - Funding allocated through the formula would generally be flexible and could be used for any educational purpose
- Elements of the proposed formula
 - A base grant target equal to the undeficitated statewide average base revenue limit per ADA – \$6,816 (includes the 1.65% statutory COLA)
 - Differential adjustments for early primary, primary, middle, and high school grade spans; added funding for K-3 Class-Size Reduction (CSR) and 9-12 Career Technical Education (CTE)
 - Additional funding based on the demographics of the schools, including:
 - English Learner population
 - Pupils eligible for free and reduced-price meals
 - Foster youth

LCFF Grade Spans



● Entitlement Calculation:

- Grade span per pupil grants, based on 2012-13 statewide average undeficitated revenue limit (est. \$6,816 per ADA)

Factors	K-3	4-6	7-8	9-12
Grade Span Base Grant per ADA	\$6,342	\$6,437	\$6,628	\$7,680
Adjustment factors	11.2% CSR	--	--	2.8% CTE
CSR, CTE amounts	\$710	--	--	\$215
Add the following amounts to the base grant and adjustments above:				
• 35% of the grade span base grant multiplied by the districtwide % eligible students				
• 35% of the grade span base grant multiplied by the districtwide % eligible students that exceed 50% of total enrollment				



LCFF and Categorical Programs

- **Elements of the formula (continued):**
 - **Special Education, Child Nutrition, QEIA, After School Education and Safety, and other federally mandated programs are not included in the formula**
- **Transportation and Targeted Instructional Improvement Grant (TIIG) funding continue as add-ons to the formula for those school districts that currently receive funding through these programs**
 - **And the funds can be used for any educational purpose**
- **The new formula will allocate funds to charter schools in the same way as for school districts**
 - **However, concentration grants for charter schools will be limited to no more than the concentration grant increase provided to the school district where the charter school resides**
- **Timeline: Phased in over seven years – completed in 2020-21**

Categorical Program Funds Included in the Local Control Funding Formula



Administrator Training Program	Civic Education
Adult Education	Community-Based English Tutoring
Adults in Correctional Facilities	Deferred Maintenance
Advanced Placement Grant Programs	District revenue limits
Agricultural Vocational Education	Economic Impact Aid
Alternative Credentialing	Educational Technology
Apprentice Programs	Gifted and Talented Education
Arts and Music Block Grant	Grade 7-12 Counseling
California High School Exit Exam	High School CSR
California School Age Families Education Program	Instructional Materials Block Grant
Certificated Staff Mentoring	K-3 CSR
Charter Schools Block Grant	National Board Certification

Note: Minor changes may be made as this is finalized

Categorical Program Funds Included in the Local Control Funding Formula



Oral Health Assessments	School Safety Block Grant
Partnership Academies	School Safety Competitive Grant
Physical Education Block Grant	Specialized Secondary Program Grants
Principal Training	Staff Development
Professional Development Block Grant	Student Leadership/California Association of Student Councils
Professional Development Institutes for Math and English	Summer school programs
Pupil Retention Block Grant	Teacher Credentialing Block Grant
Regional Occupational Centers and Programs	Teacher Dismissal Apportionments
Home-to-School Transportation*	TIIG*
School and Library Improvement Block Grant	

Note: Minor changes may be made as this is finalized

* Retained as add-ons to the formula



Local Control Funding Formula Exclusions

- The only major programs* excluded from the LCFF in addition to Transportation and TIIG are:

Program	Rationale
After-School Programs	Proposition 49 requires a ballot initiative approved by the voters to make any changes to after-school funding
American Indian Education	Federal accounting requirements
Necessary Small Schools	Funding needed to maintain schools in sparsely populated areas
Preschool Program	Program/funding is not a K-12 program
QEIA	Part of a legal settlement
Child Nutrition	Federal accounting and maintenance-of-effort requirements
Special Education	Federal program requirements and maintenance-of-effort issues

*All programs listed must be used for intended purpose – they are not flexible

Where Does the Proposal Stand Now?



- **There are currently insufficient details to allow a school district to determine its funding under implementation of the LCFF for 2013-14, or for any year thereafter**
- **The Legislature must enact this measure as a change to current school finance statutes**
- **We will provide more information as the details of this proposal are released**



What Happens if LCFF Is Not Enacted?

- **Governor Brown has made the LCFF and continued deferral reduction reform the capstone components of the 2013-14 State Budget**
 - **Last year, he said he would propose dividing additional revenue between growth and debt reduction, and he is keeping that promise**
 - **He is providing additional Proposition 98 General Fund to schools**
 - **The LCFF is the Governor's proposed primary mechanism for new revenues to schools**
 - **The new revenues are targeted – and will be debated over the spring**
- **While it is unknown to what extent the protection proposed by the Governor will remain if the proposal does not survive in the Legislature**
 - **We think, in light of past cuts and a straightforward reading of the requirements of Proposition 98, education should be protected whether the proposal passes or not**

School Services of California, Inc.' s Financial Dartboard



Factor	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Statutory COLA (applies to K-12 and COE Revenue Limit)	3.24%	1.65%	2.20%	2.40%	2.70%	2.90%
K-12 Revenue Limit Deficit %	22.272%	22.272%	22.272%	22.272%	22.272%	22.272%
COE Revenue Limit Deficit %	22.549%	22.549%	22.549%	22.549%	22.549%	22.549%
COLA for Special Education, Child Nutrition, American Indian Education Centers/Early Childhood Education programs (on state and local share only)	0.00%	1.65%	2.20%	2.40%	2.70%	2.90%
Other state categorical program COLA (including Adult Education and ROC/P)						
Tier I	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tier II	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tier III	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Multiyear Projections for the 2013-14 Budget



	Budget Year 2013-14	Budget Year Plus 1 2014-15	Budget Year Plus 2 2015-16
<u>For Now</u>	1.65% COLA on revenue limit and few categorical programs	2.20% COLA on revenue limit and few categorical programs	2.40% COLA on revenue limit and few categorical programs
	Not enough information on LCFF	Not enough information on LCFF	Not enough information on LCFF
	Back to full reserve requirement	Full reserve requirement	Full reserve requirement
	Refer to workshop materials for more		



Budget Contingency Plan

- **The Governor's Budget assumes that his new LCFF is passed in the Legislature**
- **There is much to learn about the LCFF proposal, and it is uncertain what would happen to the resources dedicated to the proposal if it does not pass the Legislature**
- **This leaves schools in a position of needing at least two plans**
 - **Governor Brown's Proposal: Increased funding – 1.65% COLA plus additional revenues associated with the factors in the LCFF**
 - **A budget for 2013-14 that includes the COLA, less the additional revenues associated with the LCFF**
- **Districts will need to plan for both eventualities until the details and the fate of the LCFF becomes clear**

Unrestricted Fund Balance – Statewide Averages



2010-11 Unrestricted General Fund Balance as a Percent of the Total General Fund	
Unified School Districts	14.27%
Elementary School Districts	20.85%
High School Districts	17.91%

2010-11 Unrestricted General Fund Balance Plus Fund 17 Special Reserve as a Percent of the Total General Fund	
Unified School Districts	15.30%
Elementary School Districts	23.22%
High School Districts	20.38%

Source: CDE state-certified data