

Governor's Proposals for the 2013-14 State Budget and K-12 Education

Presented by

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- 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

More Funding Leads to Higher Expectations

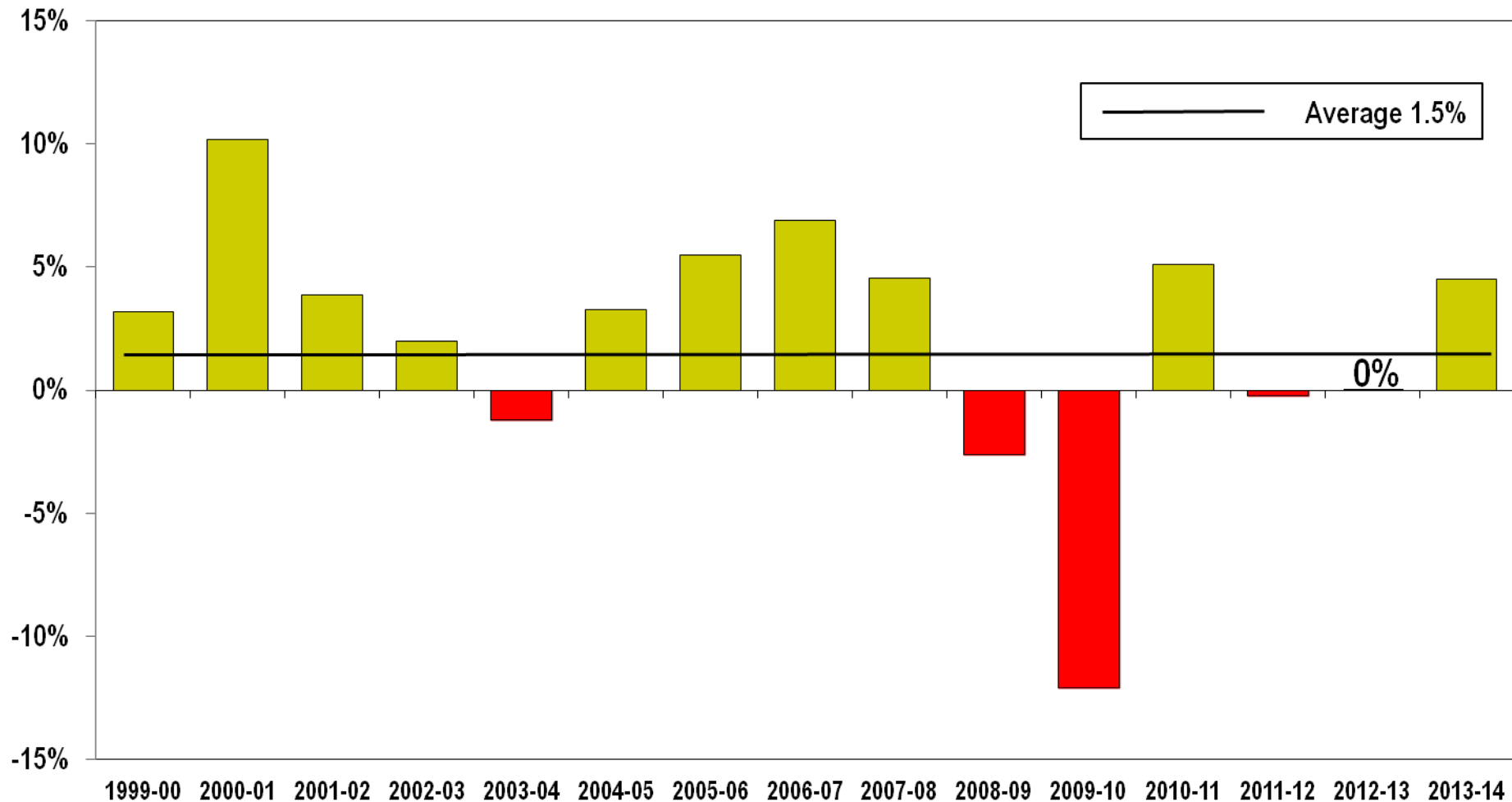
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- The first increase in per-student funding in five years creates higher expectations
 - ➡ ■ Funding is still about 10% less than the amount received in 2007-08
 - ➡ ■ The deficit factor is still more than 20% because of past cuts and unpaid cost-of-living 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

Per-ADA Revenue Volatility

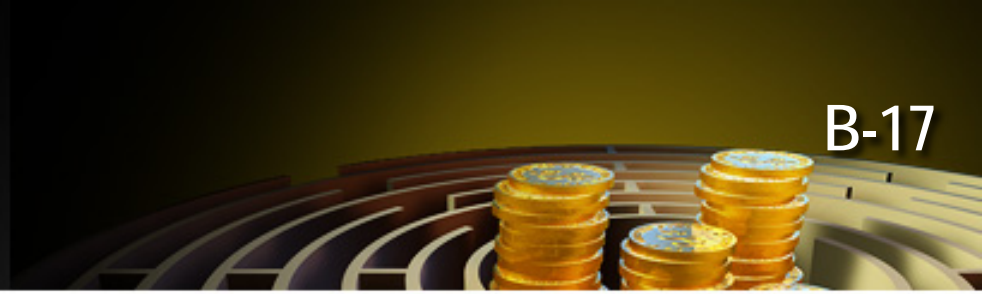
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Per-ADA Revenue Change



Risks to the Budget Proposal

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- Increased funding for K-12 education is dependent upon a continued improved economy in the state and the nation
 - State and national economic growth are far from certain
- ➔ ■ California tax revenues are heavily reliant (more than 60%) on personal income taxes – making individual incomes very important to the State Budget
- Rising health care costs will continue to strain the State Budget
- Outstanding budgetary borrowing totaling \$35 billion will continue to limit the amount of available resources
- ➔
- Other budgetary priorities could threaten resources designated for the Governor's Budget Proposal

Funding Success Can Arrive When You Least Expect It

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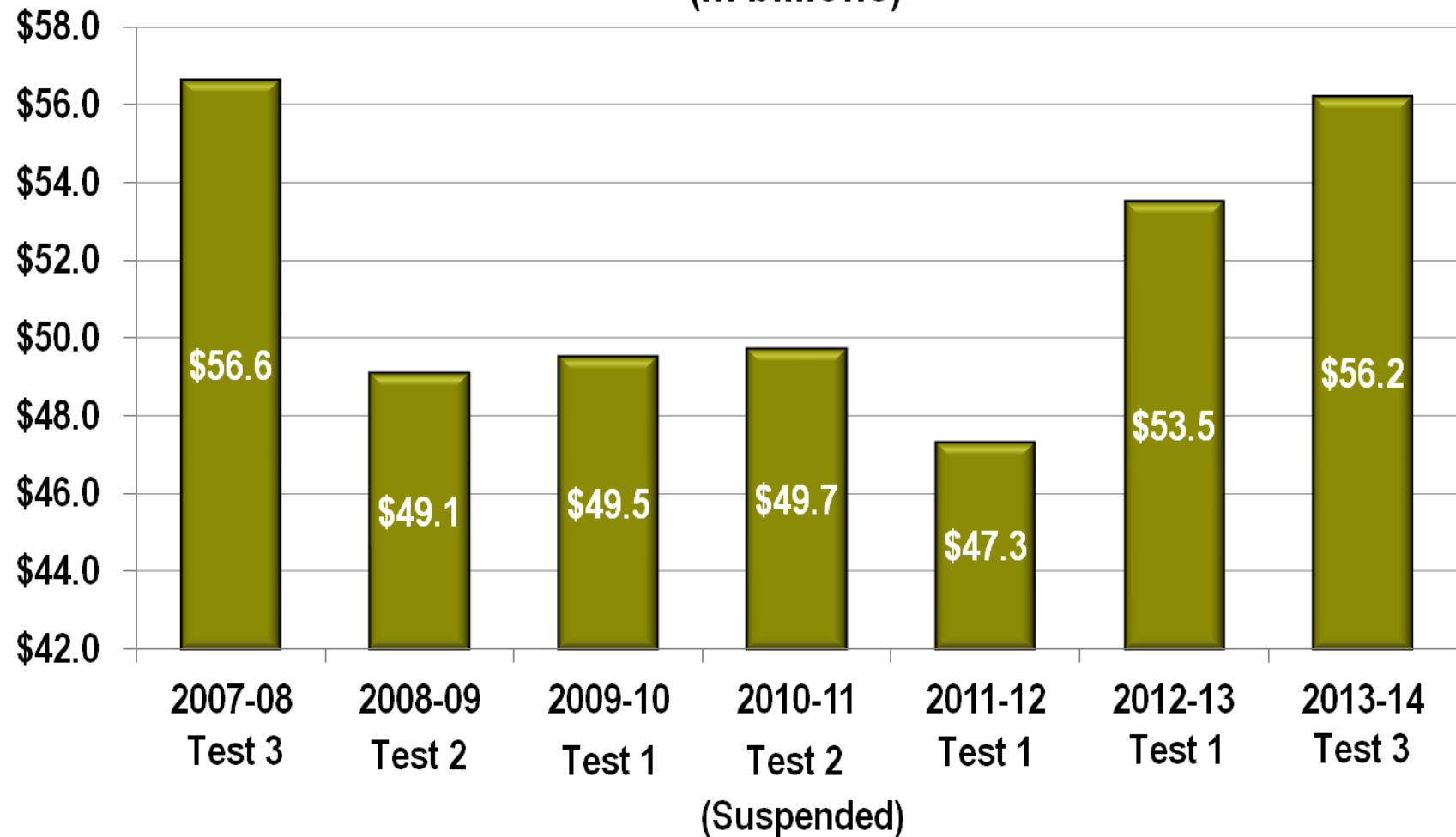
- In 2000-01, the Governor gave away the store
- And so did California public education
- Today, protect your ability to prioritize to the needs of tomorrow
- Don't give away tomorrow's opportunities



Proposition 98 Minimum Funding Guarantee

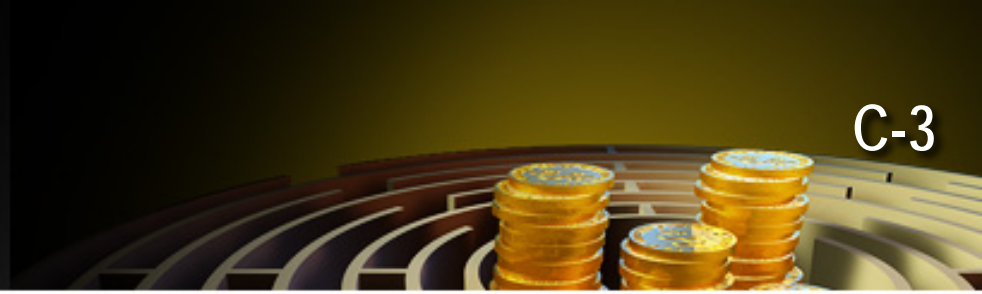
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Proposition 98 Funding
(in billions)



Proposition 98

C-3



● Major Proposition 98 budget changes for K-12 education include:

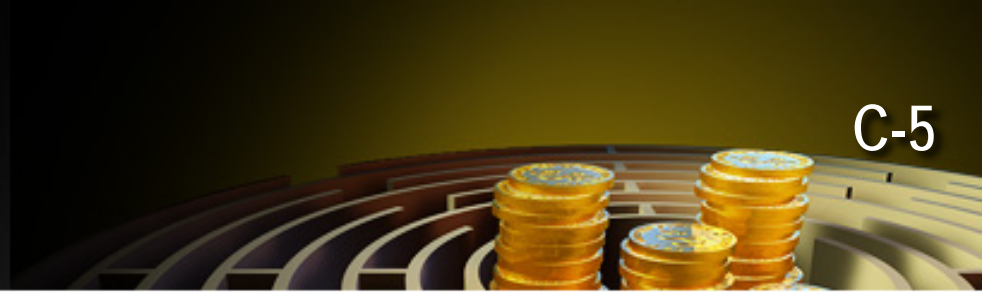
- ➔ ■ \$1.8 billion to reduce interyear deferrals to \$5.6 billion
- \$1.6 billion to begin implementation of a new school finance formula (LCFF) for school districts and charter schools
- \$400.5 million to support energy efficiency projects in schools from Proposition 39 revenues
- \$100 million increase 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)



- 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

2013-14 Revenue Limit Factors

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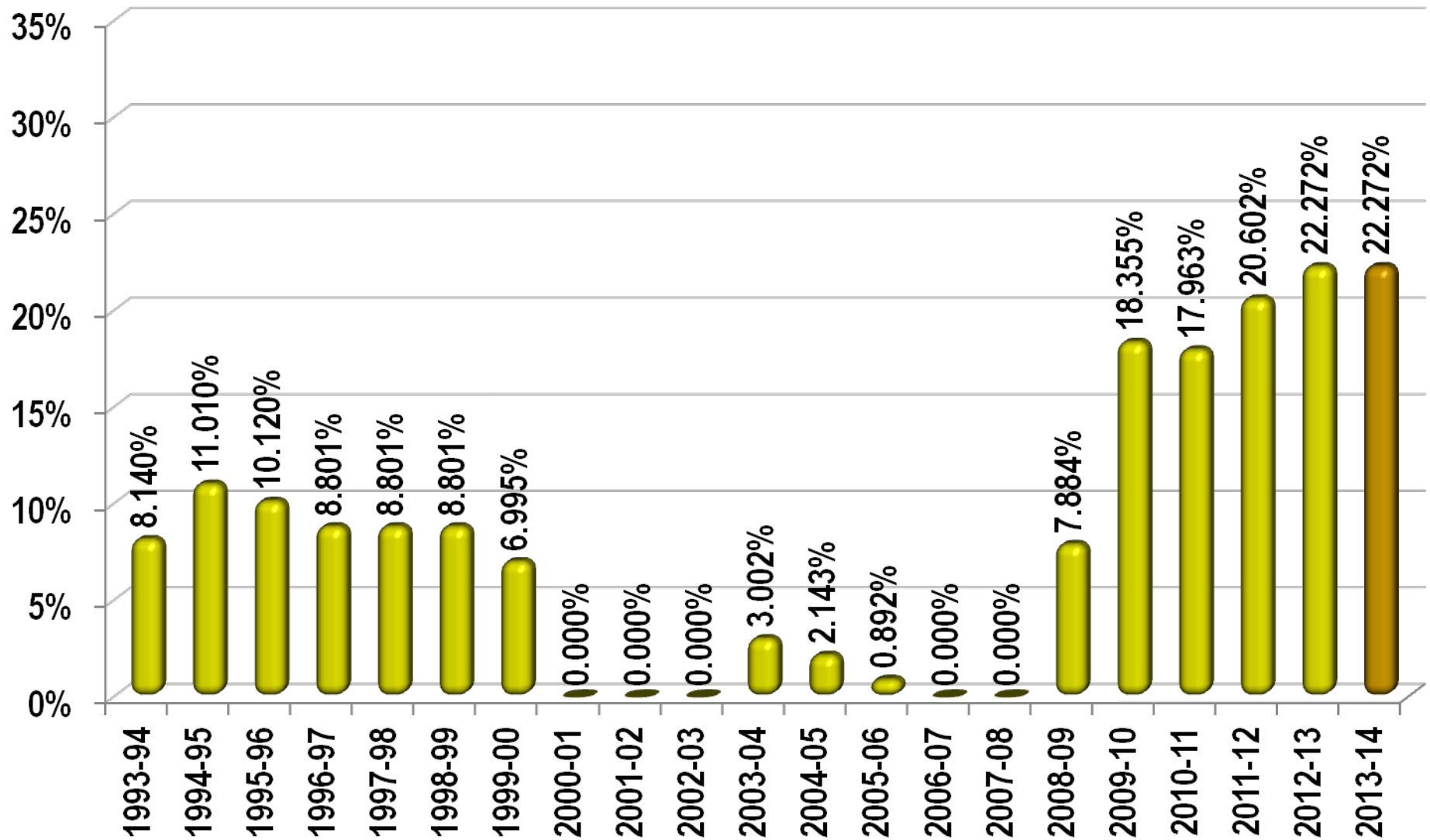
- For 2013-14, the estimated COLA is 1.65%

District Type	Statutory COLA	
	2012-13 3.24% (actual)	2013-14 1.65% (estimated)
Elementary	\$202	\$106
High School	\$243	\$128
Unified	\$212	\$111

- The 2013-14 Governor's Budget proposes to fund enrollment growth of 5,967 ADA
- In order to fund the COLA in 2013-14, the deficit factor would remain unchanged at 22.272%

Revenue Limit Deficit Factors

C-6





- 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

● 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:				
<ul style="list-style-type: none"> • 35% of the grade span base grant multiplied by the districtwide % eligible students 				
<ul style="list-style-type: none"> • 35% of the grade span base grant multiplied by the districtwide % eligible students that exceed 50% of total enrollment 				

- 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

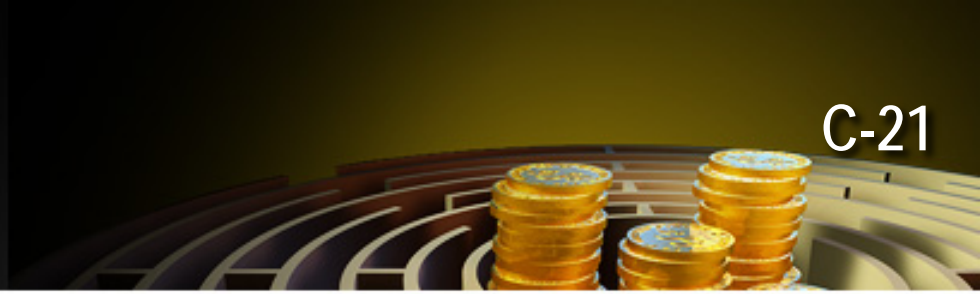
- The new formula will allocate funds to charter schools in the same way as for school districts

- 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

How Much Is Funded?


C-21



- ➡ ● Fully funding the new formula in 2013-14 would cost more than \$15 billion
 - Governor's Proposal sets aside \$1.6 billion
 - A 10% proration factor provides a reasonable estimate, but as more details about the proposal emerges the estimates could change
- Department of Finance staff expect to provide estimates of LEA funding under the Governor's Proposal within the next few weeks
- Most categorical funds are kept in the base, but programs go away

Where Does the Proposal Stand Now?

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- ➔ ● 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



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- The Governor's Proposal includes the K-3 CSR program as a permanent adjustment to LCFF

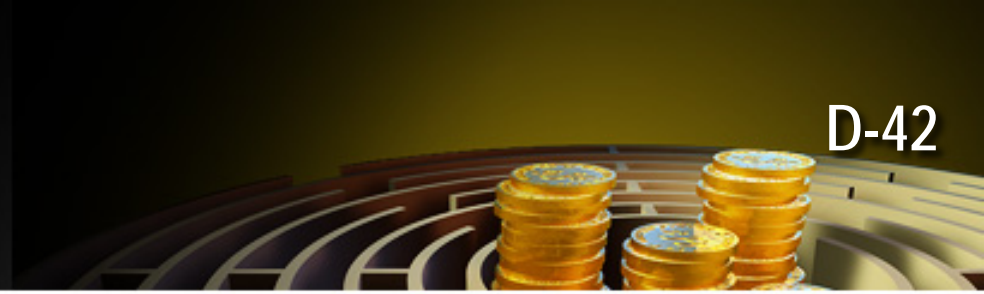
- This would provide flexibility beyond the current provisions
- LEAs will be able to exercise discretion in using the funds to meet local educational priorities

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- The maximum class-size ratio allowed for grades K-3 will be 24:1 when the LCFF is fully implemented in 2021

- The ratio of 24:1 may be exceeded if certain criteria is met



- Governor proposes shifting responsibility for Adult Education programs from
➔ K-12 school agencies to community colleges effective 2013-14
 - Proposal establishes a new \$300 million block grant
 - Funding would be allocated based on the number of adults served and funds could only be used for core instructional areas:
 - Vocational education, English as a second language, elementary and secondary education, and citizenship
 - “Mission” courses such as basic skills and workforce training
 - Students would be required to pay the full cost of all other courses
 - Community colleges are “encouraged to leverage the capacity and expertise currently available at K-12 district adult schools”
- In addition, the Governor’s Proposal shifts \$15.7 million along with the responsibility for the Apprenticeship Program from school districts to community colleges



- For the first time in a long time we are not preparing for another funding cut
- ➔ ■ But the COLA is small and restoration of the deficit factor is meager
- And the new funding formula, if it is adopted, would produce far different results among districts
- While the LAO and DOF forecast long-term growth in Proposition 98 funding, past forecasts have come up short
- The deficit factor will remain above 20% and most districts are deficit spending
- This will be a better year for bargaining than in the past several years

Multi Year Projection – 2012/13 – 2014/15 as of 12/11/12

Unrestricted Only	2012-13	2013-14	2014-15
Net Increase (Decrease)	(\$29,391)	(\$147,701)	\$384,406
Estimated Undesignated/Unappropriated Fund Bal.	\$5,539,237	\$6,283,125	\$7,182,660
1.64% off salary scheduled payment -			
Estimated costs for all employees	\$(750,000)	-----	-----
Estimated year end budget Savings	<u>\$500,000</u>	<u>\$500,000</u>	<u>\$500,000</u>
Adjusted net increase/decrease	(\$279,391)	\$352,299	\$884,406
<i>Increase/Decrease:</i>			
Certificated Salaries		1.38%	1.42%
Classified Salaries		2.50%	2.50%
Employee Benefits		0.50%	0.50%
Step and Column Cost (Salaries Only)	Included	\$864,286	\$884,846

Note: This assumes there is no restoration of prior reductions and changes.

2012/13 LISTING OF CATEGORICAL PROGRAMS TRANSFERRED TO ANY EDUCATIONAL PURPOSES

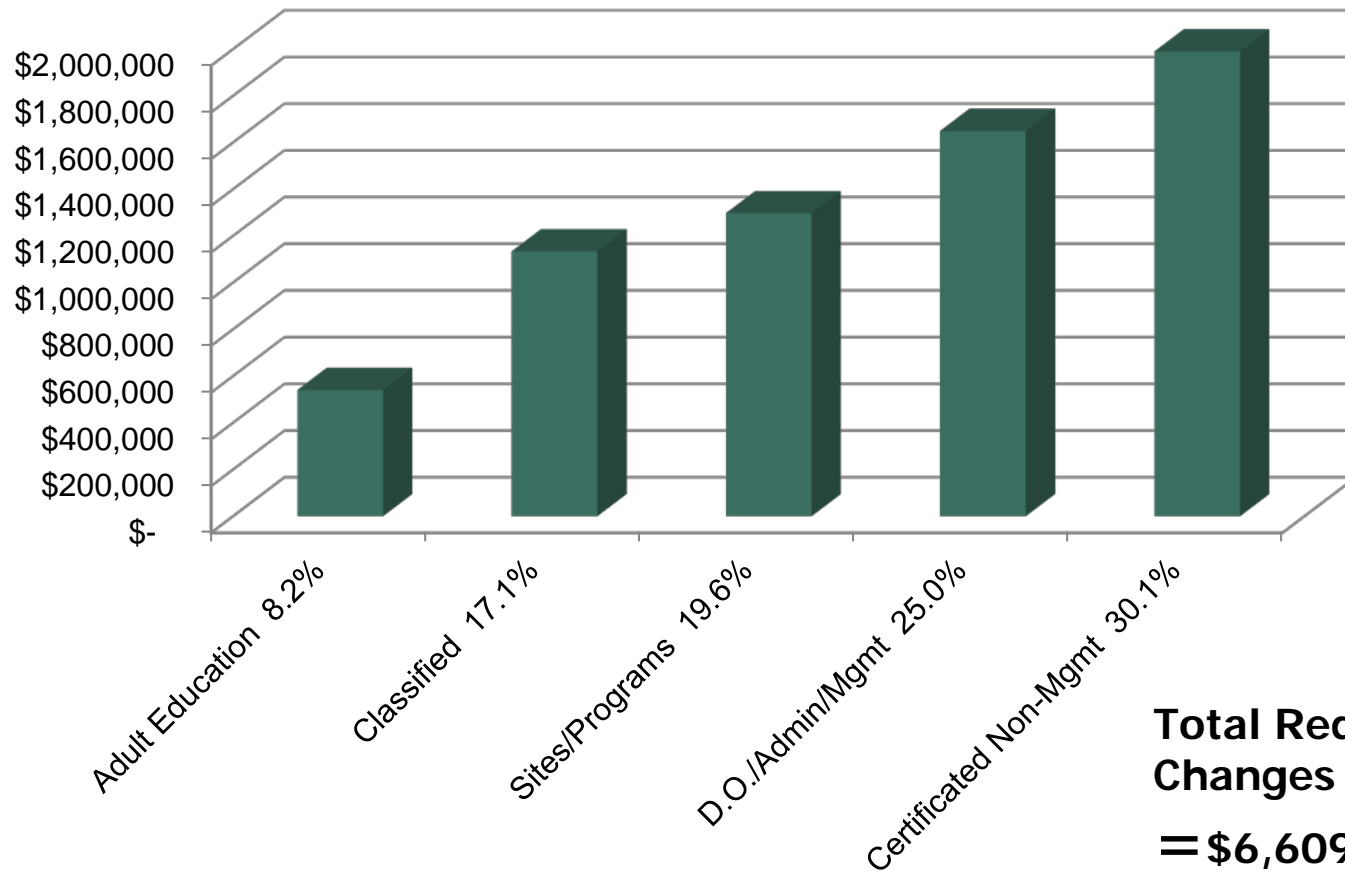
5122	Physical Education Teacher Incentive Program	\$234,811
5205	School Safety Block Grant	\$119,002
5230	Arts & Music On-going Block Grant	\$149,876
5250	CAHSEE Intensive Instruction & Services	\$136,727
5290	Supplemental School Counseling Program	\$267,934
5325	Gifted & Talented	\$63,675
5360	Instructional Materials Funding Reform Act	\$533,025
5415	American Indian Early Childhood Education	\$88,175
5495	CA Peer Assistance & Review CPARP	\$37,698
5520	Admin Training Program	\$19,397
5515	Math & Reading Professional Development- EL	\$78,161
5125	Professional Development Block Grant	\$446,859
5475	School & Library Improvement Block Grant	\$660,593
9110	Adult Education Fund	\$505,987
9650	Deferred Maintenance Fund	<u>\$331,299</u>
		\$3,673,219
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Recap of Multi-Year Reductions and Changes as Updated at the 3/13/12 Board Meeting

Unrestricted	FTE's	Amount	Percentage
Classified	15.25	\$1,133,500	17.1%
Certificated Non-Management	39.4	\$1,990,000	30.1 %
Sites/Programs	_____	\$1,296,911	19.6 %
District Wide and District Office	6.05	\$1,108,500	16.8%
Administrative/Management	5.14	\$541,000	8.2%
Adult Education	_____	\$540,000	8.2%
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Total	65.84	\$6,609,911	100%
Less: Categorical		(\$331,000)	

Total		\$6,278,911	
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Recap of Multi-Year Reductions and Changes as Updated at the 3/13/12 Board Meeting



First Interim Budget 12-11-12