



School
Services
of California
INC. TM

2013

May Revision Workshop

Presented by

Jeff Bell • Ron Bennett • Maureen Evans • John Gray • Dave Heckler

Michele Huntoon, CPA • Nancy LaCasse • Robert Miyashiro • Kathleen O'Sullivan

Michael Ricketts • Suzanne Speck • Michelle Underwood • Sheila Vickers • Lewis Wiley, Jr.

The May Revision in Broad Strokes

1-3

- Most major policy issues remain as proposed in January
- The state recognizes a substantial increase of \$4.5 billion in revenues for 2012-13, most of which are committed by statute to Proposition 98
 - The Governor has the responsibility for determining how much of the revenue is one time or ongoing and then adjusting his State Budget proposal accordingly
 - No major increases are proposed for any area of the State Budget other than education
- Higher revenues are good news, but the real story is in the distribution system for education funding
 - The LCFF provides widely disparate increases
 - No district loses funding, but some don't gain much



Budget Risks Are Lower in 2013-14

1-11

- Compared to prior years, the proposed 2013-14 State Budget faces considerably less risk of falling out of balance
 - Unlike the 2012-13 spending plan, it is not dependent upon voter approval of a major tax initiative
 - Proposition 30 provides both sales tax and income tax revenues
 - Unlike the 2011-12 State Budget, it is not dependent upon an unrealistic revenue projection
 - The plan does not rely on an infusion of federal funds to maintain programs
 - It is not reliant on unrealistic operational efficiencies in state programs
 - The overall economic outlook is the best it has been in more than five years



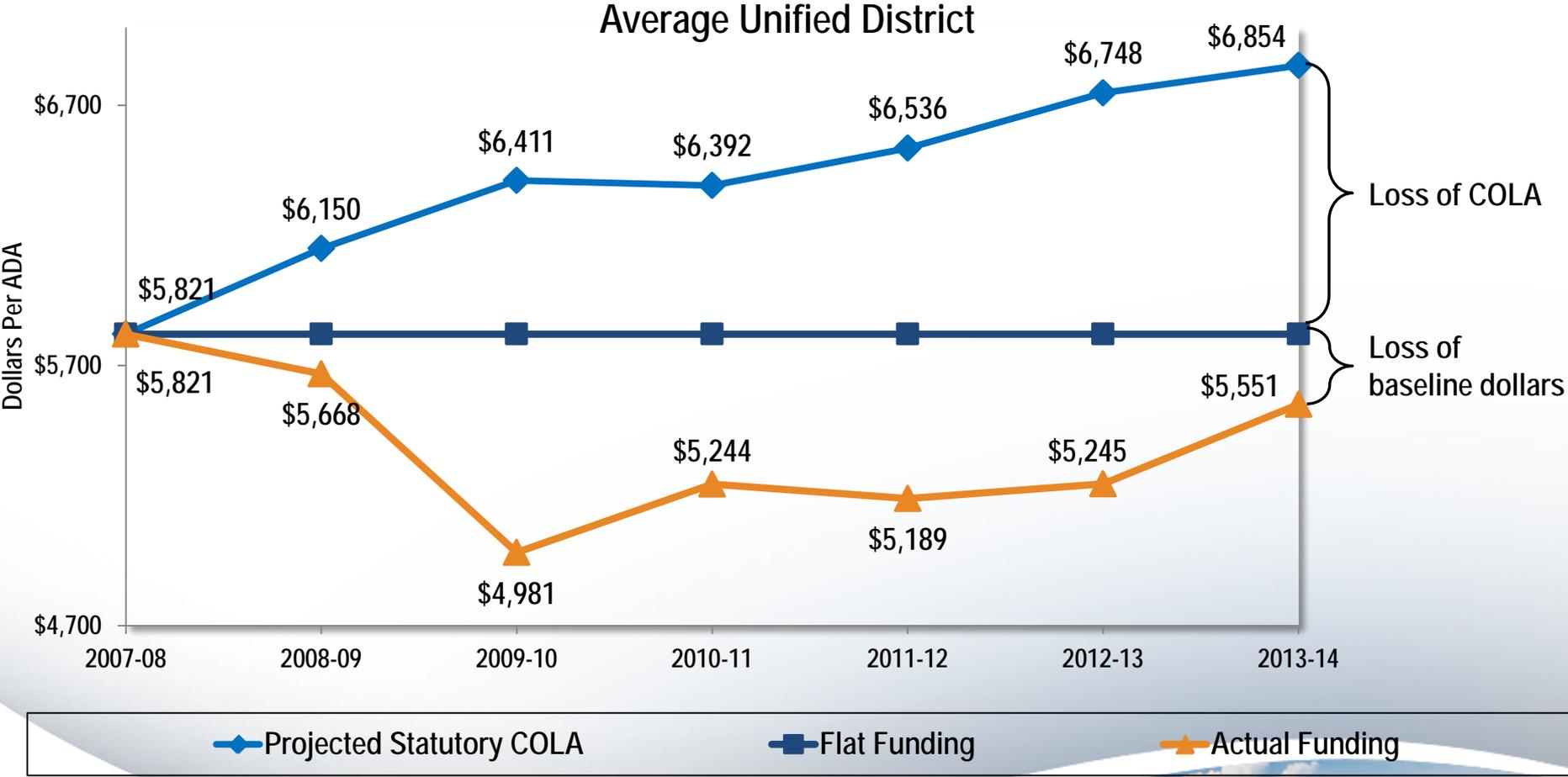
General Fund Revenues – Current Year

1-15

- Two major tax increases have combined to boost current-year revenues above the Governor's Budget forecast:
 - The passage of Proposition 30 in November 2012, which raised the sales tax on all consumers and the income tax on high-income earners
 - The increase in federal tax rates for high-income earners, causing an acceleration of income recognition
- Also, an improving economy is adding payroll jobs, but there may be a decline in hours worked per week
- These factors have resulted in an upward revision in current-year General Fund revenue of \$2.8 billion
- The question for state revenue forecasters: How much of the current-year gain has come at the expense of 2013-14 revenues, and how much will be ongoing?



Funding Per ADA – Actual vs. Statutory Level



Proposition 98 Changes

2-3

- Dramatic swings in Proposition 98 estimates, but little change in ongoing K-12 programmatic spending; changes for K-12 education include:
 - \$1.6 billion more in 2012-13 to further reduce interyear deferrals
 - \$909 million reduction to deferral buy backs in 2013-14, bringing the amount to \$900 million; net \$700 million additional reduction of interyear deferrals
 - \$1.0 billion from 2012-13 revenues to fund one-time costs associated with implementation of CCSS – professional development, instructional materials and technology; available for 2013-14 and 2014-15
 - \$240 million in 2013-14 to increase funding for first-year implementation of the LCFF, for a total of \$1.9 billion
 - \$270 million reduction as part of revised adult education proposal
 - \$61 million increase to backfill sequestration cuts to special education funding



Revenue Limits or the LCFF?

2-4

- The Governor remains fully committed to implementing the LCFF in 2013-14, indicating that opponents of his proposal would get “the battle of their lives”
 - Nevertheless, the Senate has recommended that the LCFF implementation not occur until 2014-15
 - Revenue limits could prevail in 2013-14, notwithstanding the Governor’s position
- The May Revision makes no reference to revenue limit funding
 - No reference to the statutory cost-of-living adjustment (COLA)
 - No reference to the 22.272% deficit factor
- Until state law is amended, however, revenue limits are the means by which state apportionment aid will be distributed to LEAs



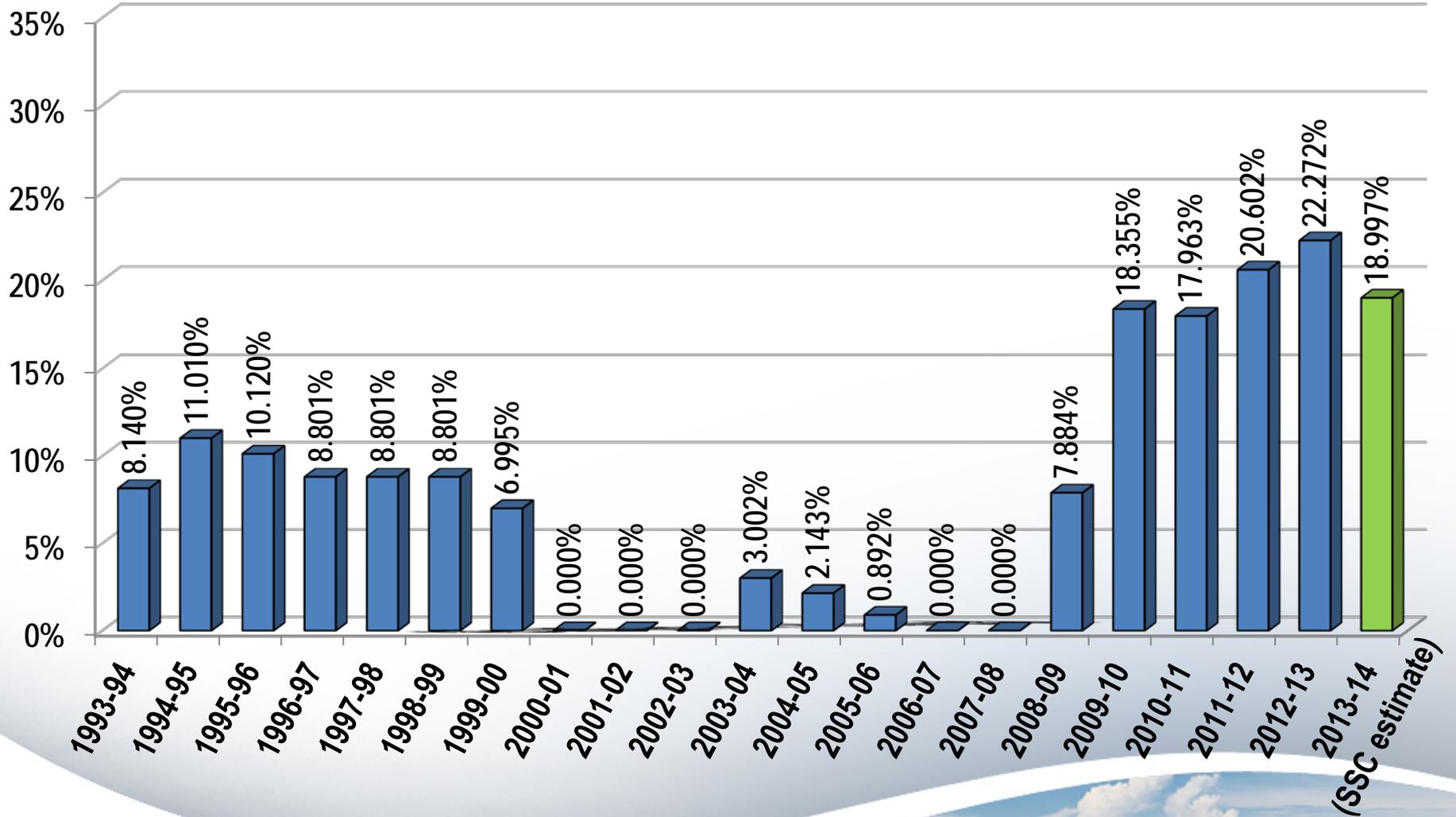
SSC's 2013-14 Deficit Factor Estimate

2-6

- Because Governor Brown proposes to repeal revenue limits, neither the January Governor's Budget nor the May Revision includes an estimate of the deficit factor for 2013-14
 - The 2012-13 deficit factor is 22.272%
- School Services of California, Inc., however, has provided a means to estimate your district's 2013-14 funding under revenue limits in the event that Governor Brown's LCFF is not enacted for the budget year
- SSC estimates the deficit factor to be 18.997% in 2013-14, assuming the funding proposed in the May Revision is instead applied to the revenue limit model
- ➔ ● \$1.84 billion is available to fund the 1.565% COLA and a reduction in the deficit factor of 3.275%



Revenue Limit Deficit Factors



2013-14 K-12 Revenue Limits – Example

	Average Unified School District for 2013-14	BRL per ADA (A)	Proration Factor (B)	Funded BRL (C) = (A) x (B)
1.	2012-13 BRL	\$6,748	0.77728*	\$5,245.09
2.	2013-14 COLA per ADA	\$106	-	-
3.	2013-14 BRL	\$6,854	0.81003**	\$5,551.95
4.	Dollar Change (Line 3, Column C, Minus Line 1, Column C)			\$306.86
5.	Percentage Change (Line 4, Column C, Divided by Line 1, Column C)			5.85%

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

**0.81003 = 1 – 0.18997 (2013-14 deficit factor)



Major LCFF Elements

2-14

- The LCFF would replace revenue limits and most categorical programs
 - Funding allocated through the formula, however, would now be subject to additional accountability requirements
- Elements of the proposed formula
 - Base grant targets derived from the 2012-13 undeficitated statewide average BRL per ADA – \$6,816 (prior to the 1.565% statutory COLA)
 - Differential adjustments for early primary, primary, middle, and high school grade spans; added funding for K-3 Class-Size Reduction (CSR) and grades 9-12 Career-Technical Education (CTE)
 - Additional funding based on the demographics of the school district:
 - English learner population, pupils eligible for free and reduced-price meals, and foster youth



- Target entitlement calculation

- Total per ADA for hypothetical school district or charter school

Factors	K-3	4-6	7-8	9-12
Base grants – 2013-14 (with COLA)	\$6,441	\$6,538	\$6,732	\$7,800
CSR/CTE adjustment	\$723	–	–	\$218
35% Supplemental	\$1,398	\$1,419	\$1,461	\$1,693
35% Concentration (above 50% eligible)	\$271	\$275	\$283	\$328
Total LCFF per ADA	\$8,833	\$8,232	\$8,476	\$10,039

- Grade span amounts per ADA are multiplied by ADA and added together



- LCFF entitlement calculation

- Multiply each adjusted grade span per-pupil grant amount by the ADA for that grade span, and add the results
- Add any amounts received in 2012-13 for Home-to-School Transportation and TIIG

- Determine 2012-13 base funding:

- Add together your:

- (1) 2012-13 deficated base revenue limit
- (2) 2012-13 funding received for categorical programs included in LCFF
- (3) 2012-13 funding received for Transportation and TIIG

- Subtract the 2012-13 base funding total from the calculated LCFF entitlement

- Multiply the difference (if it is positive) by 11.75% (est.)

- Add the difference to your 2012-13 base funding amount



- The new “normal” is anything but – virtually all school districts have lost more than 20% of their pre-recession funding and purchasing power
- Under the LCFF, some school districts will never be able to restore their programs to the level they offered in 2007-08
- While the LCFF emphasizes providing adequate funding to support some students, it ignores bottom-in-the-nation average funding for all students
- The LCFF base grant “equality” is less than the average general-purpose funding school districts received in 2007-08 for revenue limits, and textbooks, counselors, librarians, and other services provided through categorical program funding streams that would be eliminated



- Base funding for core services will decrease because current categorical programs that support specific needs for all students – i.e., instructional materials, deferred maintenance, professional development, school safety, and violence prevention – disappear under the formula
- Of the \$3.9 billion in categorical funding that will be absorbed by the LCFF, \$2 billion, or roughly half, supports general purpose categorical programs – about \$325 per ADA
- School districts must absorb the cost of these services within the revenue limit equivalent dollars provided by the LCFF – the base grant



■ Issue:

- The LCFF would eliminate the statutory COLA for revenue limits and instead provide a COLA to districts' base grant funding targets
- But there is no statutory requirement for the state to increase funding for LCFF implementation from one year to the next by an amount that would fund growth toward COLA-adjusted targets
- This makes it difficult if not impossible for districts to project their LCFF entitlement over time

■ May Revision – Fixed or Not: No

- The Legislature and Governor have broad latitude in establishing the LCFF funding increase from one year to the next because no statute will guide the level of appropriation
- Districts' estimations of an annual funding change for multiyear projections will be difficult to make



■ Issue:

- 
- The LCFF specifies that districts must reduce class size in grades K-3, eventually reaching a student to teacher ratio of 24:1 by 2019-20, unless an alternate ratio is locally negotiated
 - During the intervening years, districts are to meet intermediate targets, based on the funding provided to move all districts to their LCFF target
 - A district's failure to meet the target at one school site would result in the loss of all K-3 CSR funds districtwide – a penalty that is likely to be out of proportion to the error

■ May Revision – Fixed or Not: No

- The severe penalties remain in place



Common Core State Standards Funding

3-5

- To date, there has been no new funding for LEAs to use for the implementation of the CCSS, and there is no accepted estimate of the cost of full implementation
 - There are estimates anywhere from \$1.5 billion to \$3 billion statewide
- In the May Revision, Governor Brown proposes an increase of \$1 billion in one-time Proposition 98 General Fund dollars in 2012-13 to support LEAs' implementation of the CCSS
 - LEAs should receive the funding in 2013-14, distributed on a per-ADA basis
 - About \$170 per ADA
 - LEAs must develop a plan to spend the money over the next two years by June 30, 2015, and will be required to hold a public hearing on the plan



- President Barack Obama's 2014 Federal Budget proposal was released in April
 - Provides flat funding (2012 level) for major programs, including special education and Title I of the ESEA
 - Proposes a \$75 billion (over the course of ten years) early childhood "Preschool for All" initiative
 - Proposes \$300 million for a college- and career-readiness competitive grant program
 - Proposes a new \$42 million dual college enrollment grant for programs that allow high school and adult students to earn college credits while enrolled in high school or a GED program



Education Protection Account – 2012-13 Closing

4-2

- The 2012-13 fiscal year is the first year of funding received from EPA
- School agencies should have planned from a cash flow perspective for the receipt of funds from the EPA
 - However, the funds will not be received from the State Controller's Office until June 20, 2013
 - If the collection of sales and income tax during the 2012-13 fiscal year does not meet the projected \$6.9 billion, the state will make school agencies whole
 - School agencies will receive cash in June regardless, but any difference due to a reduced level of Proposition 30 taxes will be provided in July as part of the Second Principal Apportionment (P-2) certification



Expenditure and Audit Requirements

5-4

- While the LCFF purports shifting spending control from the state to LEAs based on local needs and priorities, the accountability system implements strict expenditure requirements
 - Supplemental and concentration grant funding must be spent in a manner that benefits students generating those additional funds
 - Expenditure of funds must be proportional to the number of students at each school site
 - LEAs may not spend less than they spent on these students in 2012-13 and must meet annual MOE requirements
 - Once the LCFF is fully implemented, LEA must spend at least as much as they receive from base, supplemental, and concentration grant funds annually on these students
- To ensure compliance, an annual independent audit will verify that expenditure and proportionality requirements are met



■ SSC's recommendations:

- Compare the projections provided by current law and the LCFF
- Use the lower of the two in your multiyear projections
- These projections are only for adoption of the 2013-14 district budget
- A new SSC Financial Planning Dashboard will be provided to you upon enactment of the 2013-14 State Budget
- Remember not to double count K-3 CSR, EIA, etc., under the LCFF scenario



An Overall Assessment of the May Revision

6-2

- The promise of permanent flexibility, but much diminished from January
- ➔ ● A pathway toward restoration of the 2007-08 base, but not until 2019-20
- More expeditious elimination of deferrals
- The accountability plan severely restricts use of new monies
- ➔ ● All districts endured funding cuts during the recession; some will never see their funding restored



An Overall Assessment of the May Revision

6-4

- The LCFF is a very complicated plan that is poorly understood, has unresolved issues, and is getting pushback from many directions
 - Restrictions are already creeping back into the formula
- As a point of discussion, how much different is LCFF from a simple three-point modification of the current system?
 - Point one – make the current Tier III categorical flexibility permanent
 - Point two – expand the current EIA program which already serves English learners and poor children, and fund it at whatever the state thinks is an appropriate level
 - Point three – maintain the commitment to revenue limit restoration and deficit reduction over time
- We think the Governor's policy objectives could be achieved without the complexity and controversy introduced by the LCFF
- These are the kind of points the Legislature is likely to debate as they consider approval of the LCFF



What Happens Next?

6-7

- Districts will need to adopt their 2013-14 budgets, as usual, before the state adopts its budget
 - ➔ We recommend you use the planning guidance we have provided to complete that budget
- The Legislature will debate both the level of education funding and method of distribution – the outcome is uncertain
- A high level of political uncertainty evokes a high level of financial conservatism
 - Now is not the time to make long-term changes to funding commitments
 - Maintain concessions, budget reductions, and other constraints until the Legislature and Governor enact the State Budget
 - Be prepared to make adjustments to the district budget after our School Finance Conference in July
- We fully expect an on-time State Budget

