

2013/14 State Budget Proposal

Presented to the Board of
Trustees
February 4, 2013

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Education Receives More . . .

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- For the first time in five years, school districts will see an increase in per-student funding
 - The Governor's proposed Weighted Student Formula of 2012 is rebranded as the Local Control Funding Formula (LCFF) and redistributes funding gains
 - 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
- 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

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- 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

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 may want to restore programs or address the issue of deficit spending
 - 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

Now is the Time to Begin the Long Climb Back

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- The economic downturn has had its foot on our neck for far too long
- We need to focus on what we do have, not what we wish we had
 - The economy is still a factor, but it is improving slowly
 - Policy decisions need to be focused on the longer term
- Proposition 30 provides a short window for longer-term action
 - We need to focus on restoring California's educated workforce
 - Our state has to become more "business friendly" – we cannot have the resources we once had without offering businesses the advantages we once offered
 - Job creation has to be a major priority if we are to grow the economy
- California cannot accept creation of a class of "permanently poor" citizens who never recover from the recession
- We need to start rebuilding now – and it starts with public education

- The U.S. economy continues to be plagued by slow growth, even though the recession was officially declared over in June 2009
- The Congress and the President have agreed to avoid raising taxes on all but the top income earners
 - However, the payroll tax cut was allowed to expire
 - Still unresolved, however, are the scheduled cuts to federal programs
- Global trends pose new risks
 - The economies of Japan and European countries are in recession and previously growing economies of China, Brazil, and India are slowing
 - This threatens U.S. exports
- Domestic developments are mixed
 - Hurricane Sandy will depress near-term growth
 - Housing and employment continue to improve

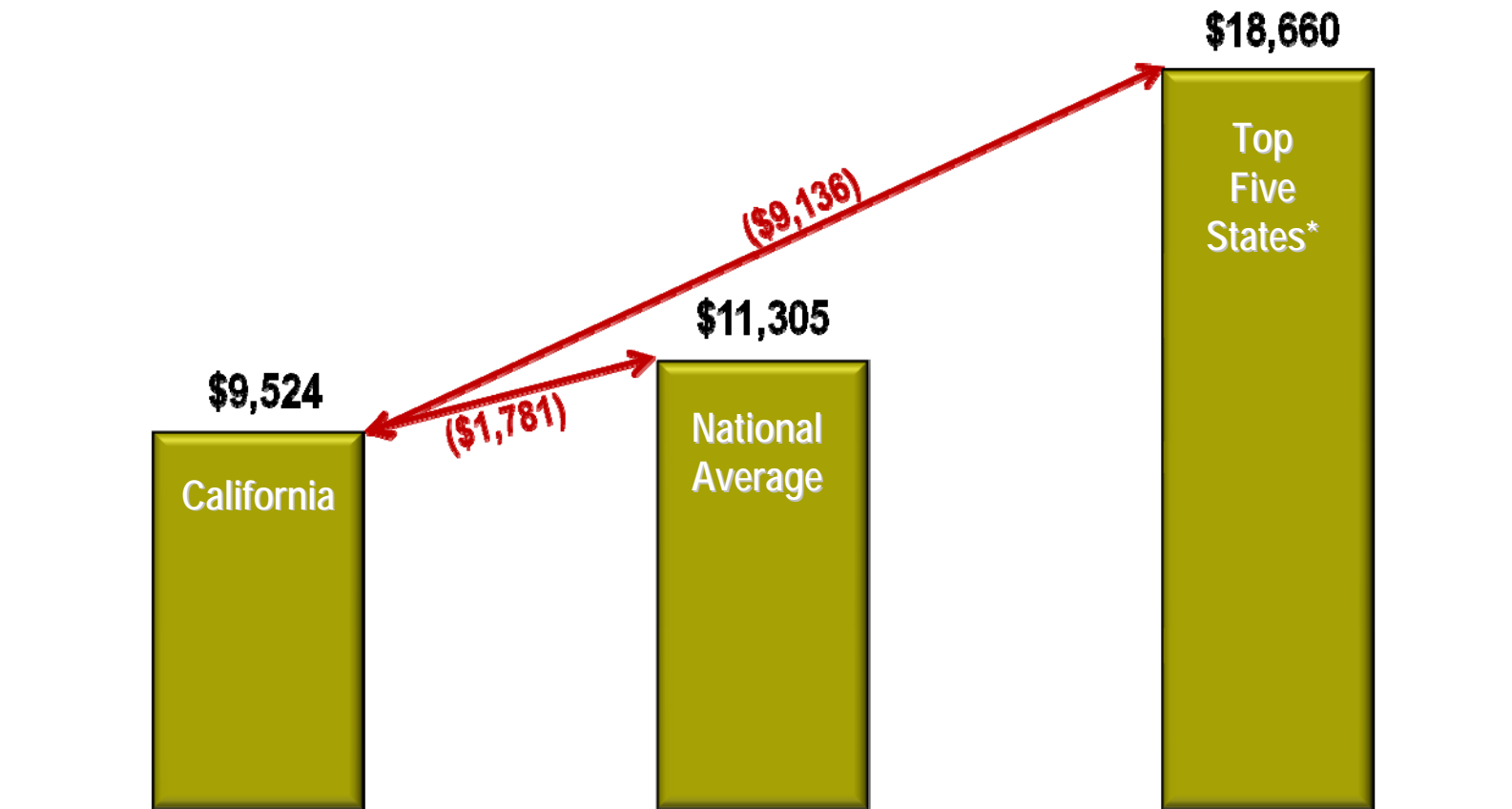


California's Education Spending

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K-12 Education Expenditures per Average Daily Attendance (ADA) 2010-11



*Average of the five states with the highest expenditures per ADA

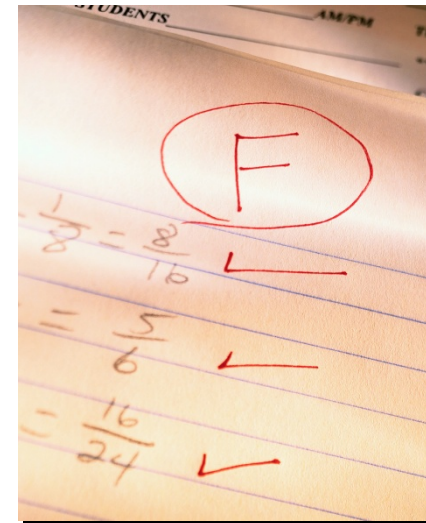
Source: National Education Association

Money Matters in Student Performance

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- Results of the 2011 Grades 4 and 8 Math and Reading Proficiency Scoring from the National Assessment of Educational Progress show that the majority of the lowest performing states with the lowest levels of proficiency in math and reading rank in the 10 states with the lowest expenditures per ADA
 - This includes California, Alabama, Arizona, Mississippi, Nevada, Oklahoma, and Tennessee
- The highest performing states, such as Massachusetts and New Jersey, rank in the top 10 states with the highest per-ADA expenditures in 2010-11



California Lags the Nation

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California's Schools Lag Behind Other States on a Number of Measures

	California Rank	California	Rest of U.S.
K-12 Spending Per Student (2010-11)	40	\$9,524	\$11,305
Staffing			
K-12 Students Enrolled Per Teacher (2010-11)	Last	23.6	15.6
K-12 Students Per Administrator/Official (2009-10)	N/A	1,579	770
K-12 Students Per Guidance Counselor (2009-10)	N/A	810	459
K-12 Students Per Librarian (2009-10)	N/A	5,489	940

Note: Number of students per administrator, guidance counselor, and librarian are based on statewide enrollment
Source: NEA and National Center for Education Statistics

2013-14 Governor's Budget General Fund Budget Summary (In Millions)

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	2012-13	2013-14
Prior-Year Balance	-\$1,615	\$785
Revenues and Transfers	<u>\$95,394</u>	<u>\$98,501</u>
Total Resources	\$93,779	\$99,286
Total Expenditures	<u>\$92,994</u>	<u>\$97,650</u>
Fund Balance	\$785	\$1,636
Budget Reserve:		
Reserve for Encumbrance	\$618	\$618
Reserve for Economic Uncertainties	\$167	\$1,018
Budget Stabilization Account	<u>\$0</u>	<u>\$0</u>
Total Available Reserve	\$167	\$1,018

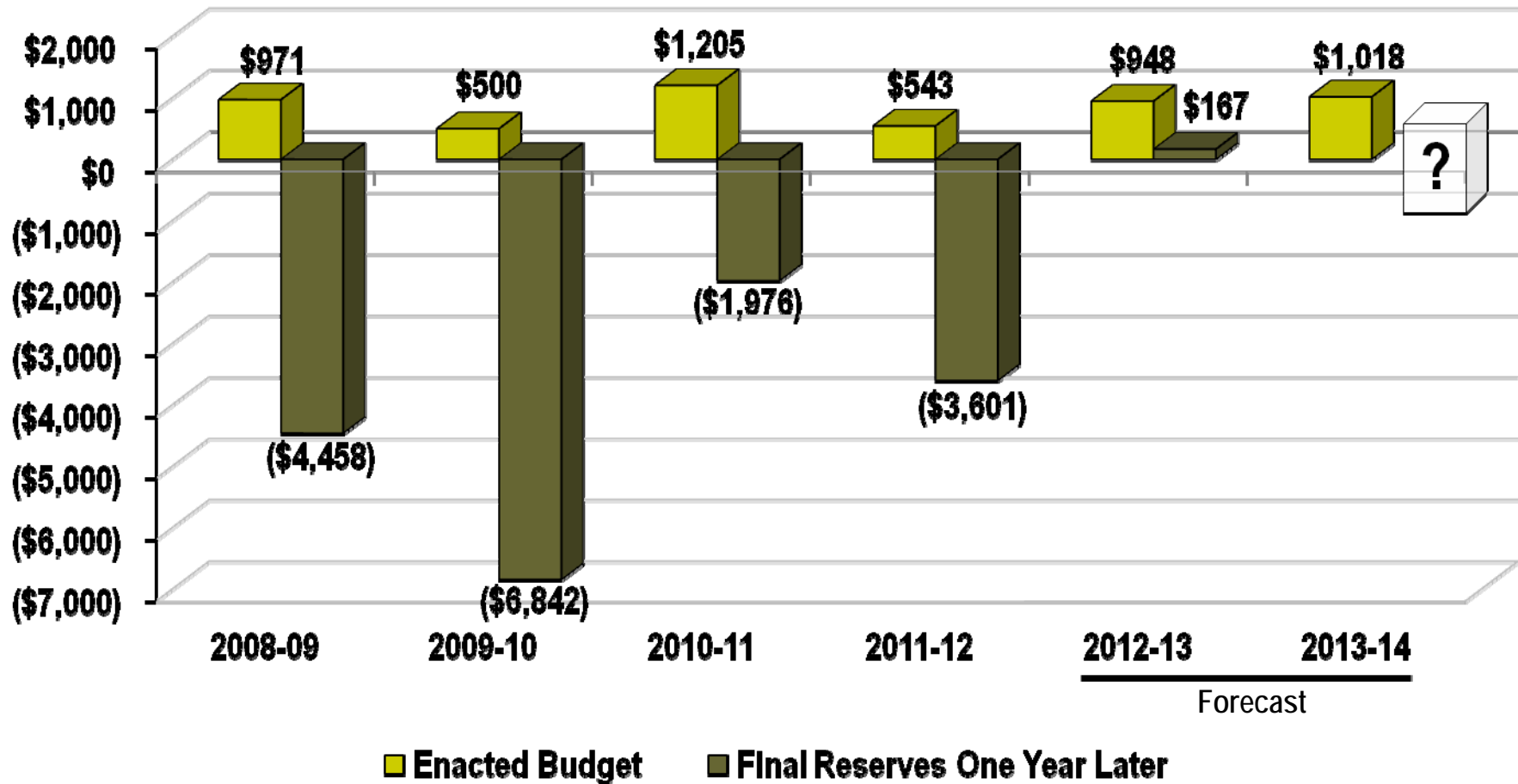
- Revenues and transfers increase 3.3%, while expenditures increase 5% in 2013-14
- The current-year reserve drops from \$948 million to \$167 million
- The 2013-14 reserve of \$1,018 million is 1% of revenues and transfers

State Budget Reserve

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



Proposition 98

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- 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

- 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 school districts by approximately 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 school districts statewide

Base Revenue Limit After Deficit Factor

Lowell Joint School

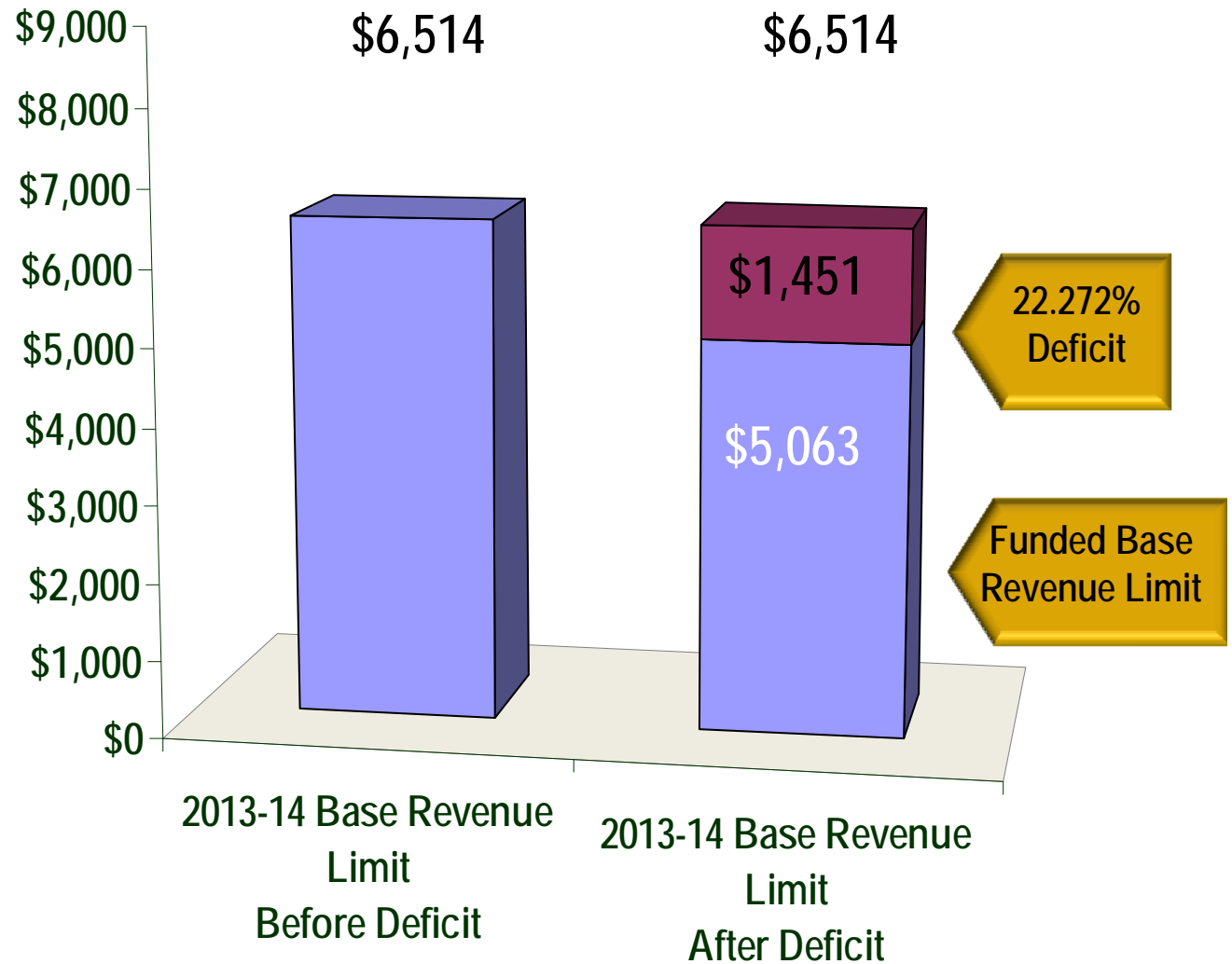
District:

Funded revenue limit

$$= \$6,514 \times (1 - 0.22272)$$

$$= \$6,514 \times 0.77728$$

$$= \$5,063$$



- 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 undeficitied 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
 - Students eligible for free and reduced-price meals
 - Foster youth

- Elements of the formula (continued):
 - Special Education, Child Nutrition, QEIA, After School Education and Safety (ASES), 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
- Timeline: Phased in over seven years – completed in 2020-21

How Much Is Funded?

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- 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 emerge the estimates could change
- Department of Finance staff expect to provide estimates of school district 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
- SSC will provide more information as the details of this proposal are released

- 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

- 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

- Many districts negotiated concessions if Proposition 30 passed and even larger concessions if Proposition 30 failed
 - Proposition 30 passed, so honor any contingencies for reduction of concessions related to passage
 - But many districts have ongoing concessions even with passage of Proposition 30
 - Current law allows districts to reduce the school year by five days through 2014-15
 - Those concessions may or may not need to continue
 - For districts that are deficit spending or have other financial stress, the new money may not allow additional restoration
- Our advice is to be as open about restoration as you were about the need for concessions

- With two-thirds control in both houses, legislative Democrats can pass legislation without Republican votes, including:
 - Tax and fee increases
 - Constitutional amendments
 - Statewide bonds
 - Democrats can also override a Governor's veto
- One idea already being considered is Senate Constitutional Amendment 3 (Leno, D-San Francisco), which would reduce the threshold for passing parcel taxes to 55%
- However, new electoral dynamics (top-two primary, new legislative boundaries) could make some votes politically difficult

Questions?



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