



School  
Services  
of California  
INC. TM

May Revise Board Update  
June 3, 2013

# Themes for the May Revision

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- Economic growth, though the pace is slow, and the passage of Proposition 30 provide the state with more revenue in 2012-13
  - But the Governor projects slower growth for 2013-14
- The level of Proposition 98 is increased by the higher revenues
  - Much of the increase is used to quicken the pace of deferral buy backs and to fund a one-time augmentation for Common Core State Standards (CCSS)
  - Funding in 2013-14 for individual districts is increased only minimally over the Governor's January proposal
- The Local Control Funding Formula (LCFF) remains the centerpiece of the Governor's State Budget proposal
  - The theory and motivations are unquestionably good
  - But many mechanical and policy issues remain unresolved
- There is plenty of work left to be done by the Legislature



# The May Revision in Broad Strokes

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- 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 (range \$4 - \$700 per ADA)



# Major Proposals by the Governor

- Maintains the LCFF essentially as proposed in January
  - Provides some relief for Adult Education and Regional Occupational Centers and Programs (ROC/P)
  - Adds very restrictive accountability provisions
- Buys down deferrals faster than planned
- Funds the CCSS implementation on a one-time basis
- Backfills the loss of federal special education funding



# Revenue Limits or the LCFF?

- 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 school districts



# LCFF – Base Grant Entitlement Target

- Target entitlement calculation – 7 year implementation
  - Grade span per-pupil grants, based on 2012-13 statewide average undeficited revenue limit (estimated \$6,816 per ADA)
  - Current 2012-13 statewide average deficited revenue limit is estimated \$5,298 per ADA
  - K-3 CSR \$723 (24 pupils maximum per-class target) and CTE (Career Technical Education) adjustment \$218
  - Supplemental and concentration grant add-ons are calculated based on the percentage of total enrollment that are English learners, Free and Reduced-Price Meal Program eligible students, and foster youth (unduplicated count)





# Revenue Limits and the LCFF

- Today – The primary source of unrestricted funding comes from revenue limits
  - Established in the 1970s, formed the basis for equalization of funding differences among school districts
  - Average revenue limit for all districts in 2011-12 was \$5,347 per ADA
  - Since 2007-08, revenue limits have been reduced more than 22% from the statutory entitlement
  - Revenue limits still vary among school districts based on historical and state funding differences – most cluster around the average, but some are higher
- LCFF – Would, at full implementation, fund every student at the same base rate
  - Establishes the 2007-08 undeficitated average BRL per ADA, adjusted for inflation, as the target
  - \$6,816 per ADA – adjusted for four grade span differentials
  - All school district and charter school base grant funding will equalize to this level



# Expenditure and Audit Requirements

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- While the LCFF purports shifting spending control from the state to school districts 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
  - School districts may not spend less than they spent on these students in 2012-13 and must meet annual Maintenance of Effort requirements
  - Once the LCFF is fully implemented, school districts 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





# Multiyear Projections

## ■ 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 published upon enactment of the 2013-14 State Budget
- Remember not to double count K-3 CSR, EIA, etc., under the LCFF scenario

## ■ LACOE's recommendations:

- Budget Revenue Limit with 1.565% COLA
- Assume CSR Flexibility remains in place for all three years in multiyear projection



# Revenue Limit and LCFF Possibilities 2013-14

	Current Year	RL plus COLA	RL plus COLA & def. red.	LCFF
	2012-13	2013-14	2013-14	2013-14
Revenue Limit COLA	3.240%	1.565%	1.565%	
Deficit Reduction	22.272%	22.272%	18.997%	
Revenue Limit	15,607,442	15,857,163	16,519,776 *	
Categoricals	1,661,205	1,661,205	1,661,205	
LCFF Base Grant				16,107,428
LCFF Supplemental Grant				1,990,806 *
Total Possible Funding	17,268,647	17,518,368	18,180,981	18,098,234

\* Unknown if these funds will be restricted or unrestricted in state budget



# An Overall Assessment of the May Revision

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- 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
- SSC thinks 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





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Questions?