



# 2013-14 State Budget Update

Presented to the Board of Trustees  
August 5, 2013

# Themes for the Budget

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- Governor Jerry Brown has tackled the Budget problems that have dogged the state for the past decade and has made real progress
  - Proposition 30 enabled the state to avoid further cuts to education
  - The State Budget is legitimately balanced for the first time since 2002
  - Substantial progress is made toward reducing the “wall of debt”
  - Common Core State Standards (CCSS) have been adopted
  - The Local Control Funding Formula (LCFF) compromise was agreed to by the Legislature
  - Pension reform is underway
- But not all of the state’s problems are behind us
  - The level of funding for education is still nearly last in the nation
  - The feds are all over the state on prison overcrowding
  - Interest rate increases or international events could derail the recovery
- There is still work to be done

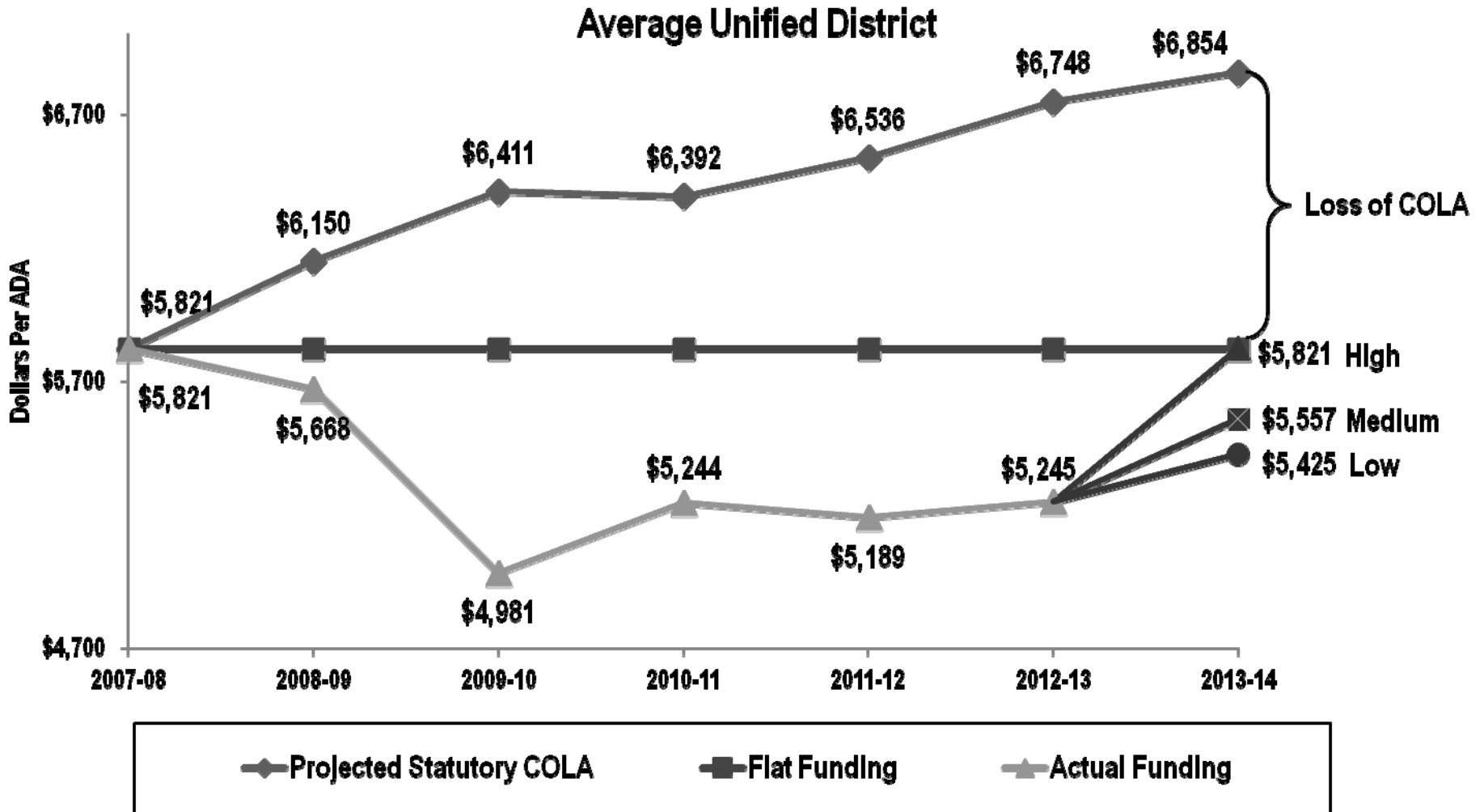
# The Budget in Broad Strokes

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- The 2013-14 State Budget is balanced and has the first real reserve in years
- The structural deficit has been eliminated, at least for the duration of Proposition 30
- Education gets its first slice of restoration of cuts that began in 2008-09
  - But not all districts benefit equally
  - And the level of funding for most districts remains well below 2007-08
  - The Governor uses the bulk of the unexpected 2012-13 Proposition 98 revenues for one-time purposes, like buying down deferrals and CCSS start-up allocations
- But the State Budget also understates 2013-14 revenues
  - The Legislative Analyst's Office (LAO) and other independent economists estimate that revenues will actually come in more than \$3 billion higher
  - That portends greater flexibility in future funding
- No other area of the State Budget gets increased significantly

# Funding Per ADA – Actual vs. Prior Statutory Level

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# Proposition 98 and LCFF

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- It is important to remember that Proposition 98 establishes the minimum funding level for K-14 education
  - The Legislature and the Governor decide on an annual basis at what level to fund the various education programs
    - In most cases, state statutes specify districts' entitlements to state funding based on the delivery of educational services
- The LCFF is the model by which state funds are allocated to school districts, charter schools, and county offices of education (COEs)
  - Unlike revenue limits and Tier III categorical programs, there are no state statutes that specify an annual appropriation to support the LCFF
    - This makes multiyear planning very difficult
  - A district's annual LCFF entitlement will be determined by "any available appropriations" (Education Code Section [E.C.] 42238.03[b][3])

# LCFF Policy Goals and Features

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- The Governor's policy goals in pursuing reforms to the state's school finance system have remained consistent since January 2012 when he unveiled the Weighted Student Formula, the precursor to the LCFF:
  - Increase transparency and reduce complexity
  - Reduce the administrative burden
  - Improve funding equity across school districts
  - Improve local accountability
- To attain these goals, the LCFF:
  - Eliminates revenue limits and almost all categorical programs, except those established by state initiative, federal statutes, or court orders or settlements
  - Establishes base grants for four grade spans, which will provide absolute dollar equalization at full implementation
  - Establishes supplemental/concentration grants to provide supplemental services to low income and English learner students

# Base Year Funding and LCFF Target

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- A school district's LCFF entitlement will be based on three key elements:
  - Its base year funding in 2012-13
  - The demographics of its student population, specifically the percentage of students who qualify for supplemental/concentration grants
  - The state appropriation for LCFF
- In general, a school district is better off under the LCFF if:
  - Its base year funding is below the statewide average (Lowell Joint is below)
  - The proportion of students qualifying for supplemental/concentration grants is above the statewide average (Lowell Joint is not)
  - The state provides a significant amount for LCFF growth in a given year

# 2013-14 LCFF Entitlement

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- A district's LCFF entitlement for 2013-14 will be based on its 2012-13 base year funding level, its LCFF target, and the statewide funding provided to move toward the target

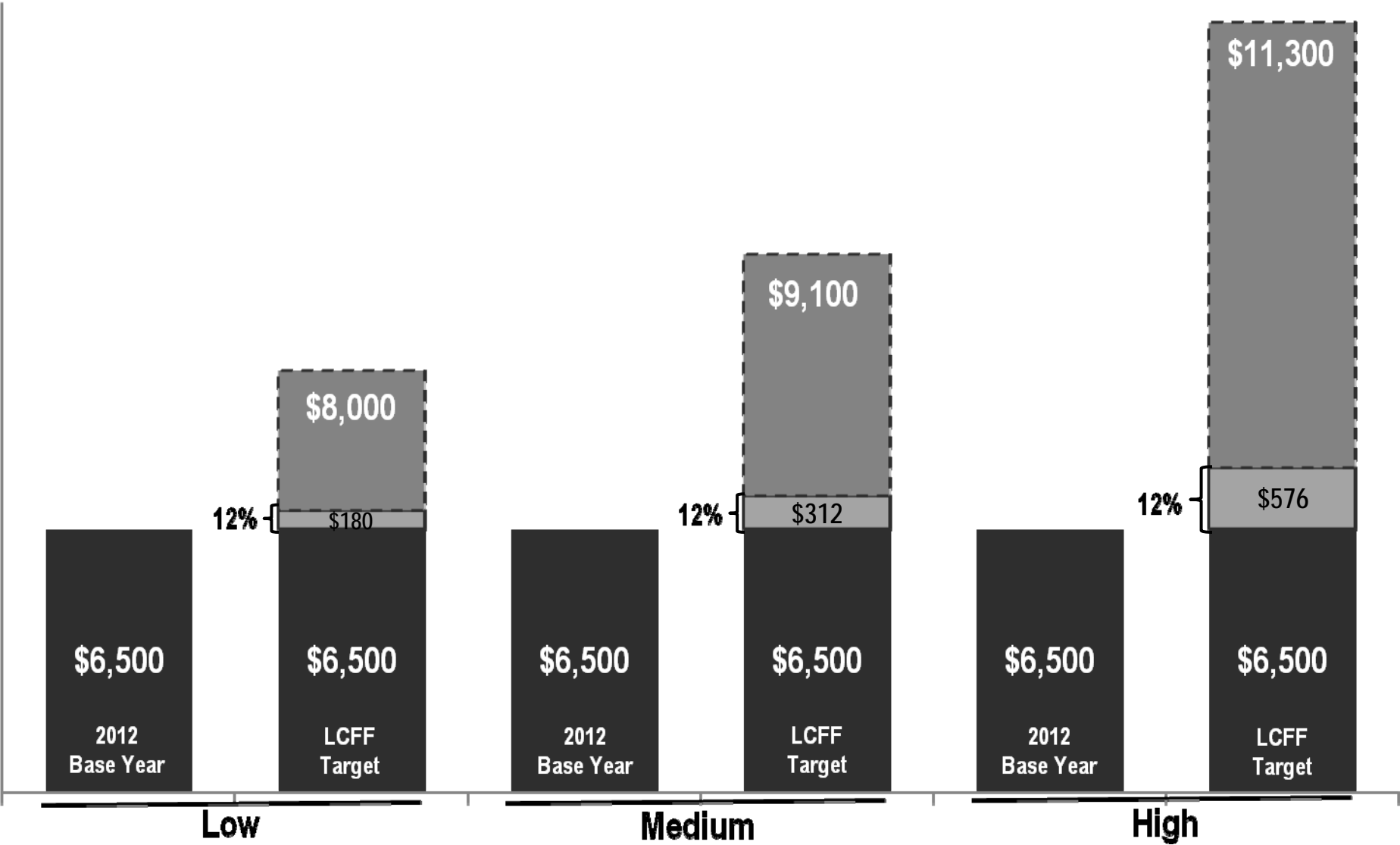
	Low	Medium	High
2012-13 Base	\$6,500	\$6,500	\$6,500
LCFF Target	\$8,000	\$9,100	\$11,300
Difference	\$1,500	\$2,600	\$4,800
State Factor	12%	12%	12%
2013-14 Increase	\$180	\$312	\$576

- The state factor of 12% of growth toward target is based on the 2013-14 appropriation of \$2.1 billion and the estimated statewide funding gap of \$17.5 billion



# 2013-14 Growth Toward Target

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# LCFF Implementation Phase

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- There are two distinct phases of the LCFF: (1) the eight-year implementation phase, and (2) the fully funded phase
  - The eight-year implementation phase is not set in statute and can be longer or shorter than eight years, depending upon the annual LCFF appropriation
  - Numerous fiscal inequities could arise during the implementation phase
    - Even if the state appropriates sufficient funds to support the statutory cost-of-living adjustment (COLA) applied to the base grant, individual districts are not guaranteed a funding increase equivalent to this adjustment
    - Significant revenue volatility will be imposed on districts with high proportions of students eligible for supplemental/concentration grants
- Once the LCFF is fully implemented, these funding anomalies may be eliminated

# LCFF – What it Does

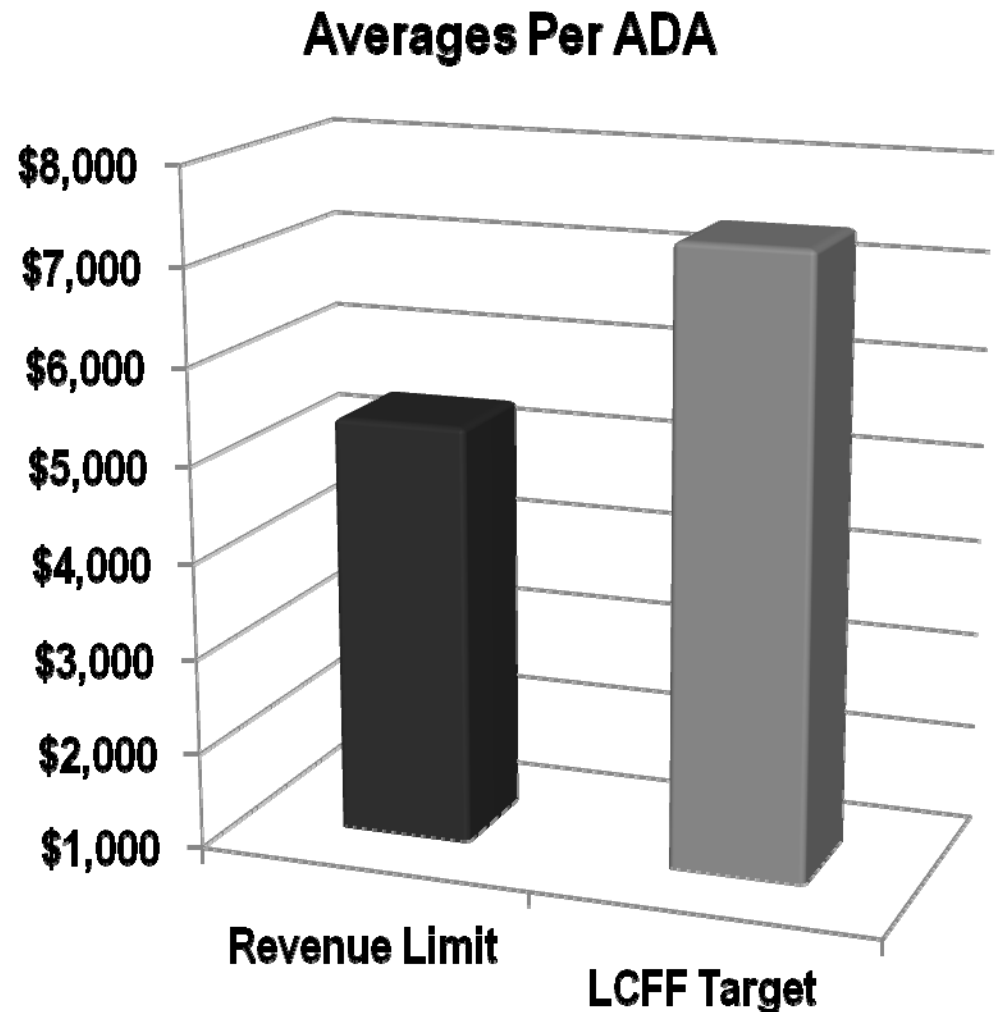
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- The LCFF makes fundamental changes to how the state allocates Proposition 98 revenues to schools
- There are direct parallels with how the state has funded schools in the past
  - The LCFF base grants are like revenue limits
  - The LCFF base grant adjustments – class-size reduction (CSR), Career Technical Education (CTE), supplemental grants, concentration grants – are like categorical programs
- At full implementation, the LCFF will fund every student at the same base rate
  - Over time, most school district and charter school base grant funding will equalize to the same level
- The LCFF provides that each school district receive at least as much state aid in 2013-14 and future fiscal years as the district received in 2012-13 (which is really the 2007/08 funding level!)

# Revenue Limits and LCFF Base Grants

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- The LCFF sets a starting average grant per average daily attendance (ADA) for 2013-14 of \$7,357, with a plan to bring all base per-pupil funding for most school districts and charter schools to that level, adjusted for inflation, in eight years (2020-21)
- The current deficiated average revenue limit per ADA for all districts is \$5,347, \$2,010 below the 2013-14 LCFF target
- Cost to fully fund the base target – approximately \$12 billion



# Categorical Programs and the LCFF

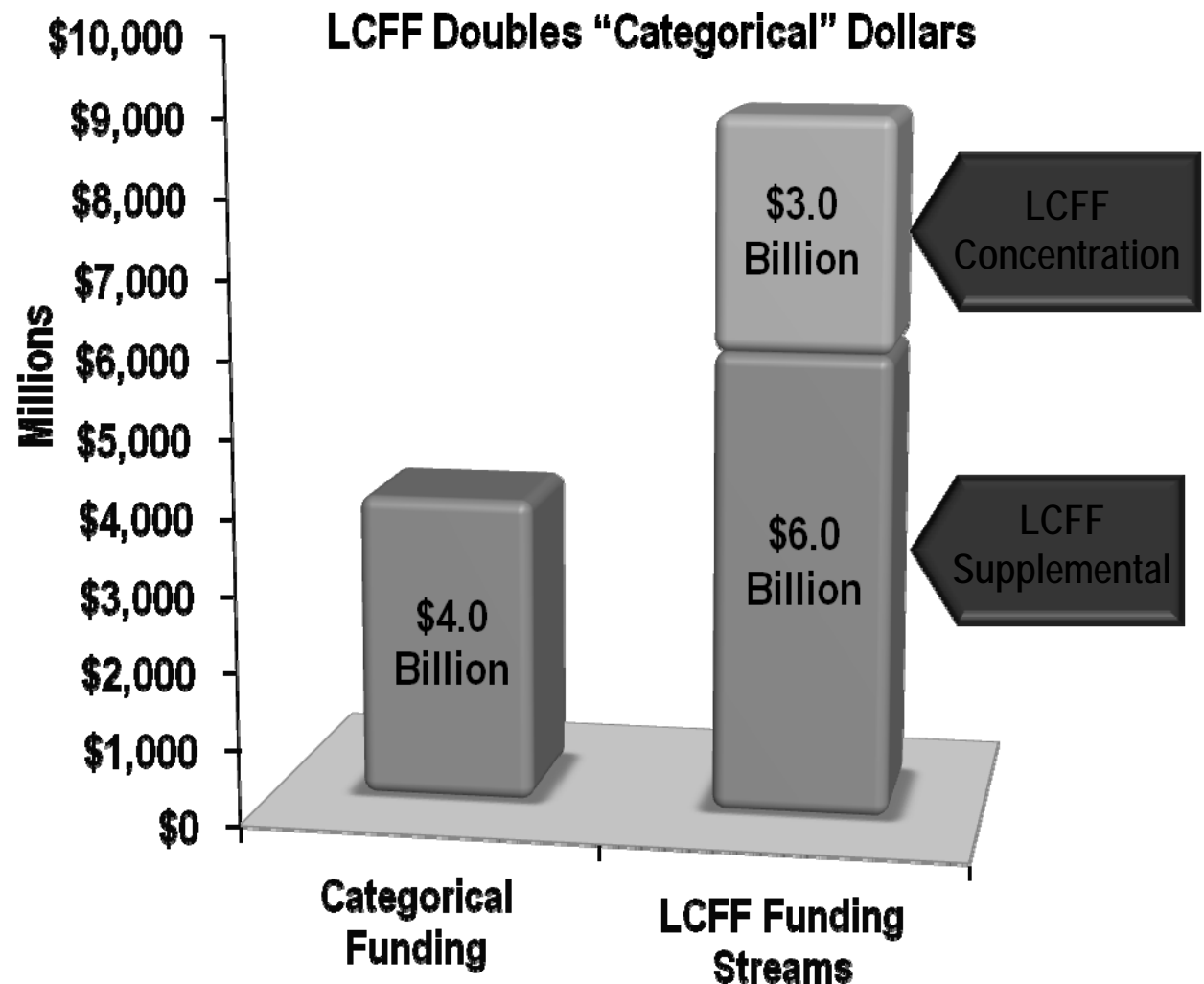
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- Over the years, a variety of programs and purposes were supported by categorical program funding
  - Some were general purpose, such as instructional materials and deferred maintenance
  - Some were intended to be targeted to meet the needs of specific students or circumstances, such as Economic Impact Aid (EIA) and Home-to-School Transportation
- The LCFF replaces most categorical programs with two weighting factors applied against the LCFF base grant
  - 20% on behalf of each eligible student (down from 35% in the Governor's proposal)
  - An additional 50% for the eligible students exceeding 55% of total enrollment (up from 35% in the Governor's proposal)
    - The combination of the two factors still equals 70%, as in the May Revision

# LCFF Categorical Streams

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- The LCFF both dramatically increases the level of funding flowing to school districts in addition to the base grant and dramatically reduces the factors that influence the flow of those dollars
- Weighting factors take the place of separate categorical program appropriations



# LCFF – Base Grant Entitlement Calculation

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- 2013-14 target entitlement calculation
  - Grade span per-pupil grants, based on 2013-14 statewide average initial target of \$7,357 per ADA, are increased annually for a COLA

Factors	K-3	4-6	7-8	9-12
Base Grant per ADA	\$6,845	\$6,947	\$7,154	\$8,289
COLA @ 1.565%	\$107	\$109	\$112	\$130
Base grants – 2013-14	\$6,952	\$7,056	\$7,266	\$8,419

# LCFF – K-3 CSR and CTE Adjustments

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- 2013-14 target entitlement calculation
  - K-3 CSR and 9-12 CTE adjustments are additions to the base grant
  - CTE is unrestricted; CSR requires progress toward maximum site average of 24 students enrolled in each class (K-3)

Factors	K-3	4-6	7-8	9-12
Base grants – 2013-14	\$6,952	\$7,056	\$7,266	\$8,419
Adjustment percentage	10.4% CSR	-	-	2.6% CTE
Adjustment amount	\$723	-	-	\$219
Adjusted grant per ADA	\$7,675	\$7,056	\$7,266	\$8,638



## CSR Requirements – What We Know So Far

- Average class sizes in grades K-3 must reach 24:1 at each school site in proportion to the amount of LCFF funding provided toward full implementation each year
  - 2013-14 funding proportion is 12%
- Each school site will use 2012-13 K-3 average enrollment as their “maximum”
- In 2013-14 each school site must reduce their K-3 average enrollment by 12%
- The days of “closed classes” and revoking transfers are back
- The penalty for non-compliance is loss of all CSR funding
  - Unless a locally bargained alternative average exists
- The CSR funding will grow each year in proportion to the funding toward full LCFF implementation
- 2013-14 CSR funds are projected to be \$106,000
- The fully funded LCFF CSR Augmentation for the District is \$932,000

# CSR Requirements – What We Don't Know Yet

- What is the definition of a “locally bargained alternative?”
- How will these enrollments be reported?
- Will Option 2 be allowed?
- How will mid-year additional classes be affected?

# LCFF – Supplemental and Concentration Grants Per ADA

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- 2013-14 target entitlement calculation
  - Supplemental and concentration grant increases are calculated based on the percentage of total unduplicated enrollment accounted for by English learners, free and reduced-price meal program eligible students, and foster youth

Factors	K-3	4-6	7-8	9-12
Adjusted grant per ADA	\$7,675	\$7,056	\$7,266	\$8,638
20% supplemental grant	\$1,535	\$1,411	\$1,453	\$1,728
50% concentration grant (for eligible students exceeding 55% of enrollment)	\$3,838	\$3,528	\$3,633	\$4,319

# Elements of the Formula

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- Special Education, Child Nutrition, and other federally mandated programs stay outside of the formula
- Transportation and TIIG funding continue as formula add-ons for those school districts that currently receive funding through these programs – frozen at 2012-13 levels, no COLA
  - TIIG funds can be used for any purpose (\$192,128 for the District – has been flexed since 2008-09)
  - Districts must expend no less on Home-to-School Transportation than the amount expended in 2012-13 (approximately \$300,000 in 2012-13 for the District)
- Creates the Economic Recovery Target (ERT) rate – establishes a minimum level of funding increase for each school district from 2013-14 through 2020-21 (This is not applicable to the District)
- Timeline: implementation to be completed in 2020-21 (probably unachievable given economic cycles)

# LCFF and Multiyear Budgeting

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- Prior to the enactment of the LCFF, school districts received the majority of their unrestricted revenue from the revenue limit
- Multiyear budgeting under revenue limits was fairly straightforward
  - For the current year, districts would budget revenues based on the factors enacted in the State Budget Act for that year
  - For the second and third years of the multiyear projections required by Assembly Bill (AB) 1200, districts would estimate their revenue using projections of the statutory COLA for revenue limits as provided by the SSC Dartboard
  - Using these assumptions, school districts statewide generally planned on the same change in unrestricted revenues over the three-year period

# LCFF and Multiyear Budgeting (continued)

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- During the eight-year implementation phase, multiyear budgeting under the LCFF, however, poses major challenges
  - The different demographic composition of student populations will result in vastly different revenues from district to district
  - The statutory COLA no longer determines out-year funding increases
- Multiyear budgeting under revenue limits had some expenditure protections
  - PERS pension increases were “capped” at 13.02% every year
    - Rates are projected to gradually rise to 19% by 2019-20
  - Unemployment insurance costs were capped at the 1975-76 cost
    - The 2013-14 rate is at the 1972 level. Only way to go is up...
- The Affordable Care Act cost increases are an uncertainty as well
  - The requirement to provide insurance coverage to any employees working 30 hours or more during a “determination period” has been postponed one year to January 2015

# Differential Risks Under the LCFF

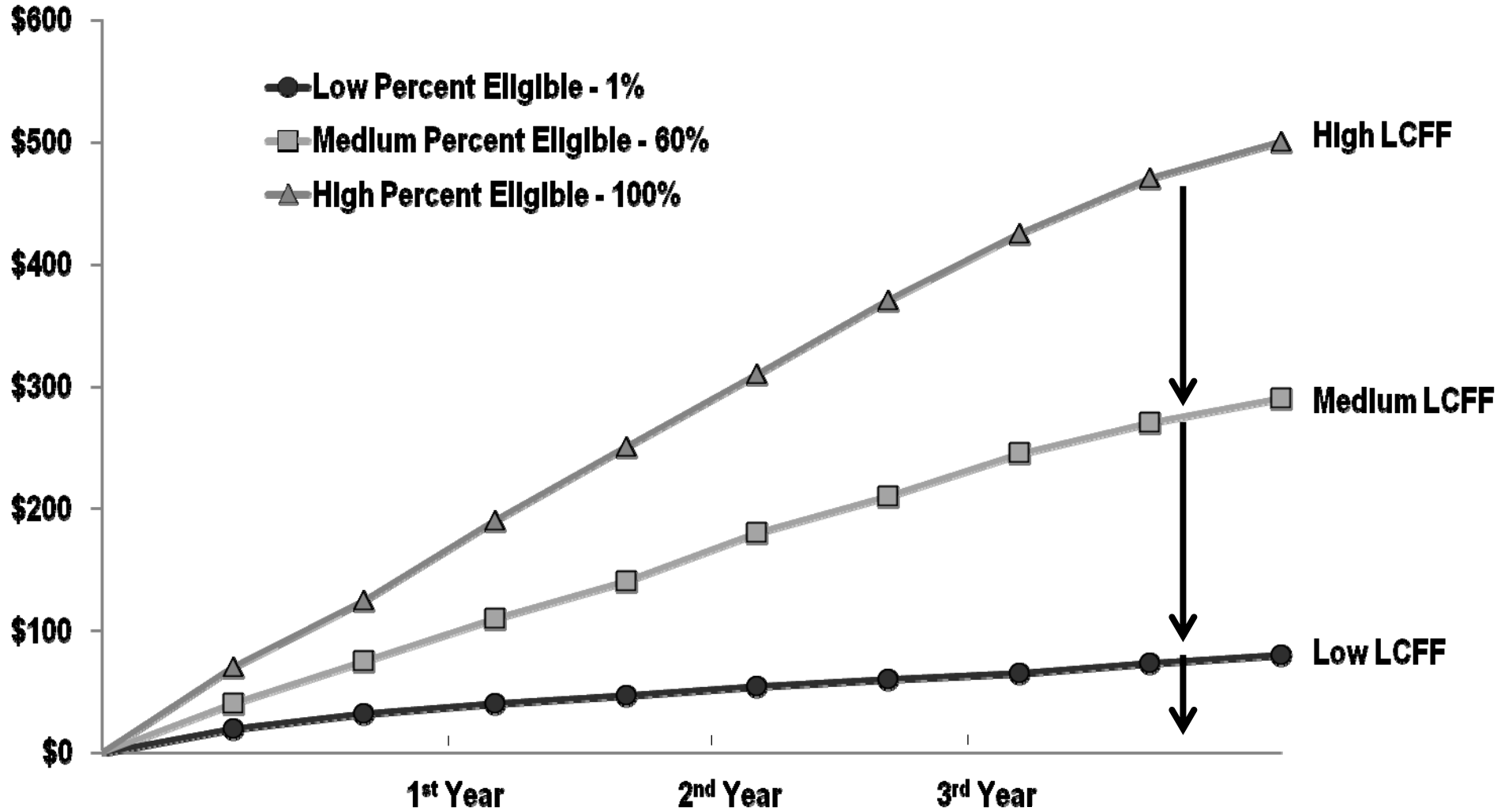
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- School districts will face vastly different levels of risk during the implementation phase of the LCFF
  - School districts experiencing significant annual funding gains can face major declines as well
    - While the statutory COLA is forecast to average 2.3% between 2013-14 and 2016-17, some districts could see gains under the LCFF of 6% to 8% annually
  - Multiyear contracts that assume high annual increases in LCFF revenues could fall out of balance when/if state LCFF appropriations fall
- In 6 of the years over the last 20 years, the state either provided no increase to fund the statutory COLA or cut funding levels due to downturns in the economy and revenues
  - It is simply a matter of time when the next downturn occurs

# Differential Risks – An Example

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## New Funding Per ADA





# Conclusions About Multiyear Budgeting

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- Because of the differential risks under the LCFF, all school districts, but especially high-funded districts, will have to make prudent out-year revenue assumptions
  - There is no longer a statewide standard for expected revenue growth in the form of an expected inflationary adjustment
  - Each district will have to carefully assess its demographic projections
    - The total projected ADA
    - The demographic composition of the ADA, i.e., low-income students, English learners, and foster youth
- State Budget priorities can change from year to year with no guarantee that LCFF growth will be provided or that the LCFF will be fully funded
  - The statutory protection of annual COLAs is eliminated
- Local conditions and budget decisions will be more important than ever in maintaining each district's solvency

# Balances, Reserves, and Planning

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- The LCFF revenue model leads to an entirely new way of thinking about revenues, reserves, balances, and planning for the future
  - Gone are the anchors of the past: base revenue limit, deficit factor, current-year COLA, etc.
  - They are replaced with a “commitment” by the state to make a contribution to “closing the gap” each year
    - But there is no statutory calculation for how much the state will contribute – and no obligation to fund any certain amount
- This has huge implications for districts
  - Many districts will need to maintain much larger reserves
  - Much of the “new money” will still be tied to expenditures for specific programs
  - The SSC Dartboard will be more subjective than in the past, but more relevant than ever for conservative and reasonable planning

# There Is No Such Thing as a Good Budget That Does Not Have an Adequate Reserve!

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- Good budgets have good reserves; but how much is really needed?
  - Under revenue limits, the State Board of Education (SBE) set reserve levels as a percentage of expenditures based on district size – that won't work anymore
  - Some districts will have much more risk and volatility than similar-sized districts – they may need ten times the amount of the state's recommended reserves
  - All state-recommended reserve levels will now be too low
    - Both calculation and contribution risks will increase with the LCFF
    - The consequences of low reserves may not be seen immediately because the state is providing an increase, but school districts will see it in the first downturn
- So, what constitutes an adequate reserve?

# What Constitutes a Reasonable Reserve?

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- SSC has already concluded that a reserve level dictated solely by district size is no longer relevant when volatility and exposure is disparate
- SSC recommends that every district first observe the current SBE-required reserve level for the traditional economic uncertainties
- Then, SSC recommends the establishment of a separate LCFF reserve
  - SSC recommends that districts develop a plan to bring the level of the LCFF reserve to at least one year's revenue growth in the multiyear projection (MYP)
- The purpose of this reserve is to provide a "softer landing" when the next downturn occurs, as it surely will
- This is a similar methodology to what SSC has recommended for basic aid districts due to their reliance on local property tax revenues above the revenue limit

# Local Control Accountability Plan – Next Steps

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- On or before July 1, 2014, and every three years thereafter, school districts must adopt the LCAP using the template adopted by the SBE
- The Local Control Accountability Plan (LCAP) must include a description of the following:
  - Annual Goals
    - Based on state priorities for all students and “numerically significant subgroups”
      - Numerically significant: defined as 30 students with valid test scores at the school or school district – with the following exceptions
        - Foster youth – 15 or more students
        - Schools or districts with 11 to 99 students – defined by the superintendent with approval of the SBE

# Local Control Accountability Plan – Next Steps

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## ■ Specific Actions

- What steps the school districts will take to accomplish the annual goals
- Districtwide actions and actions by school site

## ■ Description of Expenditures

- For each fiscal year of the plan, list and describe expenditures implementing specific actions included in the LCAP
- List and describe expenditures serving “unduplicated” students and students redesignated as fluent English proficient

# In Summary . . .

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- The full local control touted in January was significantly reduced in the May Revision
  - The Enacted State Budget tips the spending scale once again – striking what appears to be a better balance between local and state control
- Until the SBE has adopted the spending regulations, the extent to which school districts have flexibility over expenditure of supplemental and concentration grant funds is uncertain
  - For the time being, proceed with caution when expending these funds
- Given the level of stakeholder engagement required, school districts cannot postpone development of the LCAP until the SBE has adopted the spending regulations and plan templates
  - Get started!

## 2013-14 Budget Specifics for the District

	Adopted	Revised	
	Budget 2013/14	Budget 2013/14	Change
Revenue Limit	\$ 15,726,719	\$ 18,586,000	\$ 2,859,281
Federal Income	\$ 1,017,605	\$ 1,017,605	\$ 0
Other State Income	\$ 4,498,121	\$ 2,344,121	\$ (2,154,000)
Other Local Income	\$ 54,000	\$ 54,000	\$ 0
<b>Sub Total</b>	<b>\$ 21,296,445</b>	<b>\$ 22,001,726</b>	<b>\$ 705,281</b>
Interfund Transfer In	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 21,296,445</b>	<b>\$ 22,001,726</b>	<b>\$ 705,281</b>



## 2013-14 Budget Specifics for the District (cont'd)

	2013/14 Adopted Budget	2014/15 Projected Budget	2015/16 Projected Budget
Total Revenue and Transfers In	\$ 22,001,726	\$ 22,279,502	\$ 22,632,725
Total Expenditures & Outgoing	\$ 22,579,374	\$ 23,416,374	\$ 23,618,374
<b>Change in Fund Balance</b>	<b>\$ (577,648)</b>	<b>\$ (1,136,872)</b>	<b>\$ (985,649)</b>
Beginning Balance	\$ 4,190,213	\$ 3,612,565	\$ 2,475,693
<b>Ending Balance</b>	<b>\$ 3,612,565</b>	<b>\$ 2,475,693</b>	<b>\$ 1,490,044</b>
<b>Components of Fund Balance</b>			
Reserved Amounts	\$ 10,000	\$ 10,000	\$ 10,000
Legally Restricted	\$ 0	\$ 0	\$ 0
Economic Uncertainties	\$ 668,000	\$ 704,000	\$ 710,000
Designations	\$ 0	\$ 0	\$ 0
Undesignated Amount	\$ 2,934,565	\$ 1,761,693	\$ 770,044

Questions?