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California State Senate

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ON
BUDGET AND FISCAL REVIEW

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AGENDA

February 28, 2013
9:30 a.m. or Upon Adjournment of Session
Room 4203, State Capitol

**2013-14 Budget for K-12 Education:
Overview of Governor's Local Control
Funding Formula and Accountability Plan**

I. Department of Finance

- Nick Schweizer, Program Budget Manager, Education Systems Unit

II. Legislative Analyst's Office

- Mac Taylor, Legislative Analyst
- Rachel Ehlers, Principal Fiscal and Policy Analyst

III. Superintendent of Public Instruction Tom Torlakson

IV. Local Superintendent's Panel:

- Superintendent Thelma Meléndez, Santa Ana Unified School District
- Superintendent Michael Hanson, Fresno Unified School District
- Superintendent Tony Smith, Oakland Unified School District
- Superintendent Robert Arias, Bakersfield City School District
- Superintendent Deborah Bettencourt, Folsom-Cordova Unified School District
- Superintendent Stan Mantooth, Ventura County Office of Education

V. Research Panel:

- Maggie Weston, Research Fellow, Public Policy Institute of California & Heather Rose, Associate Professor, School of Education, University of California Davis
- Jannelle Kubinec, Director, National, State, and Special Projects, West Ed

VI. Public Testimony

ATTACHMENTS:

Governor's Budget Summary: K thru 12 Education

SBFR Summary and Analysis: K-12 Finance – Local Control Funding Formula

Legislative Analyst Report on Restructuring the K-12 Funding System

K THRU 12 EDUCATION

California provides compulsory instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. Through a system of 58 county offices of education and more than 1,000 local school districts and charter schools, students are provided with instruction in English, mathematics, history, science, and other core competencies to provide them with the skills they will need upon graduation for either entry into the workforce or higher education.

INVESTING IN EDUCATION

The Budget includes Proposition 98 funding of \$56.2 billion for 2013-14, an increase of \$2.7 billion over revised funding levels for the 2012-13 year. With the passage of Proposition 30, the Schools and Local Public Safety Protection Act of 2012, schools have been spared billions of dollars of mid-year trigger reductions. Building off the stabilized funding base for 2012-13, the Budget proposes investments for 2013-14 that will significantly reduce late payments to schools and target substantial additional funding to schools and students in most need of these resources.

During the economic downturn, the state deferred payments to schools, therefore, schools received approximately 20 percent of their funds a year after they spent them. Some school districts were able to borrow to manage these deferrals, while others had to implement deferrals as cuts. Districts that were able to borrow incurred substantial interest costs, which led to dollars taken out of the classroom. The Budget proposes repayment of approximately \$1.8 billion in deferred payments to fund programs and

increase budget transparency. This investment will provide additional certainty of funding for expected levels of programs and services, while also reducing the substantial borrowing costs borne by schools as result of the deferrals.

In addition to revenues provided by Proposition 30, schools and community colleges also benefit from the passage of Proposition 39, the California Clean Energy Jobs Act. For 2013-14, Proposition 39 will result in a \$526 million increase in the Proposition 98 guarantee level. The Budget proposes to transfer \$450 million of the revenues generated in 2013-14 into a special fund for energy efficiency projects in schools and community colleges, consistent with the provisions of Proposition 39. The expenditures from this special fund for energy efficiency projects will also count towards meeting funding obligations for schools and community colleges under Proposition 98.

Since reaching an all-time high of \$56.6 billion in 2007-08, Proposition 98 funding for K-14 education slipped to \$47.3 billion for the 2011-12 year. In recognition of the key role schools play in promoting equal opportunity for Californians, supporting civic engagement and critical thinking, the Budget reverses this almost half-decade decline in funding for education programs. It gives schools resources to fund base programs and services, stabilize and expand their teaching and support personnel, and renew investments in facilities, instructional materials and other education infrastructure. While increasing funding for districts, it makes targeted investments in districts serving students with the greatest level of needs—recognizing that this approach will help the state reduce disparities, maximize student achievement, and strengthening the foundation for sustainable growth.

RESTORING LOCAL CONTROL AND MAKING NEEDS-BASED INVESTMENTS

California's school finance system, which provides funding for school districts, county offices of education, and charter schools, has become overly complex, administratively costly, and inequitably distributed. In many ways, the current system of school finance is a relic of the past, where program allocations have been frozen and are no longer reflective of changing student needs. There are many different funding streams, each with their own allocation formula and spending restrictions. It is state-driven and interferes with local officials deciding how best to meet the needs of students. Further, scholarly research and practical experience indicate that low-income students and English language learners come to school with unique challenges and often require supplemental

instruction and other support services to be successful in school. Additionally, the current school finance system provides few incentives for school districts to offer innovative educational programs that increase student success.

The Budget proposes new funding formulas for both schools and county offices of education. The proposal will increase local control, reduce state bureaucracy, and ensure that student needs drive the allocation of resources. The new funding formulas will also greatly increase transparency in school funding, empowering parents and local communities to access information in a more user-friendly manner and enhance their ability to engage in local school financial matters. The goal is to ensure sufficient flexibility and accountability at the local level so those closest to the students can make the decisions.

SCHOOL DISTRICT AND COUNTY OFFICE OF EDUCATION FINANCE

The Budget proposes a new Local Control Funding Formula that distributes combined resources to schools through a base revenue limit funding grant (base grant) per unit of average daily attendance (ADA) with additional supplemental funding allocated to local educational agencies based on their proportion of English language learner and free and reduced-price meal eligible students. The proposed formula entitles every school district to a base grant adjusted for grade span cost differentials, multiplied by ADA. The average base grant when fully implemented will be equal to the current average undeficit school district revenue limit. A K-3 grade span adjustment is provided to ensure that current K-3 Class Size Reduction program funding is targeted to students in those grades. Base funding will be used by each locality at their discretion to fulfill local educational priorities. Under the new formula, basic aid districts would be defined as districts whose local property taxes equal or exceed their district's formula allocation. Those districts would continue to retain local property taxes in excess of their new formula allocation.

The proposed formula provides supplemental funding to districts based on the proportion of English language learners and free and reduced-price meal eligible students they serve. Supplemental funding is equal to 35 percent of the base grant. When the proportion of English language learners and economically disadvantaged students exceeds 50 percent of its total student population, the school district will receive an additional concentration grant equal to 35 percent of the base grant for each English language learner and economically disadvantaged student above the 50-percent threshold. Under the formula, charter schools are essentially treated the same as a district, except they cannot receive a higher concentration grant than the school district in which it resides. The supplemental

and concentration grants are available for any purpose that benefits the students generating the funding.

While most categorical program funding is redistributed through the new funding formula, the Targeted Instructional Improvement Grant program and Home-to-School Transportation program funding allocations will be distributed as permanent add-on programs to the new funding formula allocations for each district. Schools will be provided with discretion to use these funds for any purpose.

This proposal builds on last year's budget proposal and reflects input from stakeholder groups and the Legislature. The Department of Finance, in collaboration with the State Board of Education and the Department of Education, convened three stakeholder meetings to discuss the concept of a new funding formula and obtain feedback from various education stakeholders. These discussions were guided by six key principles, which are: (1) creating a funding mechanism that is equitable, easy to understand, and focused on the needs of students, (2) implementing the formula in concert with funding increases for K-12 education, (3) phasing in the formula over several years, (4) paying schools back for deferrals and forgone cost-of-living adjustments through restoration of the deficit factor, and funding annual cost-of-living adjustments going forward, (5) allowing schools maximum flexibility in allocating resources to meet local needs, and (6) holding schools accountable for academic and fiscal outcomes. The key changes to last year's proposal include the following:

- Allocating half of the available Proposition 98 growth funding to move local educational agencies towards their respective formula allocation.
- Increasing the supplemental grant and reducing the concentration grant weights.
- Folding current career technical education funding into a 9-12 grade span adjustment.
- Authorizing local educational agencies to receive supplemental and concentration grant funding for an English language learner student for no more than five years.
- Linking funding in the K-3 grade span adjustment to maximum class sizes. A student-to-teacher ratio of 24 to 1 is established as the maximum standard in grades K-3 upon full implementation of the new formula. This ratio may be exceeded if agreed to at the local level according to local priorities.

The Budget proposes a new two-part funding formula for county offices of education that will provide (1) per-ADA funding to support instruction of students who attend community

schools and juvenile court schools, and (2) unrestricted funding for general county office operations, distributed based on the total number of school districts in the county and the total ADA of all students in the county. Under the new formula, county offices of education will receive a base grant per-ADA for students served in alternative schools that acknowledges the higher cost of education in these settings, while also providing the same targeted supplemental grants for English language learner and low income students as proposed in the school district formula.

ACCOUNTABILITY

The Budget proposes to focus accountability on the core requirements and outcomes expected of schools and to better integrate accountability with the local school district budget process. The new system moves away from expenditure requirements and other input-based measures. The Budget requires that all school districts produce and adopt a District Plan for Student Achievement concurrent and aligned with each district's annual budget and spending plan. While school districts have some discretion regarding the content of the plan, all plans are required to address how districts will use state funding received through the new funding formula toward improvement in the following categories:

- Basic conditions for student achievement (having qualified teachers at each school site, sufficient instructional materials available for students, and school facilities in good repair).
- Programs or instruction that benefit low-income students and English language learners.
- Implementation of Common Core content standards and progress toward college and career readiness (as measured by the Academic Performance Index, graduation rates, and completion of college-preparatory and career technical education courses).

The Budget eliminates most programmatic and compliance requirements that school districts, county offices of education, and charter schools are currently subject to under the existing system of school finance. Important requirements that remain in place include federal accountability requirements, as well as fiscal and budgetary controls and academic performance requirements.

FLEXIBILITY

A variety of temporary program and funding flexibility options, which have been provided to local schools since 2008-09, are set to expire over the next two fiscal years.

Consistent with the Administration's policy of having those closest to the students make the decisions, the Budget proposes the following permanent changes:

- Routine Maintenance Contributions—Eliminate the minimum contribution requirement for routine maintenance.
- Deferred Maintenance Program Matching Requirement—Eliminate the required local district set-aside for deferred maintenance contributions.
- Surplus Property—Allow districts to use the proceeds from the sale of any real and personal surplus property for any one-time general fund purposes.

As schools transition to a new funding formula and as funding grows, it is important to consider other flexibilities currently granted to schools. These include the ability of schools to reduce the school year by up to five days or the equivalent number of minutes without incurring penalties, and the ability of schools to reduce their budget reserves to significantly lower levels. The Administration will engage local school officials and education stakeholders in a discussion of the need for additional flexibility until funding returns to the 2007-08 level.

OTHER PROGRAM REFORMS AND INVESTMENTS

In addition to proposing reforms of school district and county office of education funding, the Administration proposes additional changes and investments in the areas of charter schools, special education, K-12 mandates, technology-based instruction, and adult education.

CHARTER SCHOOLS

Charter schools emerged in the early 1990's as an alternative to traditional public schools, providing opportunities for both parents and teachers to establish public schools that are free from most of the requirements of the Education Code. This freedom is intended to provide charter schools maximum flexibility to foster innovation and allow alternative approaches to education in local public schools. Instead of being governed by state law, charter schools are required to comply with the provisions of their local charter petition, as approved by their local school district, county office of education, or the State Board of Education.

Although the number of charter schools has grown to almost 1,000 statewide, there are a number of financial and operational challenges facing charter schools that limit

their potential effectiveness as alternatives to traditional public schools. In financial terms, charter schools receive significantly less funding on a per-student basis than traditional schools. They also face challenges in being able to secure necessary facilities for instruction. Compounding these problems is a labyrinth of control agencies that charter schools must deal with to secure funding for a variety of different programs. To remedy these issues, the Budget proposes the following:

- Shifting the Charter School Facility Grant Program and the Charter School Revolving Loan Program from the Department of Education to the California School Finance Authority to improve the efficiency of charter school program administration and disbursement of funds to local charter schools. The Authority already administers similar programs.
- Modifying the funding determination process for non-classroom based charter schools by limiting it to the first and third years of operation in most instances. Charter schools that are found to be out of compliance with minimum standards and applicable laws will be required to comply with annual funding determinations.
- Expanding the Charter Schools Facility Grant Program to include eligibility for non-classroom based charter schools, as these schools still have facility needs for instructional support.
- Extending for five additional years the 2012-13 requirement that school districts with identified surplus property and facilities first offer to sell those resources to charter schools before selling them to other entities or disposing of those assets.

SPECIAL EDUCATION FINANCE

The special education funding formula, created in Chapter 854, Statutes of 1997 (AB 602), has become unnecessarily complicated over time with certain formula components creating funding inequities among special education local plan areas. Also, a number of program add-ons created over the years have resulted in both inefficiencies and a lack of flexibility at the local level. To address these issues, the Budget proposes the following:

- Eliminating the integration of federal funds in the state's AB 602 calculation and treating both funding streams separately to remove unnecessary complications in the formula and help equalize funding among special education local plan areas.

- Consolidating funding for several special education program add-ons into the base AB 602 formula calculation, while collapsing another 15 special education add-on programs into 10 based on similar activities.

The changes proposed for special education finance will not affect funding set aside for the realignment of mental health services for special education students implemented last year—\$357 million in Proposition 98 General Fund and an additional \$69 million in federal funds will be dedicated for this purpose.

K-12 MANDATES BLOCK GRANT

The Budget Act of 2012 created an alternative method for school and community college districts to receive compensation for performing state-mandated activities by appropriating \$200 million for two new block grants—one for school districts, county offices of education, and charter schools; and one for community college districts. To date, almost 77 percent of school districts and charter schools have opted for block grant funding, while 93 percent of community college districts have selected this option. The block grant statutes specify which mandates are funded through the block grants, and schools are provided with a per-student funding allocation to support the performance of those activities. Schools that choose to receive block grant funding may not submit reimbursement claims. However, two K-12 mandated programs were not included in the K-12 block grant last year; the Graduation Requirements and Behavioral Intervention Plan programs. The Administration proposes to restructure requirements for the Behavioral Intervention Plan program, which will eliminate almost all reimbursable costs for this mandate. There are no changes proposed for the Graduation Requirements program, and the Administration continues to believe that any costs associated with this activity have run their course in the almost 30 years since the inception of this requirement. Nonetheless, the Budget proposes adding an additional \$100 million to the K-12 block grant to fund costs for these two additional programs.

TECHNOLOGY-BASED INSTRUCTION

School districts are limited in their ability to offer instruction in venues other than traditional classroom-based settings. The primary alternative instructional methods available to school districts are through the use of non-classroom based independent study and synchronous online education courses. Independent study programs, while providing freedom from the traditional classroom-based setting, still mandate the same pupil-to-teacher ratios as regular classroom instruction and focus heavily on process compliance with independent study agreements, which are contracts with students that govern the goals and expectations for this type of instruction. Synchronous online

courses are internet-based instructional courses, which provide an additional level of flexibility, but are limited by the requirement that these classes can only be offered under the immediate online supervision of a teacher.

To remove impediments to greater instructional flexibility, the Budget proposes statutory changes that will enable school districts to offer asynchronous online courses through a streamlined and outcome-focused independent study agreement. Asynchronous instruction does not require the simultaneous participation of all students and instructors, thereby increasing flexibility in the delivery of instruction. To hold these types of courses accountable, a refined independent study contract focused on specific measurable student outcomes, and teacher validation of those outcomes, will be used as the basis for whether schools receive funding for offering these courses. Under such a revised contract, schools will be held accountable for student achievement, rather than process requirements.

ADULT EDUCATION AND APPRENTICESHIP REALIGNMENT

Currently, K-12 school districts and community colleges are authorized to provide adult education instruction. However, there is no statewide requirement or mechanism to coordinate the efforts of these two systems. As a result, the state has an inefficient and redundant system that is not always structured in the best interest of adult learners. Further, funding for the K-12 adult education program is currently flexible, available for any educational purpose, and many districts are eliminating their programs and redirecting this funding to support their core instructional programs.

To create a more accountable and centralized adult education learning structure, the Budget proposes \$315.7 million Proposition 98 General Fund to fund a comparable K-12 adult education service delivery system. It proposes an increase of \$300 million to support the program within the community colleges. It also shifts \$15.7 million for the Apprenticeship Program. The proposal eliminates the current bifurcated system and places the community colleges in a position to improve coordination at the regional and statewide levels. Community colleges are better positioned than K-12 schools to address the needs of adult learners because that is their core function. Funding will be allocated from a new adult education block grant based on the number of students served, and the colleges will be encouraged to leverage the capacity and expertise currently available at the K-12 district adult schools. Additional detail on this proposal is discussed in the Higher Education Chapter.

ENERGY EFFICIENCY INVESTMENTS

K-12 school facilities represent the single largest capital outlay investment made by the state since the mid-1990's. From 1998 to present, the state has invested more than \$30 billion in school bond funding to modernize and construct school facilities. School districts and community colleges are well positioned to undertake projects that reduce their current utility requirements and expand the use of renewable energy resources. As a result, to make a substantial energy efficiency imprint throughout the state, the Budget proposes to allocate all Proposition 39 funding to schools and community colleges. Proposition 39 will provide \$450 million in 2013-14 to support these investments in schools and community colleges, and \$550 million in each of the next four years. The reduction in utility costs will in turn assist schools and community colleges in recovering from budgetary reductions implemented over the past five years.

The Department of Education and the Chancellor's Office for the California Community Colleges will be responsible for distributing funding, and may consult with both the California Energy Commission and the Public Utilities Commission to develop guidelines for prioritizing the use of the funds. These guidelines will reflect the state's energy "loading order", which guides the state's energy policies and decisions according to the following order of priority: (1) decreasing electricity demand by increasing energy efficiency, (2) responding to energy demand by reducing energy usage during peak hours, (3) meeting new energy generation needs with renewable resources, and (4) meeting new energy generation needs with clean fossil-fueled generation. Schools and community colleges will be able to use Proposition 39 funding consistent with the state's loading order policies and guidance to undertake energy efficiency measures including, but not limited to, the construction or modernization of buildings in a manner that uses less energy, purchasing energy efficient equipment, as well as undertaking renewable energy projects like installation of solar panels and geothermal heat pumps.

Local schools and community colleges may use Proposition 39 funds for technical assistance to help identify, evaluate, and implement appropriate projects. Schools and community colleges will also be encouraged to partner on their energy efficiency projects with the California Conservation Corps' Energy Corps program and participating community conservation corps programs, which provide career technical education and on-the-job work experience in the energy efficiency and renewable energy industry sectors. Upon project completion, schools and community colleges will report their project expenditure information to the Department of Education and the Chancellor's Office, respectively. The Administration will work with the Department of Education,

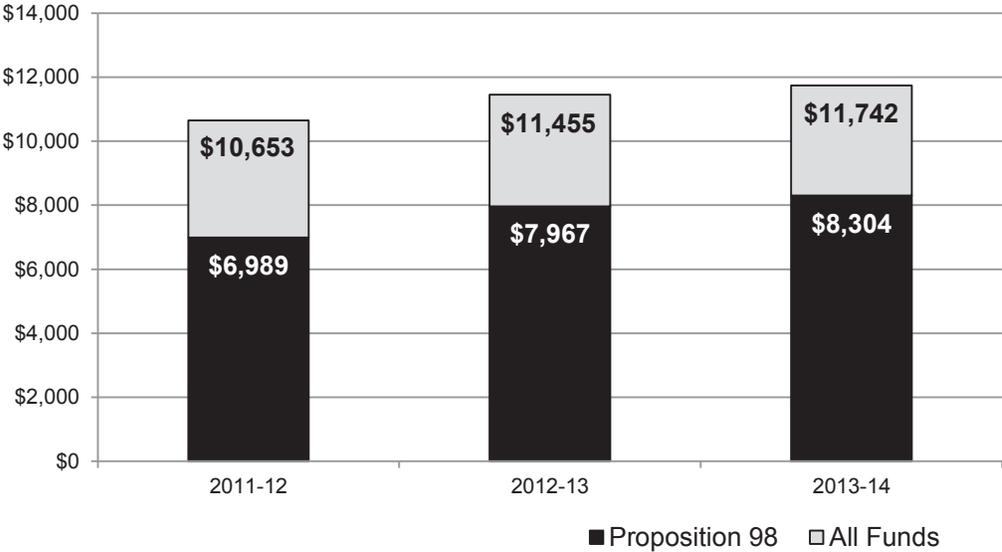
the Chancellor’s Office and the Citizens Oversight Board to ensure these funds are used by schools and community colleges in a manner that is consistent with Proposition 39.

K-12 SCHOOL SPENDING AND ATTENDANCE

PER-PUPIL SPENDING

Total per-pupil expenditures from all sources are projected to be \$11,455 in 2012-13 and \$11,742 in 2013-14, including funds provided for prior year settle-up obligations. Ongoing K-12 Proposition 98 per-pupil expenditures in the Budget are \$8,304 in 2013-14, up significantly from the \$7,967 per-pupil provided in 2012-13. (See Figure K12-01). Figure K12-02 displays the revenue sources for schools.

Figure K12-01
K-12 Education Spending Per Pupil



HOW SCHOOLS SPEND THEIR MONEY

Figure K12-03 displays 2010-11 expenditures reported by schools from their general funds, the various categories of expenditure and the share of total funding for each category.

ATTENDANCE

After a period of declining attendance from 2005 to 2010, attendance in public schools began increasing gradually in

Figure K12-02
Sources of Revenue for California's K-12 Schools
(As a Percent of Total)

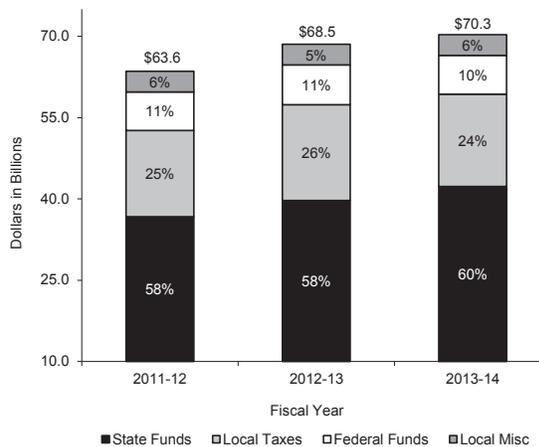
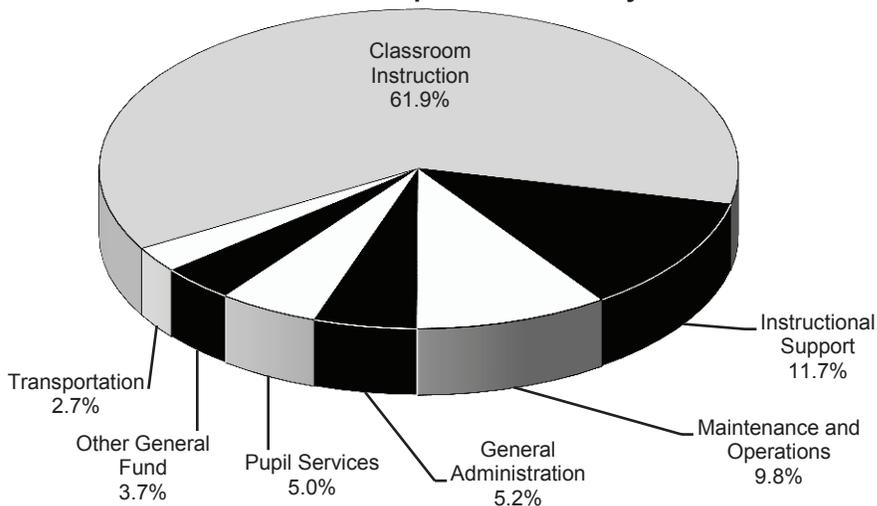


Figure K12-03
Where Schools Spend Their Money¹



Classroom Instruction includes general education, special education, teacher compensation, and special projects. General Administration includes superintendent and board, district and other administration and centralized electronic data processing. Instructional Support includes research, curriculum development and staff development that benefits and supports student instruction. Maintenance and Operations includes utilities, janitorial and groundskeeping staff, and routine repair and maintenance. Pupil Services includes counselors, school psychologists, nurses, child welfare, and attendance staff. Other General Fund includes spending for ancillary services, contracts with other agencies, and transfers to and from other district funds.

¹ Based on 2010-11 expenditure data reported by schools for their general purpose funding.

the 2010-11 fiscal year. Public school attendance is projected to continue increasing during the 2012-13 and 2013-14 fiscal years. For 2012-13, K-12 ADA is estimated to be 5,982,430, an increase of 16,090 from the 2011-12 fiscal year. For 2013-14, the Budget estimates that K-12 ADA will increase by an additional 5,967 to 5,988,397.

PROPOSITION 98 GUARANTEE

A voter-approved constitutional amendment, Proposition 98 guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculations or Tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA 1) was adopted to allow for a third funding test in low revenue years. As a result, three calculations or tests determine funding for school districts and community colleges (K-14). The calculation or test that is used depends on how the economy and General Fund revenues grow from year to year.

PROPOSITION 98 TEST CALCULATIONS

Test 1 — Percent of General Fund Revenues: Test 1 is based on a percentage or share of General Fund tax revenues. The base year for the Test 1 percentage is 1986-87, a year in which school districts and community colleges (K-14) received approximately 40 percent of General Fund tax revenues. As a result of shifts in property taxes between K-14 schools and other local government entities, as well as a shift in the number of programs funded within Proposition 98, the current rate is approximately 39 percent.

Test 2—Adjustments Based on Statewide Income: Test 2 is operative in years with normal to strong General Fund revenue growth. This calculation requires that school districts and community colleges receive at least the same amount of combined state aid and local property tax dollars as they received in the prior year, adjusted for enrollment growth and growth in per capita personal income.

Test 3—Adjustment Based on Available Revenues: Test 3 is used in low revenue years when General Fund revenues decline or grow slowly. During such years, the funding guarantee is adjusted according to available resources. A “low revenue year” is defined as one in which General Fund revenue growth per capita lags behind per capita personal income growth by more than one-half percentage point. Test 3 was designed so that education is treated no worse in low revenue years than other segments of the

state budget. In years following a Test 3 funding level, the state is required to provide funding to restore what was not allocated the previous year. This is often referred to as a “maintenance factor”.

K-12 SCHOOL FACILITIES

Since 1998, voters have approved approximately \$35 billion in statewide general obligation bonds to construct or renovate public school classrooms used by the state’s roughly six million elementary, middle and high school students. In addition to general obligation bonds, school districts may use developer fees, local bonds, certificates of participation and Mello-Roos bonds to construct additional classrooms or renovate existing classrooms.

Currently, there is no bond authority remaining in the core school facilities new construction and modernization programs. As a result, now is an appropriate time to engage in a dialogue on the future of school facilities funding. Central to this discussion must be a consideration of what role, if any, the state should play in the future of facilities funding. It is also appropriate to engage in a deeper examination of the acceleration in state bond issuances for school facilities over the course of the last 15 to 20 years. Further, there are problems inherent in the current program that must be examined. School facility funding and related debt service costs have been supported outside of operational funding provided to schools, as such, facility needs are not balanced with the operational needs of schools. The current School Facilities Program is overly complex and administered by multiple control agencies with fragmented responsibilities. The current program is also largely state-driven, restricting local flexibility and control.

The Administration suggests the following guiding principles:

- From a state perspective, future K-12 facilities funding needs must be considered in the context of other competing education and non-education priorities and needs.
- The school facilities construction process should be easy to understand and efficient.
- School districts and their respective localities should have appropriate control of the school facilities construction process and priorities.

- School districts and community college districts should have incentives to balance their facility costs against operational needs within the total amount of funding available from state and local sources for education.

K-12 BUDGET ADJUSTMENTS

Significant adjustments:

- **K-12 Deferrals**—An increase of approximately \$1.8 billion Proposition 98 General Fund to reduce inter-year budgetary deferrals. Combined with the \$2.2 billion provided in 2012-13 to retire inter-year deferrals, the total outstanding deferral debt for K-12 will be reduced to \$5.6 billion at the end of the 2013-14 fiscal year, and all remaining deferrals will be paid off by the end of the 2016-17 fiscal year. Inter-year deferrals for K-12 had reached a high of \$9.5 billion in the 2011-12 fiscal year.
- **New School District Funding Formula**—Additional growth of approximately \$1.6 billion in Proposition 98 General Fund for school districts and charter schools in 2013-14, an increase of 4.5 percent.
- **New County Office of Education Funding Formula**—An increase of \$28.2 million Proposition 98 General Fund to support first year implementation of a new funding formula for county offices of education in 2013-14.
- **Energy Efficiency Investments**—An increase of \$400.5 million Proposition 98 General Fund to support energy efficiency projects in schools consistent with Proposition 39.
- **Charter Schools**—An increase of \$48.5 million Proposition 98 General Fund to support projected charter school ADA growth.
- **Special Education**—An increase of \$3.6 million Proposition 98 General Fund for Special Education ADA growth.
- **K-12 Mandates Funding**—An increase of \$100 million to the K-12 portion of the mandates block grant to support costs associated with the Graduation Requirements and Behavioral Intervention Plans mandates.
- **Cost-of-Living Adjustment Increases**—The Budget provides \$62.8 million to support a 1.65-percent cost-of-living adjustment for a select group of categorical programs that will remain outside of the new student funding formula, including Special

Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program. Cost-of-living adjustments for school district and county office of education revenue limits will be provided in the form of new funding allocated for the implementation of the new funding formulas.

- Emergency Repair Program—An increase of \$9.7 million one-time Proposition 98 General Fund Reversion Account for the Emergency Repair Program.
- Local Property Tax Adjustments—An increase of \$526.6 million Proposition 98 General Fund for school district and county office of education revenue limits in 2012-13 as a result of lower offsetting property tax revenues. An increase of \$608.6 million in Proposition 98 General Fund for school districts and county offices of education in 2013-14 as a result of reduced offsetting local property tax revenues.
- Average Daily Attendance (ADA)—An increase of \$304.4 million in 2012-13 for school district and county office of education revenue limits as a result of an increase in projected ADA from the 2012 Budget Act. An increase of \$2.8 million in 2013-14 for school districts and county offices of education as a result of projected growth in ADA for 2013-14.
- Child Nutrition Program—An increase of \$77 million for 2013-14 in federal local assistance funds to reflect growth of nutrition programs at schools and other participating agencies.
- The revised 2012-13 Proposition 98 guarantee will be \$162.8 million below the level of General Fund appropriated in 2012-13. The Budget proposes that this amount be used to retire future funding obligations under the terms of the *CTA v. Schwarzenegger* settlement agreement.

CHILD CARE

Subsidized Child Care includes a variety of programs designed to support the gainful employment of low-income families. These programs are primarily administered by the Department of Education through non-Proposition 98 funding and the annual federal Child Care and Development Fund grant. All programs are means-tested and require that families receiving subsidies have a need for child care, which means all adults in the family must be working or seeking employment, or are in training that leads to employment. Most programs are capped, drawing eligible families from waiting lists, while those specifically limited to CalWORKs families or former CalWORKs families have been funded for all eligible recipients.

The major capped programs include General Child Care, Alternative Payment Program, and Migrant Child Care. CalWORKs programs include: Stage 1, administered by the Department of Social Services, is for families on cash assistance whose work activities have not stabilized; Stage 2, administered by the Department of Education, is for those CalWORKs families with stable work activities and for families who are transitioning off aid, for up to two years; and Stage 3, also administered by the Department of Education, is reserved for families who have successfully transitioned off aid for more than two years and still have a child care need.

The current subsidized child care system is fragmented by design. As discussed in the Health and Human Services Chapter, the Department of Social Services will convene a stakeholder group to assess the current structure of opportunities for streamlining and other improvements.

Significant adjustments:

- Child Care and Development Programs—The significant workload adjustments for these programs are as follows:
 - Stage 2—A decrease of \$21 million non-Proposition 98 General Fund in 2013-14, primarily to reflect a decline in the number of eligible CalWORKs Stage 2 beneficiaries. In 2010-11, approximately 6,000 children were determined eligible for diversion services in Stage 2. Currently, these children and their eligible families are re-entering Stage 3 in 2012-13, and this population trend will persist into 2013-14. Total base cost for Stage 2 is \$398.3 million.
 - Stage 3—An increase of \$24.2 million non-Proposition 98 General Fund in 2013-14 primarily to reflect the transfer of approximately 6,000 children from Stage 2 to Stage 3. Total base cost for Stage 3 is \$172.6 million.
 - Child Care and Development Funds—A net decrease of \$9.8 million federal funds in 2013-14 to reflect removal of one-time carryover funds available in 2012-13 (\$20.7 million), an increase of \$16.8 million in one-time carryover funds, and a decrease of \$5.9 million in available base grant funds.

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K-12 Finance – Local Control Funding Formula

BACKGROUND:

Current K-12 School Finance System. The state currently appropriates more than **\$47 billion** annually to public schools. Of this amount, **\$33 billion** (about 70 percent) is distributed to schools through revenue limit apportionments and most of the remaining **\$14 billion** (about 30 percent) is distributed through different categorical program allocations.

Revenue limits provide basic apportionments to schools on a per pupil basis. Revenue limits provide discretionary (unrestricted) funding to schools that can be used for general education purposes.

Categorical programs provide individualized funding streams for specialized (restricted) purposes. There are currently about 60 different state categorical programs, each with its own funding allocation and program requirements.

Recent Categorical Funding and Flexibility. As a means of meeting education budget shortfalls, state budgets have granted K-12 schools substantial funding flexibility since 2008-09. Currently, the state allows K-12 schools to use about **\$4.4 billion** in categorical funds “for any educational purpose”. This flexibility has been granted to **38 categorical programs** for a seven year period ending in 2014-15. Funding for these individual programs continues – reflecting overall reductions of nearly 20 percent – that will also continue through the end of 2014-15.

District allocations for categorical programs in the flexibility program are based generally upon the proportion of state funding the district received for each program in 2008-09. Under current law, these district proportions will continue through 2014-15, with no adjustments for enrollment (growth or decline). Under this scenario, declining enrollment districts benefit financially from higher funding proportions for up to seven years and growing districts lose since they retain lower funding proportions for up to seven years.

Governor Proposed Weighted Pupil Formula in 2012-13 Reflecting Warren Institute Brief. Last year, the Governor proposed a new K-12 finance formula – known as the Weighted Pupil Formula. The new formula was based upon a modified version of the formula recommended by an issue brief published by the Warren Institute in 2008.¹ The Weighted Pupil Formula included two key features recommended by the Warren Institute brief: (1) base funding and (2) supplemental funding for low-income students and English learners. The Legislature did not adopt the Governor’s new formula last year.

¹ Alan Bersin, Michael W. Kirst, and Goodwin Liu. *Getting Beyond the Facts: Reforming California School Finance*, The Chief Justice Earl Warren Institute on Race, Ethnicity & Diversity, University of California, Berkeley Law School, April 2008.

GOVERNOR'S PROPOSAL:

Problems with Existing School Finance System. According to the Governor's State of the State message, California's public school finance system is **“overly complex, bureaucratically driven, and deeply inequitable.”**

The Governor's Budget Summary makes strong statements about the current K-12 finance system. Per the Governor, the current funding system is a “relic of the past, where program allocations have been frozen and no longer reflect changing student needs.” There are many different funding streams, each with their own allocation formula and spending restrictions. The system is also state-driven in that it requires local districts to perform certain activities that interfere with ability of local officials to best meet the needs of students.

The Governor also states that scholarly research and practical experience indicate that low-income students and English language learners come to school with unique challenges and often require supplemental instruction and support services to be successful in school.

Lastly, the Governor believes that the current school finance system provides few incentives for school districts to offer innovative educational programs that increase student success.

In proposing a new finance system for K-12 schools, the Governor has developed specific goals to:

- Increase local controls and reduce state bureaucracy.
- Ensure that student needs drive the allocation of resources.
- Increase transparency in school funding, empowering parents and local communities to access information in a more user-friendly manner and enhance their ability to engage in local school matters.
- Ensure sufficient flexibility and accountability at the local level so those closest to the students can make the decisions.

Governor's Overall Funding Flexibility and Accountability Plan. To remedy problems with the existing school finance system, the Governor proposes a new K-12 school finance system – the Local Control Funding Formula – beginning in 2013-14. The new funding formula provides significant and permanent additional flexibility to local districts by consolidating the vast majority of state categorical programs and revenue limit apportionments into a single source of funding. Notably, the Governor proposes an additional **\$1.6 billion** in Proposition 98 funding to begin implementation of the new formula in 2013-14.

The formula will distribute these combined resources to schools using base grants and funding supplements that account for the variability in costs of educating specific student populations, thereby ensuring that funds will continue to be targeted to districts with large populations of educationally disadvantaged pupils.

The funding formula will be phased in over a period of seven years, estimated to be completed by 2019-20, and will provide an additional **\$15 billion, plus COLA**, to K-12 schools districts, county offices of education, and charter schools statewide over the 2012-13 funding levels.

This new funding formula is coupled with a newly-proposed system of accountability that will accompany implementation of the new funding formula in 2013-14. While details are not fully known, the Governor proposes a new accountability system “to focus on core requirements and outcomes expected of schools to better integrate accountability with the local school district budget process.” The new system also maintains academic performance and federal accountability requirements, as well as fiscal and budgetary controls.

Specific Features of the Governor’s Local Control Funding Formula & Appropriations.

The Governor proposes an increase of **\$1.6 billion** to implement a new **Local Control Funding Formula** for school districts, county offices of education, and charter schools beginning in 2013-14. The formula would be phased in over a seven year period, estimated to be completed by 2019-20, with an estimated **\$15 billion, plus COLA**, in new Proposition 98 funding for K-12 schools.

The proposed Local Control Funding Formula collapses K-12 revenue limit apportionments and most of the nearly 60 state categorical programs into one formula accompanied by new accountability requirements. Major features of the new formula are summarized below:

- **Base Grants.** The new formula establishes a base funding grant “target” for each school district, county office of education, and charter school based upon grade span funding levels multiplied by the number of students – measured by student average daily attendance (ADA), as follows:

\$6,342 for grades K-3

\$6,437 for grades 4-6

\$6,628 for grades 7-8

\$7,680 for grades 9-12

The Governor also proposes two special grade span adjustments -- an additional 11.2 percent class size reduction adjustment for grades K-3, and an additional 2.8 percent career technical education adjustment for grades 9-12.²

- **Supplemental Grants.** The formula also provides additional funding for educationally disadvantaged pupils based upon a percentage of base grant funding. Specifically, school districts, county offices of education, and charter schools receive an additional **35 percent** in base grant funding for low-income students, English learner students, and students residing in

² Qualifications for additional class size reduction and career technical education adjustments are not fully known at this time. To date, the Administration has indicated that in future years, districts would have to maintain class sizes of 24 or fewer students in order to qualify for K-3 grade span adjustment, unless other agreements were collectively bargained at the local level.

foster care. (These are unduplicated pupil counts so students are not counted more than once.)

School districts and county offices of education with larger proportions of disadvantaged pupils receive supplemental “concentration” grants. More precisely, per pupil amounts would increase another **35 percent** above base grant funding for unduplicated counts of educationally disadvantaged students that exceed 50 percent of the total district enrollment. Charter schools are also eligible for concentration grants but must not exceed proportions of disadvantaged students for the districts where they reside.

Supplemental and concentration grant calculations are applied to base grants by grade span, but do not include special grade span adjustments for class size reduction and career technical education.

- **New Target Funding Levels & Growth.** Under the Governor’s plan, a new unique “target” funding grant would be established for districts, county offices, and charter schools reflecting base grants (including basic and special grade spans adjustment) and supplemental grants (including concentration grants). In allocating an estimated \$15 billion in new funding over the next seven years; districts further from the target level would receive a larger share of new funds and districts with funding above the targeted level would receive no additional funds. Each district below the target would receive same proportional amount.
- **Cost-of-Living Adjustments (COLAs).** The Governor’s proposes \$15 billion to implement the new formula over seven years. This figure would increase based upon annual COLA adjustments, which will be provided to target grant for each district, county office, and charter school target grant during (and after) this timespan. COLAs would not be provided for the Targeted Instructional Improvement Grants (TIIG) and Home-to-School (HTS) programs, but would be provided to other separate categorical programs currently subject to annual statutory COLAs.
- **Hold Harmless Provisions.** The Governor proposes to hold districts harmless from any loss of per pupil funding beginning in 2013-14. So no district will experience a loss in funding below their 2012-13 level as a result of the new formula.
- **Restoration of Revenue Limit Losses.** The Governor proposes to begin restoration of recent revenue limit reductions and foregone COLAs by eliminating current “deficit factors” and providing \$15 billion, plus COLAs, to phase in the new formula by 2019-20. This is accomplished by building the new targets based on the average “undeficited” revenue limit rates (\$6,816 per student).

Since deficit factors are restored on the statewide average through the base grant structure, there will be some variability in what increases each district, county office or charter school receives through the new formula compared to repayments under the current revenue limit system.

- **Flexibility Provisions.** Funding for all of the programs that will be replaced by the Governor’s new formula will immediately be made completely flexible for use in supporting any locally determined educational purpose. As such, the Governor proposes to eliminate most of the programmatic and compliance requirements for programs under the existing finance system. (Many of these current statutory requirements are already on hold as a result of categorical flexibility granted to about 40 state categorical programs from 2008-09 through 2014-15.)
- **Categorical Program “Add-Ons”.** The Governor proposes to exclude two categorical programs – TIIG and HTS Transportation – from the new formula. Districts that currently receive funding for these programs would continue to receive funding as a permanent “add-on” to the new formula. The Governor’s plan “locks” funding in at existing allocations, but makes funds flexible so districts can use funds for any educational purpose.
- **Excluded Programs.** The Governor proposes to exclude a number of programs from the new formula and continues these programs as separate categorical programs, such as Special Education, After School Education and Safety, Child Nutrition, Preschool and various programs that are not distributed to all districts (High-Speed Internet Access, Fiscal Crisis Management and Assistance Team, etc.).
- **County Funding.** The Governor’s plan includes a new two-part funding formula for county offices of education. The first part would provide a per-student allocation for students educated in county-operated alternative schools, including court schools. The second part would provide funding for general operations and support for school districts and would be allocated based upon the number of students and number of districts in the county.
- **Accountability System.** The Governor proposes a new accountability system to accompany the new funding formula in 2013-14. The new plan requires that all school districts produce and adopt a Local Control and Accountability Plan concurrent and aligned with each district’s annual budget and spending plan. Plans are required to address how districts will use state funding received through the new funding formula toward improvement in the following categories:
 - Basic conditions for student achievement, including qualified teachers, sufficient instructional material, and school facilities in good repair.
 - Programs or instruction that benefit low-income students and English language learners.
 - Implementation of Common Core content standards and progress toward college and career readiness, as measured by the Academic Performance Index, graduation, completion of college preparatory classes, and career technical education.

While the Governor’s proposal would eliminate the programmatic and compliance requirements associated with current funding streams rolled into the new formula, the proposal would retain federal accountability requirements, academic performance requirements, as well as fiscal and budgetary controls.

Education Programs Included in New Formula. The Governor’s Local Control Funding Formula proposal consolidates revenue limit apportionments and more than 40 of the state’s categorical programs in 2013-14, as reflected in the table below.

In summary, the new formula would encompass a total of about **\$40.4 billion** in existing K-12 funding in 2012-13, including **\$32.9 billion** in revenue limit entitlements and **\$7.5 billion** in categorical funding.

The additional **\$1.6 billion** proposed by the Governor for growth, brings total funding for the new formula to **\$42.0 billion** in 2013-14.

K-12 Programs Included in the Local Control Funding Formula						
(Dollars in Thousands)						
Item	Program	2012-13		Item	Program	2012-13
				208	Civic Education	200
104	Summer School Programs	336,246		209	Teacher Dismissal Apportionments	38
105	ROC/Ps	384,708		211	Charter Schools Block Grant	211,583
107	County Office Oversight	4,370		211	Charter EIA	123,956
108	Grade 7-12 Counseling	167,056		212	Charter Start Up	20,015
119	Foster Youth Programs	15,096		227	Community Based English Tutoring	40,082
122	Specialized Secondary Program Grants	4,892		228	School Safety Block Grant	79,932
124	Gifted and Talented	44,225		232	High School Class Size Reduction	78,950
128	Economic Impact Aid	944,447		682	Statutory K-3 CSR	1,270,000
137	Professional Development Institutes for Math and English	45,476		240	Advanced Placement Grant Programs	2,443
144	Principal Training	3,928		242	Student Leadership/CA Association of Student Councils	26
156	Adult Education	634,805		243	Pupil Retention Block Grant	76,675
158	Adults in Correctional Facilities	14,967		244	Teacher Credentialing Block Grant	90,404
166	Partnership Academies	21,428		245	Professional Development Block Grant	218,380
167	Agricultural Vocational Education	4,134		266	County Office (Williams)	8,016
181	Educational Technology	14,073		247	School and Library Improvement Block Grant	370,000
188	Deferred Maintenance	250,826		248	School Safety Competitive Grant	14,349
189	Instructional Materials Block Grant	333,689		260	Physical Education Block Grant	33,519
190	Community Day Schools	41,685				
193	Staff Development	25,957		265	Arts and Music Block Grant	87,987
195	National Board Certification	2,405		267	Certificated Staff Mentoring	8,583
198	California School Age Families Education Program	46,419		268	Oral Health Assessments	3,527
204	California High School Exit Exam	58,322		6360-101	Alternative Credentialing	26,191
					Subtotal, Categorical Programs	\$6,164,010
				111	Home to School –Add On	495,991
				246	TIIG—Add On	855,131
					Subtotal, Categorical Add-Ons	\$1,346,243
					Subtotal, Categorical Programs	\$7,515,132
					Subtotal, Revenue Limit Apportionments	\$32,929,583
					TOTAL	\$40,444,715

Programs Excluded from the New Formula.

The Governor proposes to exclude a total of **12 categorical programs** – accounting for about **\$4.9 billion** in state funding -- from the Local Control Funding Formula. These programs, which would be retained as separate categorical programs subject to program requirements and funding allocations, are listed in the table below.

K-12 Categorical Programs Excluded from the Local Control Funding Formula		
Budget Item	Program	2012-13
107	County Office of Education Oversight	4,799
113	Student Assessments Programs	\$72,688
150	American Indian Early Education Programs	540
151	Indian Education Centers	4,006
161	Special Education	3,314,927
182	K12 Internet Access	8,340
196	State Preschool Program (Part Day/Part Year Preschool)	480,761
201	Child Nutrition	1,017
203	Child Nutrition	156,673
220	Charter School Facility Grants	92,031
295	Mandates Block Grant	166,609
649	After-School Education and Safety Services (Proposition 49)	546,965
	Subtotal	\$4,849,356

The Governor would exclude some categorical programs from the new funding formula for some specific purposes, such as meeting federal maintenance of effort (MOE) requirements. Two large programs – special education (the largest by far) and child nutrition – are excluded for this purpose.

Another large program, the After School Education Safety program, is excluded because it was authorized by a state ballot measure – Proposition 49.

The state preschool program, which provides education programs for low-income three and four-year olds, is excluded by the Governor because it is not a K-12 program.

Most – but not all – other programs appear excluded because they are considered state-level programs or projects, such as student assessments, fiscal and program oversight, and shared technology.

Another large categorical program excluded from the Governor’s weighted pupil formula is the Quality Education Investment Act (QEIA). This program is not reflected on the Governor’s list of excluded programs, probably because it is a limited-term program.

The Governor’s proposal involves state funded programs only, and therefore does not include **\$6.9 billion** in funding for more than 20 federal programs for K-12 schools in 2012-13.

Impact of New Funding Formula on Local Educational Agencies (LEAs).

The Administration has indicated it will release data in the next few weeks that will identify funding levels for school districts, county offices, and charter schools under the Governor's proposed Local Control Funding Formula.

While the specific impact of the new formula is not yet known, there will likely be some districts who earn more and some districts that earn less than they would have under existing formulas, although all districts are held harmless from any loss of funding below 2012-13 per pupil funding rates. In general, districts with larger numbers and concentrations of educationally disadvantaged pupils will receive more supplemental funds, while those districts with fewer disadvantaged pupils will not receive comparable supplements.

Governor's Related K-12 Budget Proposals.

Adult Education and Apprenticeship Realignment. The Budget proposes to consolidate administration of Adult Education and Apprenticeship programs within the California Community Colleges. Currently Adult Education programs are funded and administered by both K-12 school districts and community colleges. The Governor proposes to eliminate this bifurcated system and create a more accountable and centralized adult education learning system within the community colleges.

The Budget proposes **\$315.7 million** in Proposition 98 funding for community colleges for this purpose in 2013-14. Of this amount, **\$300 million** is new Proposition 98 funding and **\$15.7 million** is shifted from the K-12 Apprenticeship Program. The Budget proposes to allocate funding for the consolidated program through a new Adult Education Block Grant based upon the number of adults served.

(The Governor's Adult Education proposal is included as a separate topic in this report.)

Charter Schools. The Budget proposes the following changes, intended to address financial and operational challenges for charter schools identified by the Governor:

- Shifting the Charter School Facility Grant Program and the Charter School Revolving Loan Program from the Department of Education to the California School Finance Authority to improve the efficiency of charter school program administration and disbursement of funds to local charter schools. The Authority already administers similar programs.
- Modifying the funding determination process for non-classroom based charter schools by limiting it to the first and third years of operation, in most instances. Charter schools that are found to be out of compliance with minimum standards and applicable laws will be required to comply with annual funding determinations.

- Expanding the Charter Schools Facility Grant Program to include eligibility for non-classroom based charter schools, as these schools still have facility needs for instructional support.
- Extending for five additional years, the 2012-13 requirements that school districts with identified surplus property and facilities first offer to sell those resources to charter schools before selling them to other entities or disposing of those assets.

Special Education. The Governor proposes to retain the Special Education programs outside of the new Local Control Funding Formula. However, the Budget includes the following proposals intended to simplify and consolidate special education funding in order to address funding inequities and inefficiencies in these programs. As such, the Budget includes the following:

- Eliminating the integration of federal funds in the state's AB 602 calculation and treating both funding streams separately to remove unnecessary complications in the formula and help equalize funding among special education local plan areas.
- Consolidating funding for several special education program add-ons into the base AB 602 formula calculation, while collapsing another 15 special education add-on programs into 12 based on similar activities.

The Governor's proposal does not affect funding for realignment of mental health services for special education. These funds will continue to be set aside for this purpose.

School Facility Funding Flexibility. The Governor proposes to make permanent provisions of current law that provide temporary funding flexibility to K-12 schools. Without extension, these statutory provisions are set to expire over the next two years. The Governor proposes the following changes:

- **Routine Maintenance Contributions.** Eliminate the minimum contribution requirement for routine maintenance.
- **Deferred Maintenance Program Matching Requirement.** Eliminate the required local district set-aside for deferred maintenance contributions.
- **Surplus Property.** Allow districts to use the proceeds from the sale of any real and personal surplus property for any one-time general fund purposes.

ISSUES TO CONSIDER:

Governor's Plan to Streamline School Finance System is Very Positive Overall. The Governor's plan clearly simplifies an overly complicated and confusing K-12 finance system. Additionally, the Governor's plan substantially reinvests state categorical funding based upon student needs. In so doing, the plan eliminates illogical and inequitable funding allocations which characterize the state's current funding system for K-12 schools.

According to the LAO, the Governor’s proposal to restructure the way the state allocates K–12 funding has many strong components. Most importantly, it would replace a complicated, top–down system with one that is more transparent, better linked with student costs, and locally driven. It also would transition gradually to the new system, ensuring that the vast majority of districts receive funding increases in 2013–14 and the coming years, while simultaneously making progress towards a more rational distribution of funds.

Though the Governor’s overall school finance plan has considerable merit, the LAO believes the Legislature could strengthen it by making a few modifications. A couple of these recommendations are highlighted in the following sections.

Governor’s Plan Builds Upon Research and Input from Stakeholders. There is broad based consensus among the research community that the K-12 system is deeply flawed. Most notably, the “Getting Down to Facts” studies and reports from the Governor’s Committee on Education Excellence, both published in 2007, identify major problems with the existing system.

The proposed Local Control Funding Formula replaces the Weighted Pupil Formula proposed by the Governor last year, but includes some similar and some new features based upon input from education stakeholders.

As originally proposed last year, the Weighted Pupil Formula was based upon a modified version of the formula recommended by an issue brief published by the Warren Institute in 2008.³ The Governor’s new Local Control Funding Formula includes two components recommended by the Warren Institute brief: (1) base funding and (2) supplemental funding for low-income students and English learners. While not specifically recommended, the Warren Institute brief contemplated grade span adjustments for base grants, which are also reflected in the Governor’s Local Control Funding Formula.

Administration Views Accountability as Critical Companion to Local Funding Flexibility, But Current Concept Needs Strengthening. The Governor’s new funding formula is coupled with a newly-proposed system of accountability that will accompany implementation of the new funding formula in 2013-14. While details are not fully known, the Governor appears focused more on a locally-based system that tracks core requirements (access to qualified teachers, adequate textbooks, facilities in good repair, specialized instruction/programs for low-income students and English language learners, access to Common Core standards), as well as student and school outcomes. The Governor also proposes to maintain academic performance and federal accountability requirements, as well as fiscal and budgetary controls currently in place. However, under the Governor’s plan, it is not clear what role the state or counties, if any, would play in monitoring, supporting, and assuring the basic conditions of education and strong academic outcomes for students statewide. This will be an important issue for the Legislature to consider.

³ Alan Bersin, Michael W. Kirst, and Goodwin Liu. *Getting Beyond the Facts: Reforming California School Finance*, The Chief Justice Earl Warren Institute on Race, Ethnicity & Diversity, University of California, Berkeley Law School, April 2008.

Governor Estimates \$15 Billion in Additional Proposition 98 Funding over the Next Seven Years to Grow the New Formula. The LAO's November forecast projected a more robust economy beginning in 2013-14 and beyond, that would provide notable growth for the Proposition 98 guarantee. More recently, the LAO has indicated that the Governor's plan would notably improve the outlook for schools for four years following 2013-14. The Governor's plan for rolling out the new formula depends upon healthy Proposition 98 revenues.

Governor's Holds Schools Harmless from Per Pupil Funding Losses and Eventually Restores Revenue Limit Funding Lost Since 2007-08. The Governor proposes to hold districts harmless from the loss of per pupil funding beginning in 2013-14, so no district will experience a loss in total per pupil funding as the new formula is implemented. In addition, the Governor proposes to begin restoration of revenue limit cuts and foregone COLA since 2007-08. This is accomplished by building restoration of "undeficited" revenue limits into the new statewide average base grant of \$6,816 per student. However, since deficit factors are restored on the statewide average through the base grant structure, there will be some variability in what increases each district, county office or charter school receives through the new formula compared to repayments under the current revenue limit system. Are there still districts that will lose funding over the next seven years?

Cost-of-Living Adjustments (COLAs) Resumed and Applied to All Funding within the New Formula Beginning in 2013-14. COLAs have not been provided in recent years for revenue limits and categorical programs as required by statute. The Governor proposes funding to provide a 1.65 percent COLA in 2013-14 -- as a part of the \$1.6 billion in new funding -- for all funding in the new formula. While COLAs have not been funded in recent years, under current law they are required for revenue limits and some categorical programs. The Governor proposes to apply to all funding in the new formula -- except the TIIG and HTS categorical program "add-ons" -- which may reflect a larger base and additional COLA for schools.

Administration Says Poverty Measures Not Perfect, But May Be Best Available. The Governor's proposal would use the number of pupils reported by schools as eligible for free- or reduced-price meals (FRPM) as the measure of economic disadvantage. Given the importance of the poverty factor, is this an accurate measure? Have other options been explored, such as Title I census data? What are the limitations of census data, for example does it prevent calculation of unduplicated counts of educationally disadvantaged students? What about other census data in California -- is it available by district? Does the addition of students residing in foster care in any way strengthen free- and reduced-price meal counts? How many districts utilize direct certification of free- and reduced-price lunches?

Governor's Plan Limits Timeframe for English Learner-Only Counts in Determining Supplemental Funding. The Governor's proposal adds a new element with regard to English learner student counts under the new formula for purposes of supplemental and concentration grant funding. The Governor's plan continues to use the number of pupils identified by schools as "English learners" as the measure for English learner pupils. However, the Governor now proposes to authorize supplemental and concentration grant funding for an English learner for up to five years. The Administration estimates that approximately 75 percent of English learner pupils statewide are low-income under the Governor's proposal. Since English learner pupils

who remain low-income or reside in foster care will continue to be counted, this time limit appears to limit counts for English learner-only students. That said, what is the Governor's rationale for the new time limits for English learners? Additionally, what is known about the percentage of English learner students who are not low-income?

Substantial Overlap of Educationally Disadvantaged Students Counts Used for Supplemental Funding. The Governor's proposal utilizes unduplicated student counts – including low-income students, English learner students and students in foster care – as the basis of supplemental and concentration funding under the new formula. The Governor has added students residing in foster care to supplemental counts to the new formula proposal this year. However, because all students residing in foster care also qualify for free- and reduced-price lunch, by definition, there should be no increase in unduplicated student counts. As mentioned above there is significant overlap between low-income and English learner student counts, with only 25 percent of English learners who do not also qualify as low-income. Last year the Administration estimated that 60 percent of students statewide would be included in the unduplicated, counts of disadvantaged students. Is this figure still accurate?

Not Clear Yet How Governor's Plan Assures Supplemental Funding is Used for Benefit of Students that Generate Funding. Per the Administration, the Governor's school finance proposals are intended to empower local school officials to determine the best use of scarce resources. In so doing, the Governor proposes to eliminate most of the program and funding requirements for most categorical funds, including statute for many needs-based programs. Given the historic under-performance of low-income students, English learner students, and students in foster care, are there funding requirements under current law that should be retained for these students, at least until the new formula is fully funded? What more can be done to achieve the Governor's stated goals to increasing transparency in school funding, empowering parents and local communities to access information in a more user-friendly manner and enhance their ability to engage in local school matters.

As mentioned previously, the LAO recommends that the Legislature work with the Administration to explore ways to ensure that districts are using supplemental funds to benefit disadvantaged students.

Governor's Plan Permanently Increases Proportion of "Unrestricted" Funding for Districts and Converts Most Existing Categorical Funding to a Continuous Appropriation. The LAO estimates that the Governor's plan would make about 91 percent of state funding available to schools as discretionary funding. Currently, the LAO estimates that about 85 percent of state funding is available to schools as discretionary (unrestricted) funding, available for general purposes. (This estimate reflects the current categorical flex program in place from 2008-09 through 2014-15. Prior to categorical flexibility, the LAO estimates that about 75 percent of state funding was available as discretionary funding.)

Per the Governor's proposal, more than 40 separate budget items for existing state categorical programs have been removed from the annual budget bill. While trailer bill language has not yet been released, the Governor proposes to appropriate all funding rolled into the new funding formula through continuous appropriation in statute.

Grade Spans Added by Governor’s Latest Proposal Better Reflect Cost Variances for Elementary, Middle, and High Schools. The Warren Institute brief did not specifically recommend a base formula for each grade-span. However, the brief did raise grade-span base funding levels as a question for policymakers to consider in moving forward with a weighted pupil formula. What was the rationale for these funding levels? What is known about the true education cost differences for different elementary, middle, and high school pupils? The Governor also proposes a different funding level for lower elementary (grades K-3) and upper elementary (grades 4-6). In addition, the Governor proposes special grade span adjustments for class size reduction in grades K-3 and career technical education in grades 9-12. What is the rationale for these adjustments?

Categorical “Add Ons” Proposed by Governor Undermine Equity Goals. As a part of his new K-12 funding formula, the Governor proposes to exclude two large categorical programs from the new funding formula, and to provide separate funding for these programs beginning in 2013-14. Funding for the TIIG and HTS programs – would be permanently “added on” to amounts districts receive under the Governor’s new formula. Funding would be limited to districts that currently receive funding. These districts would be locked into their existing allocations; however, districts could use all of the “add-on” funding for any education purpose.

The TIIG and HTS programs are two large and very inequitable state categorical programs. In fact, TIIG and HTS may be two of the most inequitable state funding programs. While originally intended as needs-based programs, current funding allocations are highly inequitable reflecting historical funding levels and uses that are no longer clearly tied to need. Funding is limited to districts that currently receive funding. The Governor’s plan would lock in these in amounts for districts and lock out funding for other districts based upon any reasonable measure of need.

The LAO has concerns about the “particularly antiquated” funding formulas for the TIIG and HTS programs, and therefore does not support the Governor’s proposal to exclude these two programs from the new formula.

Governor Excludes Special Education from New Formula, But Recommends Other Reforms to Consolidate Funding and Improve Transparency. The special education formulas were updated in the late 1990s, and as such, might not fit into the targeted pupil formula. However, given the size and complexity of this categorical program – the largest state categorical program – is there room for some reform to make allocations more equitable, streamlined, and transparent?

Governor’s Plan Provides More Equitable Funding for Charter Schools. The Governor’s new formula provides funding for school districts, county offices, and charter schools. This appears to make charter school funding the same as funding for districts and county offices. The Governor also proposes to increase access to all charter school funding for non-classroom based charter schools.

The 2013-14 Budget:

Restructuring the K-12 Funding System

SIMPLE
TRANSPARENT
RATIONAL
+ STUDENT-BASED

NEW FUNDING FORMULA

MAC TAYLOR • LEGISLATIVE ANALYST • FEBRUARY 22, 2013

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EXECUTIVE SUMMARY

Governor Proposes to Restructure State’s Approach to Allocating Education Funding. The Governor proposes to restructure the way the state allocates funding for K-12 education. Under the Governor’s plan, the state would replace the vast majority of existing revenue limit and categorical funding formulas with a new, streamlined set of funding formulas—one applying to school districts and charter schools and the other applying to county offices of education (COEs). The Governor refers to his collection of proposals as the “Local Control Funding Formula” (LCFF). The Governor’s budget provides \$1.6 billion in 2013-14 to begin implementing the new formulas.

School Districts and Charter Schools

New Formula Based on a Uniform Per-Pupil Base Rate and Four Supplemental Grants. Under the current system, districts receive notably different per-pupil funding rates based on historical factors and varying participation in categorical programs. In contrast, the Governor’s proposal would provide a uniform base per-pupil rate for each of four grade spans. These base rates would be augmented by four funding supplements for: (1) students needing additional services, defined as English learners (EL), students from lower income (LI) families, and foster youth; (2) districts with high concentrations of EL/LI students; (3) students in grades K-3; and (4) high school students. The Governor’s proposal establishes target base rates that, when combined with the proposed supplements, exceed the per-pupil funding levels most districts currently receive. As such, the administration estimates it would take several years to reach the target funding levels. As opposed to the specific programmatic activities required under the current system, the Governor’s proposal would require districts to develop local plans describing how they intend to educate their students.

Governor’s Proposal Has Many Strengths . . . We believe the Governor’s proposed LCFF would address many problems inherent in the state’s existing K-12 funding approach, and we recommend the Legislature adopt most components of the proposal. Unlike the current system, the proposed formula would be simple and transparent, fund similar students similarly, and link funding to the cost of educating students. In our assessment, the proposed rates for both base per-pupil funding and the EL/LI supplement are reasonable (though using alternative methodologies to develop somewhat different rates also would be reasonable). The proposed approach would increase districts’ ability to design programs that best meet the needs of their students, as well as refocus the state’s role on monitoring student performance and intervening when districts show signs of struggling.

. . . But Proposal Could Be Improved by Some Notable Modifications. We recommend the Legislature modify several components of the proposed formula. Specifically, we recommend making a few changes to the way the proposed EL/LI supplement and concentration grants would be calculated and strengthening spending requirements for these supplements to ensure that the additional funds translate into additional services for the target student groups. Additionally, we recommend against providing separate funding supplements for K-3 and high school students. Instead, we recommend adjusting the base rates to account for any notable grade-span cost differences. We also recommend adding two categorical programs to the new formula, maintaining

some spending requirements for facility maintenance, and changing the way the formula would operate for “basic aid” school districts.

COEs

Proposal Would Replace Multiple Funding Streams With Two-Part Funding Formula. Under the current system, COEs perform a range of activities and are funded by a variety of sources. The Governor would collapse most existing funding streams into a simplified, two-part formula for COEs to (1) provide regional services to districts and (2) educate students in COE-run alternative schools. While the amounts associated with these two responsibilities would be calculated through two separate formulas, the funds would be combined into one allocation that COEs could use for either purpose. Similar to his district proposals, the Governor also proposes to (1) eliminate most categorical program requirements for COEs and (2) establish a funding target for each COE and build toward those targets over a number of years. The Governor’s 2013-14 budget includes a \$28 million augmentation to begin this process. Because many COEs currently receive a substantial amount of categorical funds to provide regional services, the administration estimates that fewer than half of COEs currently receive less than their target levels.

Move Towards Simplifying and Streamlining Makes Sense, but Fundamental Questions to Resolve and Proposed Rates Too High. We think the Governor’s general framework of combining multiple funding streams and simplifying allocation formulas makes sense. Additionally, the Governor’s alternative education proposal addresses some existing inconsistencies in how the state funds students in alternative schools. We are concerned, however, with the lack of clarity and accountability regarding the role of COEs in the education system. We also are concerned that the Governor’s proposed funding rates for both regional services and alternative education exceed the associated costs. We recommend the Legislature identify the services expected of COEs, ensure accountability mechanisms are in place to encourage COEs to provide cost-effective services, and reduce the rates associated with each of the two COE formula components to better align funding levels with required services.

Conclusion

Recommend the Legislature Act Now to Make Critical Improvements to Funding System. Adopting the Governor’s proposed formula is not the only way to improve the existing funding system. A wide variety of restructuring approaches still would meet the guiding principles of simplicity, transparency, rationality, and flexibility in K-12 funding. Restructuring the funding system will be a complex undertaking, and it will not solve every K-12 challenge. Changing the funding approach, however, would address some fundamental problems. We believe that neither the complexities associated with implementing broad-based change nor the need to better develop other areas of the K-12 system should preclude the state from making significant, necessary, and immediate improvements to school funding.

INTRODUCTION

The Governor proposes to dramatically restructure the way the state allocates funding to school districts, charter schools, and COEs. Similar to his proposal from last year, the Governor's plan would replace existing revenue limit and categorical funding with a streamlined formula based on uniform per-pupil rates and supplemental funding for certain student groups. The proposal also would fund COEs to provide regional services to their local districts. The Governor refers to his collection of proposals as the LCFF. Perhaps most notably, the Governor's proposed approach

would contain very few spending or programmatic requirements.

This report is divided into two main sections—one focused on the changes that apply to school districts and charter schools and one focused on the changes that apply to COEs. In each of these sections, we begin by explaining the current funding system, then describe the Governor's proposals, next assess the strengths and weaknesses of his approach, and finish by offering recommendations for how the Legislature might improve his proposals.

SCHOOL DISTRICTS AND CHARTER SCHOOLS

As described below, the Governor proposes major changes to the way the state allocates funding to school districts and charter schools.

Background

Being familiar with both the basic components and widespread criticisms of the state's existing school funding system is an essential first step in understanding the rationale behind the Governor's proposed changes.

Current Funding System Based on Revenue Limits and Categorical Programs. The state's current approach to allocating funding to school districts consists primarily of revenue limits (general purpose funds) and categorical programs (grants that carry specific spending and programmatic requirements). In 2012-13, the state spent about \$47 billion in Proposition 98 funds for K-12 education, of which approximately three-quarters (roughly \$36 billion) was provided through revenue limits and about one-quarter (roughly \$11 billion) was allocated via individual categorical grants. (As described below, however,

almost half of this categorical funding has essentially become general purpose funding in recent years.) Revenue limits currently are continuously appropriated, while most categorical programs currently are appropriated through the annual budget act.

Spending Requirements Temporarily Suspended for Some Programs. To assist districts in dealing with tight budgets, in 2009 the state suspended categorical program requirements for roughly 40 of the state's 60 categorical programs. As a result, districts were granted discretion to use the \$4.7 billion associated with these programs for any purpose. (A small portion of these funds are allocated to COEs.) According to surveys our office has conducted in recent years, most districts have responded to this flexibility by redirecting the majority of funding away from most of the affected categorical programs to other local purposes. The current flexibility provisions are scheduled to expire at the end of 2014-15.

Categorical System Has Major Shortcomings. As our office has discussed numerous times in

prior years, the existing approach—particularly having so many categorical programs—has major shortcomings. First, little evidence exists that the vast majority of categorical programs are achieving their intended purposes. This is in part because programs are so rarely evaluated. Second, separate categorical programs often contain overlapping goals but distinct requirements. This magnifies the difficulty districts have in offering comprehensive services to students. It also blurs accountability and increases administrative burden. Third, having so many different categorical programs with somewhat different requirements creates a compliance-oriented system rather than a student-oriented system. These problems are further exacerbated by categorical programs that have antiquated funding formulas, which over time have become increasingly disconnected from local needs.

Broad Consensus That Current Funding System Is Deeply Flawed. For all these reasons, several research groups over the last decade have concluded that California’s K-12 finance system is overly complex, irrational, inefficient, and highly centralized. Although recent categorical flexibility provisions have temporarily decentralized some decision making, the provisions have done little to make the funding system more rational, linked to student needs, or efficient.

Governor’s Proposal

Generally, the Governor proposes to replace the numerous streams of funding the state currently sends to school districts with one simplified formula. (All proposals for districts also would apply to charter schools.) Below, we begin with a general overview of the Governor’s proposal and then describe the various components of the proposal in greater detail.

Overview

Replaces Existing System With New Funding Formula, Removes Most Spending Requirements.

The Governor’s new LCFF would replace revenue limits and most categorical programs with a more streamlined formula and remove most existing spending restrictions. As a result, the majority of currently required categorical activities—including purchasing instructional materials, conducting professional development, and providing supplemental instruction—instead would be left to districts’ discretion. Figure 1 displays the existing Proposition 98-funded categorical programs that would be eliminated and the associated funding that would become part of the new formula. (Federally funded grants would remain unaffected by the LCFF.) As shown, the proposal affects most of the programs and an associated \$3.8 billion currently subject to flexibility provisions, as well as an additional six programs and \$2.3 billion for which programmatic requirements currently still apply. (As described in more detail later, the Governor also would allow two programs totaling \$1.3 billion to remain as permanent add-ons to the new formula.)

Maintains a Few Categorical Programs. While the Governor’s proposed new funding formula would incorporate most existing state categorical programs, he would maintain a few Proposition 98 programs, totaling \$5.7 billion, with their existing allocation formulas and requirements. Figure 2 (see page 8) lists these programs and the rationale for excluding them from the new formula. As described in the figure, these programs tend to serve unique populations or involve specialized spending requirements. Not listed in the figure are two existing K-12 activities—adult education and apprenticeship programs—which under the Governor’s proposal would remain as discrete categorical programs but would be administered

by community colleges instead of school districts. (For more information on these proposals, please see our report, *The 2013-14 Budget: Proposition 98 Education Analysis*.)

New Formula Would Build Towards Uniform Per-Pupil Rates, Four Supplemental Grants.

Under the current system, districts receive notably different per-pupil funding rates based on historical factors and varying participation in categorical activities. In contrast, under full implementation of the new system proposed by the Governor, all districts and charter schools would receive the same per-pupil rates, adjusted by a uniform set of criteria. Figure 3 (see page 9) highlights the major characteristics of the Governor’s proposal, which we describe in detail below. As shown in the figure, the proposal would provide a base per-pupil rate for each of four grade-span levels. These base rates would be augmented by four funding supplements. The Governor’s proposal establishes target base

Figure 1
Categorical Programs Governor Would Consolidate Into Local Control Funding Formula^a

2012-13 (In Millions)	
Program	Amount
Currently Flexible	
Adult Education	\$634
Regional Occupational Centers and Programs	384
School and Library Improvement Block Grant	370
Summer School Programs	336
Instructional Materials Block Grant	333
Charter School Block Grant	282
Deferred Maintenance	251
Professional Development Block Grant	218
Grade 7-12 Counseling	167
Teacher Credentialing Block Grant	90
Arts and Music Block Grant	88
School Safety	80
High School Class Size Reduction	79
Pupil Retention Block Grant	77
California High School Exit Exam Tutoring	58
California School Age Families Education	46
Professional Development for Math and English	45
Gifted and Talented Education	44
Community Day School (extra hours)	42
Community-Based English Tutoring	40
Physical Education Block Grant	34
Alternative Credentialing	26
Staff Development	26
School Safety Competitive Grant	14
Educational Technology	14
Certificated Staff Mentoring	9
Specialized Secondary Program Grants	5
Principal Training	4
Oral Health Assessments	4
Other ^b	5
Subtotal	(\$3,804)
Newly Consolidated	
K-3 Class Size Reduction	\$1,326
Economic Impact Aid	944
Partnership Academies	21
Foster Youth Programs	15
Community Day Schools (for mandatorily expelled)	7
Agricultural Vocational Education	4
Subtotal	(\$2,318)
Total	\$6,122
Maintained as Permanent Add-Ons to Formula:	
Targeted Instructional Improvement Block Grant ^c	\$855
Home-to-School Transportation ^c	491

^a For some programs, county offices of education receive a share of the funding amounts displayed.
^b Includes five programs.
^c Associated program requirements would be eliminated, but funding allocations locked in at 2012-13 levels.

rates that, when combined with the proposed supplements, exceed the per-pupil funding levels the vast majority of districts currently receive. As such, the administration estimates it would take several years to reach the target funding levels. The Governor’s 2013-14 budget includes \$1.6 billion to begin building towards the target rates. Initial implementation of the new formula—and removal of categorical spending requirements—would begin in 2013-14. Moreover, all LCFF funds would be continuously appropriated beginning in 2013-14.

Base and Four Supplemental Grants

Sets Grade-Specific Target Base Grants.

Figure 3 displays the proposed per-pupil target base funding rates for each of the four grade spans. The proposed variation across the grade spans is based on the proportional differences in existing charter school base rates. The distinctions are intended to reflect the differential costs of providing education across the various grade levels. The target rates reflect current statewide average undeficitated base rates. That is, the targets reflect what average

revenue limit rates would be in 2012-13 if the state restored all reductions from recent years (roughly \$630 per pupil) and increased rates for cost-of-living adjustments (COLAs) that school districts did not receive between 2008-09 and 2012-13 (roughly \$940 per pupil). The Governor also proposes to annually adjust these rates by the statutory COLA rate, beginning in 2013-14. (The current estimated COLA rate for 2013-14 is 1.65 percent.) Base rate funds would be allocated based on average daily attendance (ADA) in each grade level.

Provides Four Supplemental Grants. In addition to the base funding rate districts would receive for each student they serve, the LCFF would provide supplemental funds based on four specific criteria. Specifically, districts would get additional funding for certain student groups, high concentrations of these groups, K-3 students, and high school students. We describe each of these four funding supplements in detail below.

Provides Supplemental Funding for Certain Student Groups. Under the current system,

Figure 2
Governor Would Exclude a Few Categorical Programs From New Formula

2013-14 (In Millions)

Program	Reason for Exclusion	Amount ^a
Special Education	Federal law requires state to track and report specific expenditure level. Also, majority of funding is allocated to regional entities rather than individual LEAs.	\$3,740 ^b
After School Education and Safety	Voter-approved initiative precludes major changes to funding allocation or activities (Proposition 49, 2002).	547
State Preschool	Funding supports unique population and set of activities. Not part of core K-12 mission.	481
Quality Education Investment Act	Scheduled to sunset in 2014-15.	313
Child Nutrition	Federal law requires state to track and report specific expenditure level.	157
Mandates Block Grant	Linked to constitutional requirements to fund mandates.	267
Assessments	Necessary to meet state and federal accountability requirements.	75
American Indian Education Centers and Early Childhood Education Program	Funding supports unique population and set of activities. Not part of core K-12 mission.	5
Total		\$5,685

^a Some county offices of education receive a small share of these funds.

^b Includes local property tax revenue.

LEAs = local educational agencies.

districts receive funding through the Economic Impact Aid (EIA) program to provide supplemental services for students who are EL and from LI families. In lieu of EIA, the proposed LCFF would provide districts with an additional 35 percent of their base grant for these same student groups. For example, an EL or LI student in grades K-3 would generate an additional \$2,220 for the district (35 percent of \$6,342, the K-3 target base rate). The Governor would provide these supplements for

students who (1) are EL, (2) receive free or reduced price meals (FRPM), or (3) are in foster care. The formula would count each student only once for the purposes of generating the supplement. (Because all foster youth are eligible for FRPM, throughout this report we typically include them when referencing the LI student group.) As shown in Figure 4 (see next page), the Governor’s proposed EL/LI supplement differs from the existing EIA program in several notable ways.

Figure 3

Overview of Governor’s Local Control Funding Formula for School Districts^a

Formula Component	Proposal
Target amount for base grant (per ADA)	<ul style="list-style-type: none"> • K-3: \$6,342 • 4-6: \$6,437 • 7-8: \$6,628 • 9-12: \$7,680
Supplemental funding for specific student groups (per EL, LI, or foster youth)	<ul style="list-style-type: none"> • 35 percent of base grant. • Provides EL students with supplemental funding for maximum of five years (unless students also are LI).
Supplemental concentration funding	<ul style="list-style-type: none"> • Each EL/LI student above 50 percent of enrollment generates an additional 35 percent of base grant.
Supplemental funding for K-3 and high school students (per ADA)	<ul style="list-style-type: none"> • K-3: 11.2 percent of base grant. • High school: 2.8 percent of base grant.
Higher level of funding for necessarily small schools	<ul style="list-style-type: none"> • Provides minimum grant (rather than ADA-based funding) for very small schools located in geographically isolated areas.
“Add-ons” to new formula	<ul style="list-style-type: none"> • Locks in existing Targeted Instructional Improvement Block Grant and Home-to-School Transportation district-level allocations and provides as permanent add-ons to the new formula.
Spending requirements	<ul style="list-style-type: none"> • Removes all categorical spending requirements for programs included in formula and two add-ons, effective 2013-14. • Requires that EL/LI and concentration supplemental funds be spent for a purpose that benefits EL/LI students. • When fully implemented, only provides K-3 supplement if district’s K-3 class sizes do not exceed 24 students, unless collectively bargained to another level. • Requires districts to develop, make publicly available, and submit to the local COE an annual plan for how they will spend funding and improve student achievement.
Transition plan	<ul style="list-style-type: none"> • Uses portion of annual growth in Proposition 98 funding to gradually increase each district’s funding rate up to the target level. Districts that currently have lower rates would get larger per-pupil funding increases each year. • Estimates full implementation by 2019-20.

^a Also applies to charter schools.

ADA = average daily attendance; EL = English learner; LI = lower income; and COE = county office of education.

Calculates EL/LI Student Supplement Based on Districtwide Averages, Not Grade-Specific Student Counts. To calculate each district's EL/LI student supplement, the formula assumes the districtwide proportion of EL/LI students also applies in each grade span level. For example, if 60 percent of the students enrolled in a unified district were EL/LI, the formula would calculate a

supplement for 60 percent of students in *each* grade span level—even if the actual proportions of EL/LI students differ across the grade spans.

Provides Supplemental Funding to Districts With Higher Concentrations of EL/LI Students. The Governor's proposal provides an additional funding supplement to districts whose EL/LI student populations exceed 50 percent

Figure 4

Comparing Proposed and Existing Methods of Funding EL and LI Students

- ✓ **Changes Measure of LI.** For the purposes of calculating the EL/LI funding supplement, the Governor's proposal would count students as LI if they receive a free or reduced price meal. The current Economic Impact Aid (EIA) formula instead uses federal Title I student counts as the measure for funding students from LI families.
- ✓ **Includes Funding for Foster Youth.** Under the Governor's proposal, supplemental funding for foster youth would be funded through the EL/LI supplement. Currently, special services for foster youth are funded through a separate categorical grant, not through EIA.
- ✓ **Individual Students Generate Only One Supplement.** The Governor's proposal would count each student who meets more than one of the EL/LI characteristics only once for the purposes of calculating supplemental funding. In contrast, the EIA formula currently provides double funding for EL students who also are from LI families.
- ✓ **Provides Notably More Supplemental Funding.** The proposed 35 percent supplement would generate notably more funding for most districts than the supplemental funds provided through existing categorical programs. Currently, EIA provides districts with an average of \$350 per EL or LI student, or an average of \$700 for students who meet both criteria. Additional existing categorical programs intended to serve these students provide an average of \$75 per EL/LI student. The new formula rates would range from \$2,220 to \$2,688 per EL/LI student, depending upon the grade level.
- ✓ **Links Supplement to Level of Funding for General Education.** The Governor's proposed approach explicitly would link the amount the state provides in supplemental funding to the amount provided for general education services, such that when the base amount increases, so would the supplement. Currently, the amount provided for EIA is not directly connected to how much is provided for other education services.
- ✓ **Institutes Time Limit for EL Funding.** The Governor's proposal would cap the amount of time an EL student could generate supplemental funds at five years (though districts could decide to continue spending more on the student and the student would continue to generate more funding if also LI). Currently, EL students can generate EIA funding until they are reclassified as being fluent in English, even if this takes 13 years.
- ✓ **Provides More Flexibility Over How Supplemental Funds Could Be Spent.** The Governor's proposal provides districts with greater discretion over how to use the EL/LI funds compared to current requirements for EIA funds. Districts would be required to use the supplemental funds to meet the needs of their EL/LI student groups, but they would have broad flexibility in doing so. Current law is more stringent, in that the state requires and monitors that districts use EIA funds to provide supplemental services for the targeted student groups beyond what other students receive.

EL = English learner and LI = lower income.

of their enrollment. Specifically, districts would receive an *additional* 35 percent of their grade span base grant for each student *above* the 50 percent threshold. (For the purposes of calculating this supplement, a charter school’s EL/LI concentration could not exceed that of the closest school district.) Figure 5 illustrates how concentration funding would work. As shown, all EL/LI students in the illustrative district would generate a \$2,220 supplement (35 percent of the base grant), but those comprising more than half of the district’s enrollment would generate an additional \$2,220. (As with the EL/LI student supplement, the concentration supplement also would be calculated assuming the *districtwide* proportion of EL/LI students is applied to each grade span.) The existing EIA formula also provides supplemental funds for districts where more than half of the student population are EL/LI; however, students over the 50 percent

threshold only generate an additional half EIA supplement, rather than double the supplement.

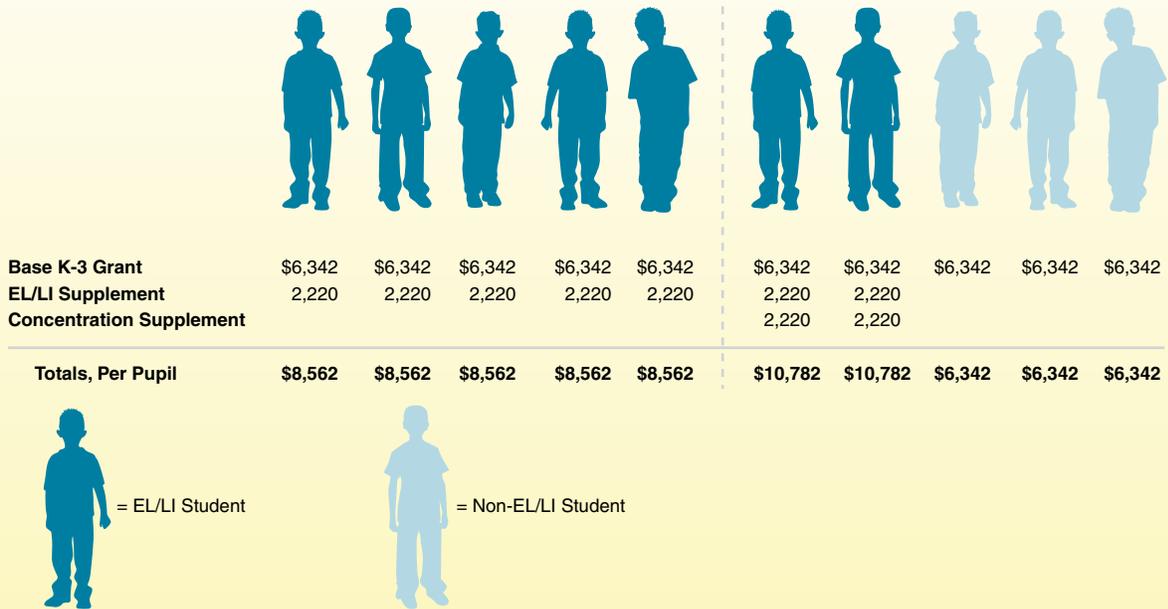
Requires That Districts Use EL/LI and Concentration Supplemental Funds to Benefit EL/LI Students. The Governor would require that districts use the supplemental EL/LI and concentration funds for purposes that “substantially benefit” the target student groups. These spending parameters are somewhat broader than current EIA constraints, which explicitly require that EIA funds be used to provide *supplemental* services beyond what other students receive. In the initial implementation years of the LCFF, interim spending requirements would apply. Specifically, in 2013-14 and until target funding levels have been achieved, districts would have to demonstrate they spent at least as much on services for EL/LI students as they did in 2012-13.

Provides Supplemental Funding for K-3 Students. Currently, the state funds a categorical

Figure 5

How the Proposed Concentration Funding Supplement Would Work

Illustration Based on an Elementary District of Ten Students



EL = English learner and LI = lower income.

program designed to provide additional funding to districts if they offer smaller class sizes in grades K-3. The proposed LCFF would continue this practice. Specifically, the formula would provide an additional 11.2 percent of the K-3 base grant for students in these grades (\$710 per ADA based on the target K-3 rate). The Governor intends that districts use these funds to maintain classes of 24 or fewer students in these grades. Once all districts have reached their LCFF funding targets, a district only would receive these funds if it maintains K-3 class sizes of 24 or less—unless the district and local teachers’ union agreed through collective bargaining to larger class sizes. (In the years before the formula is fully implemented, districts would have to “make progress” toward K-3 class sizes of 24, unless collectively bargained otherwise.)

Provides Supplemental Funding for High School Students. The Governor also proposes to provide districts with supplemental funding for high school students—in *addition* to the higher 9-12 per-pupil base rate. This supplement is intended to replace the categorical program funding high schools currently receive for career technical education (CTE) services. (Regional Occupational Centers and Programs, or ROCPs, is the largest of the existing CTE programs proposed for consolidation under the Governor’s approach.) Specifically, the supplement would provide districts with an additional 2.8 percent of the high school base grant (or about \$215 per ADA based on the target 9-12 rate). The proposal intends this funding be used to provide CTE, but districts would have discretion to spend the funds for any purpose.

Additional Funding Provisions

Maintains Two Large Existing Grants as Add-Ons to New Formula. The Governor proposes to maintain existing funding allocations for two of the largest categorical programs—Targeted

Instructional Improvement Block Grant (TIIG) (\$855 million) and Home-to-School (HTS) Transportation (\$491 million)—separate from the new LCFF. Unlike the other categorical programs the Governor explicitly excludes from the new formula, however, spending requirements for these two programs would be permanently repealed. Additionally, existing district allocations would be permanently “locked in,” regardless of subsequent changes in student population.

Modifies Basic Aid Calculation. The Governor proposes to change how local property tax (LPT) revenue factors into K-12 funding allocations, which could change whether districts fall into basic aid status. (See the nearby box to learn about basic aid districts and how they are treated under current law.) Currently, a district’s LPT allotment serves as an offsetting revenue only for determining how much state aid it will receive for revenue limits, not for categorical aid. The Governor proposes to count LPT revenues as an offsetting fund source for the *whole* LCFF allocation—base grant *and* supplements. The proposal, however, has one notable exemption. All districts (including basic aid districts) would be given the same level of per-pupil state categorical aid they received in 2012-13 into perpetuity. Thus, in the future a basic aid district with LPT revenue that exceeded its total LCFF grant would maintain this additional LPT revenue and *also* receive its 2012-13 per-pupil state allocation.

Continues Alternative Funding Approach for Necessarily Small Schools (NSS), but Tightens Eligibility Criteria. Under current law, schools that are located specified distances from a comparable school in the same district and whose ADA falls below certain thresholds are defined as NSS. Because of their small size, an ADA-based funding formula would not generate sufficient revenue for NSS to operate. As such, NSS currently receive a general purpose block grant instead of—and in an amount exceeding—per-pupil revenue limits.

The Governor proposes to maintain this practice, providing NSS with a block grant in lieu of an ADA-based LCFF grant. The Governor's proposal changes the definition for NSS, however, such that *only* geographically isolated schools would be eligible for the additional funds. This would eliminate an existing statutory clause that allows a school to claim NSS status (and additional funding) even if it is located near a similar public school, provided it is the only school in the *district*. Many schools currently receive NSS funding by virtue of being a school district consisting of a single school, not because they are geographically isolated.

Permanently Repeals Facility Maintenance Spending Requirements. Spending requirements related to facility maintenance are among the many existing activities slotted for elimination under the Governor's proposed approach. Prior to 2009, school districts receiving state general obligation bond funding for facilities were required to deposit 3 percent of their General Fund expenditures in a routine maintenance account. In addition, districts received one-to-one matching funds for deferred maintenance through a discrete categorical

program. Under the temporary categorical flexibility provisions adopted in 2009, the routine maintenance requirement decreased from 3 percent to 1 percent. These flexibility provisions also allowed school districts to use deferred maintenance categorical funds for any purpose and suspended the local match requirement. The Governor's proposal would permanently remove all state spending requirements as well as dedicated funding for both routine maintenance and deferred maintenance. How much LCFF funding to dedicate for facility needs would be left to individual districts' discretion.

Reestablishes Minimum School Year of 180 Days in 2015-16. In addition to suspending facility maintenance requirements, in recent years the state temporarily allowed districts to reduce their school year by up to five instructional days without incurring fiscal penalties—dropping the requirement from 180 to 175 days. These provisions currently are scheduled to expire in 2015-16. The Governor's proposal would maintain this plan and reestablish the 180 day requirement after two more years.

"Basic Aid" School Districts

In most school districts, revenue limit funding is supported by a combination of both local property tax (LPT) revenue and state aid. For some districts, however, the amount of LPT revenue received is high enough to exceed their calculated revenue limit entitlements. These districts are referred to as basic aid or "excess tax" districts. (The term basic aid comes from the requirement that all students receive a minimum level of state aid, defined in the State Constitution as \$120 per pupil, regardless of how much LPT revenue their district receives.) Generally, basic aid districts are found in communities that have (1) historically directed a higher proportion of property taxes to school districts, (2) relatively higher property values, and/or (3) comparatively fewer school-age children. In 2011-12, 126 of the state's 961 school districts were basic aid. These districts retained the LPT revenue in excess of their revenue limits and could use it for any purpose. The amount of excess tax revenue each basic aid district received in 2011-12 varied substantially, but was typically about \$3,000 per pupil. Under current law, basic aid districts do not receive any state aid for their revenue limits, but they do receive state categorical aid similar to other school districts.

Accountability

Replaces Most State Spending Restrictions With Annual District Plans. As opposed to specific programmatic requirements, the Governor’s proposal would require districts to document how they plan to educate their students. Specifically, concurrent with developing and adopting their annual budgets, districts would annually develop and adopt a “Local Control and Accountability Plan.” Figure 6 displays the required components of this plan. The Governor would require the State Board of Education to adopt a specific template for these district plans that also incorporates existing federal plan requirements. District accountability plans would be approved by local school boards, made publicly available for community members, and submitted to COEs for review.

Requires That COE Budget Approval Process Incorporate Review of District Accountability Plans. The COEs would be required to review district plans in tandem with their annual review and approval of district budgets. While the COE would not have the power to approve or disapprove a district’s accountability plan, approval of the district’s budget now would be additionally contingent on the COE confirming that (1) the plan contains the required components listed in Figure 6 and (2) the budget contains sufficient expenditures to implement the strategies articulated in the plan.

Transition

Most Districts Currently Funded Below LCFF arget Levels. The administration estimates the cost of fully implementing the new system to

Figure 6
Required Components of Proposed Local Control and Accountability Plans

Goals and Strategies for:

- ✓ Implementing the Common Core State Standards.
- ✓ Improving student achievement, graduation rates, and school performance.
- ✓ Providing services for EL students, LI students, and children in foster care.
- ✓ Increasing student participation in college preparation, advanced placement, and CTE courses.
- ✓ Employing qualified teachers, providing sufficient instructional materials, and maintaining facilities.
- ✓ Providing opportunities for parent involvement.

Analysis of:

- ✓ Student achievement.
- ✓ Progress made in implementing goals since the prior year.

Cost Projections for:

- ✓ Implementing the plan.
- ✓ Meeting the needs of EL, LI, and foster students (projected costs must equal amount of supplemental funds received for those groups).

EL = English learner; LI = lower income; and CTE = career technical education.

be roughly \$15.5 billion, plus additional funding for annual COLAs moving forward. As the state does not yet have sufficient available funds to meet this need, the proposal would gradually increase districts' funding until they reached their target levels. Each district's "current base" would be calculated according to the amount it received in 2012-13 from revenue limits and the categorical programs included in the LCFF. Based on the administration's estimates, this calculation yields an amount lower than LCFF target levels for about 90 percent of districts. Most districts, therefore, would receive per-pupil funding increases in 2013-14 and future years. In contrast, districts with current funding bases that meet or exceed their new LCFF targets (plus COLA) would not receive additional funds in 2013-14, but they would be held harmless against per-pupil funding losses.

Phases-In New Formula as New Funding Becomes Available. The proposed 2013-14 budget provides \$1.6 billion—or about 10 percent of the total implementation cost—to begin the process of implementing the new formula. Consequently, in 2013-14 most districts would receive funding increases such that they move about 10 percent closer to their new funding targets. Districts whose existing funding levels are close to their target levels would receive less new funding per pupil than those that currently are farther away from their targets, but the same proportional share of each district's individual funding "gap" would be reduced. The Governor plans that over the next several years, roughly half of the annual growth in K-12 Proposition 98 funds would be allocated to implement the new funding system (with the other half used to pay down deferrals). Under this approach (and based on the administration's revenue estimates), the Governor estimates the new funding formula could be fully implemented—with each district funded at the COLA-adjusted target levels plus supplemental grants—by 2019-20.

LAO Assessment

We believe the Governor's proposed LCFF represents a positive step in addressing the many problems inherent in the state's existing K-12 funding approach. As such, we believe many components of the proposal merit serious legislative consideration. We are concerned, however, that some elements of the Governor's approach either miss opportunities to address existing issues or could create new problems. Below, we discuss our assessment of the strengths and weaknesses of the Governor's proposed funding formula for school districts and charter schools. Figure 7 (see next page) summarizes our assessment.

Governor's Proposal Has Many Strengths

Is Simple and Transparent. Currently, the state's categorical programs, as well as the broader education funding system, are based on overly complex and complicated formulas. Very few policy makers, taxpayers, school board members, or parents understand or can explain why a particular district receives a particular level of funding. In contrast, the Governor's proposed LCFF would distribute the vast majority of K-12 funds at uniform per-pupil rates with a few easily understandable, consistently applied adjustment factors. The transparency of such a simple system could in turn help engender greater public understanding, involvement, and confidence in local school budgets and decisions.

Funds Similar Students Similarly. Because today's K-12 funding system largely is based on outdated data and historical formulas, funding across districts varies in illogical ways. For example, similar students attending similar schools may be funded at different rates simply because they attend (1) a charter school rather than a district school, (2) a single-school district rather than a multi-school district, or (3) a district that applied to participate

in a particular categorical program decades earlier. Under the Governor’s proposal, funding rates would be based on current data and consistent criteria. This approach would address longstanding and arbitrary funding distinctions across districts (including single-school districts currently claiming NSS funding located close to other districts) and between districts and charter schools. Subsequent funding differences would be due to differences

in student populations, such that similar students attending similar schools would receive similar levels of funding.

Sets Reasonable Target Base Rates. The Governor’s approach to developing target base rates generally is reasonable. The proposed rates would restore reductions made over recent years, including foregone COLAs, and subsequently would increase funding levels for the vast majority of districts. The

Figure 7

Strengths and Weaknesses of Governor’s Approach

Strengths

- ✓ Is simple and transparent.
- ✓ Funds similar students similarly.
- ✓ Sets reasonable target base rates.
- ✓ Links funding to students’ needs.
- ✓ Sets reasonable supplemental EL/LI rate.
- ✓ Sets reasonable expectations for EL students.
- ✓ Provides more flexibility in addressing local priorities.
- ✓ Refocuses state and local responsibilities.
- ✓ Increases funding for vast majority of districts while progressing towards uniform target rates.

Weaknesses

- ✓ Perpetuates irrational funding differences by preserving two add-on programs.
- ✓ Does not ensure supplemental funding translates to supplemental services for EL/LI students.
- ✓ Does not target concentration funding to those districts with highest concentrations of EL/LI students.
- ✓ Supplement calculation could more accurately reflect student need.
- ✓ Adds unnecessary complexity by including separate K-3 and high school supplement.
- ✓ Maintains historical advantages for basic aid districts.
- ✓ Does not adequately protect investments in facilities.

EL = English learner and LI = lower income.

Legislature could use other methods to set the target base rates, however, which also would be reasonable. (See nearby box for a description of one alternative approach.) Regardless of the specific approach, we believe the policy of setting target rates that exceed existing levels but are attainable within a few years is reasonable.

Links Funding to Students' Needs. While the administration's *specific* grade span differential rates and 35 percent supplemental funding rate for EL/LI students might not exactly reflect associated costs, we believe the underlying policy of providing additional funds based on student needs makes sense. Providing increasing levels of funding for different grade spans recognizes the higher costs of providing an education to older students.

Specifically, instructional minute requirements and facility and equipment needs tend to increase as students progress through the grades. (High school costs are particularly high because they must offer college and career readiness training, which tends to require more specialized classes, facilities, and materials.) Similarly, providing supplemental funds for EL and LI students recognizes that to be successful, these students frequently require services above and beyond the education program the district provides to all students. (These supplementary support services often include tutoring, counseling, health services, smaller class sizes, and specialized educational materials.)

Sets Reasonable Supplemental EL/LI Rate. In an attempt to assess the appropriateness of

An Alternative Approach to Establishing Local Control Funding Formula Target Base Rates

The Governor proposes to set target base funding rates based on the statewide average undeficitated revenue limit rate. This generates a statewide average target rate of about \$6,800, which the Governor then converts into four unique grade span rates. An alternative approach would be to set the target rate based on the amount the state currently provides for general education services plus funding to address base reductions made in recent years. The average rate derived by this alternative approach totals about \$6,200, or approximately \$600 lower than the Governor's proposed rate. Under this approach the state would develop target rates by adding:

- Existing average revenue limit levels (\$5,250).
- An amount equal to the average *base* revenue limit reductions made in recent years (\$630).
- Average per-pupil categorical funding that districts currently receive to serve the general student population (\$320). This estimate includes average funding rates for programs intended to benefit all students, such as the Professional Development Block Grant, the Instructional Materials Block Grant, and the Arts and Music Block Grant.

We suggest this approach as an option because it approximates what the state is providing in general purpose funding today plus funding to address recent base reductions in general purpose funding. We exclude from these estimates the funding associated with existing programs intended to serve specific student groups, given that the Governor's proposed supplements would be designed to take the place of most of those programs. This approach also excludes funding associated with foregone cost-of-living adjustments (COLAs), as no other state program is receiving foregone COLAs.

the Governor’s proposed EL/LI supplement, we conducted a review of “weights” used in other states and suggested by relevant academic literature. Our research found that the Governor’s proposed 35 percent supplement is somewhat high but falls within the range of practices used and mentioned elsewhere. (Please see the nearby box for a more detailed discussion of our findings.) The lack of agreement across states and the literature, however, indicates there is no “perfect” or “correct” amount of funding for EL/LI students. These findings suggest the Legislature reasonably could adopt the Governor’s proposed rate *or* opt for a somewhat different rate and still meet the important policy objectives addressed by his proposal.

Sets Reasonable Expectations for EL Students.

Having a working knowledge of English is crucial if students are to be able to access the school curriculum. By establishing a five-year time limit

for EL students to generate supplemental funds, the Governor appropriately focuses attention on providing intensive initial services. (Because of the spending discretion built into the Governor’s proposal, the new timeline would not preclude districts from continuing to provide language services for those students who continue to need them after five years.) Moreover, almost two-thirds of EL students across the state (and many more in some districts) also are LI, so most districts would continue to receive supplemental funding for most EL (and former EL) students even after five years. As such, we believe the Governor’s proposal sends an important message and creates a corresponding fiscal incentive for districts to focus on EL students’ language needs in their initial schooling years, while in most cases maintaining supplemental funds for students who may continue to require additional services thereafter.

How Much Additional Funding Should the State Provide for English Learners (EL) and Lower Income (LI) Students?

Other States’ Supplements Vary Widely. California is not the first state to grapple with how much additional funding to provide for meeting the additional needs of EL/LI students. Our review of the roughly 60 percent of other states that provide such supplements found that funding rates vary notably. States also vary in their approaches to providing supplemental funding, with some taking the “weighted” approach the Governor proposes using in his new formula, and others providing block grants similar to California’s existing Economic Impact Aid categorical program. Additionally, most states provide separate supplemental funding streams for EL and LI students rather than a combined supplement to serve both populations as proposed by the Governor. Based on our review, the Governor’s proposed supplemental rate (35 percent of the general education rate) is higher than the rate provided for either EL or LI students in most other states. A few states, however, provide notably more for EL-specific supplements.

Research Findings Also Differ Significantly. Our review of academic research on EL/LI students revealed a similar lack of consensus regarding the “right” level of supplemental funding to provide. For example, one California-specific study suggested an additional 23 percent of “base” education funding would be sufficient to support the needs of LI students, but an additional 32 percent would be needed for EL students. Another study (conducted in a different state) found that LI students require twice as much funding as their mainstream peers, and EL students require three times as much.

Provides More Flexibility in Addressing Local Priorities. As a result of the state’s approach to categorical funding, today’s K-12 educational delivery system largely is state-directed—districts’ activities and programs are prescribed rather than developed based on local needs. While the state has temporarily suspended many spending requirements in recent years, most of these flexibility provisions currently are scheduled to expire at the end of 2014-15. The Governor’s plan would allow districts to retain and increase local discretion over almost all Proposition 98 funds, enabling districts to more easily dedicate resources to local priorities. This flexibility would give districts the opportunity to pursue innovative and locally driven activities that may not be feasible under current state programmatic requirements.

Refocuses State and Local Responsibilities. Given the state now has a rather extensive accountability system for monitoring student *outcomes*, the rationale for the state to so closely monitor educational *inputs*—or specific district activities—has become less compelling. The Governor’s proposal to repeal most categorical spending requirements would help to refocus responsibilities at both the state and local levels. The state’s primary focus could shift from monitoring compliance with spending rules to monitoring student performance and intervening when districts show signs of struggling. Districts could shift their focus from complying with state requirements to best meeting the needs of their students. Moreover, communities could more confidently hold local school boards and superintendents accountable for district outcomes, since under the new system local entities—not the state—would largely be in charge of designing instructional programs.

Increases Funding for Vast Majority of Districts While Progressing Towards Uniform Target Rates. By simultaneously raising funding

levels for the vast majority of districts *and* equalizing rates across districts, the Governor’s approach concurrently addresses two important policy goals. Over the past few years, all districts have experienced budget cuts. While addressing existing disparities across districts is important, so too is ensuring that all districts are able to address the programmatic effects of recent budget reductions, such as larger class sizes and shorter school years. The Governor’s proposal recognizes these needs and would increase funds across the majority of districts. At the same time, the proposed approach would provide districts that are further away from their targets with comparably greater annual funding increases. This approach is similar to how the state has equalized disparities in district revenue limit rates in prior years.

Some Components of Proposal Raise Concerns

Perpetuates Irrational Funding Differences by Preserving Two Add-On Programs. To improve a funding system he describes as “deeply inequitable,” the Governor consolidates the majority of existing categorical programs into his new formula. Excluding two of the largest and most outdated among them, however, perpetuates funding disparities across districts. Both the TIIG and HTS Transportation programs have outdated formulas that allocate funds disproportionately across districts for no justifiable reason. For example, HTS Transportation allocations are based more on historical costs than existing transportation needs, and nearly 60 percent of funding from the \$855 million TIIG program is allocated to just one school district. Furthermore, removing the spending requirements and locking-in existing allocations negates any argument that the programs are being maintained because they currently serve an important function.

Does Not Ensure Supplemental Funding Translates to Supplemental Services for EL/LI Students. We are concerned that the Governor’s proposed approach to ensuring districts serve EL/LI students—requiring them to document how they plan to spend funding for these students—does not provide sufficient assurance that EL/LI students would receive services *in addition* to those that all students receive. While COE budget reviews presumably would confirm that supplemental funds would somehow benefit EL/LI students, the COE would not be empowered to intervene if the funds were not being used effectively or in a targeted way. Under the proposal, for example, a district could choose to spend the supplemental funds to provide an across-the-board salary increase for teachers, justifying this approach by stating that offering higher salaries would provide EL/LI students (and all other students in the district) with higher quality teachers. This type of approach, however, “spreads” the benefit of the supplemental funds and does not result in additional services for the students with additional needs who generated the additional funding.

Does Not Target Concentration Funding to Those Districts With Highest Concentrations of EL/LI Students. The Governor’s proposal recognizes that as a district’s concentration of EL/LI students increases, the need for, intensity of, and costs associated with supplemental services also tend to go up. We believe the Governor’s threshold for providing the concentration supplement, however, is too low to focus additional funds on those districts that face *disproportionately* greater challenges. Currently, half of all districts in the state have EL/LI student populations making up at least 50 percent of their enrollment. Thus, under the Governor’s proposal, half of all districts would receive supplemental concentration funding. By setting this relatively low threshold, the Governor does not prioritize funding for districts facing

extraordinary levels of additional need over those facing what are essentially *average* levels of need (which the base grant itself presumably is intended to address).

Supplement Calculation Could More Accurately Reflect Student Need. The Governor’s approach to calculating individual districts’ EL/LI student supplement misses an opportunity to more closely align funding with student need. The Governor’s proposal uses districtwide *averages* of EL/LI students to calculate supplements across grade spans, rather than using the counts of how many EL/LI students *actually* are enrolled in each grade level. Grade-specific information on EL/LI students is available and would allow a more accurate calculation of supplements across grade spans. Moreover, the Governor’s proposed approach may overestimate costs and provide excessive funding in some districts. For example, in many unified districts, applying the district average across all grades likely would *overstate* the actual proportion of EL/LI students in high school and *understate* the actual proportion in elementary school, since EL students tend to be more concentrated in the lower grades. Consequently, this likely would result in many unified districts receiving a larger supplement than actual student counts would generate, because a larger portion of their supplements would be calculated from the higher high school base grant rate.

Adds Unnecessary Complexity by Including Separate K-3 and High School Supplements. The Governor’s plan provides grade-span adjusted base funding rates to address differing costs across grades. Applying K-3 and high school supplements in addition to the unique base grants therefore adds complexity to what is an otherwise relatively straightforward formula. Additionally, because the Governor’s proposal does not provide any assurance that the additional funds would be used for their intended purposes, the programmatic

rationale for maintaining the two supplements is not particularly compelling. In the case of K-3, given that districts and local bargaining units would be able to jointly determine any class size—even exceeding 24 students—and still receive the proposed K-3 funding supplement, offering this funding outside the K-3 base rate would not necessarily lead to smaller class sizes. In the case of high school, the supplement would not contain any spending requirements to ensure that the funds would be used to provide CTE services.

Maintains Historical Advantages for Basic Aid Districts. Despite an implied intention to remove the historical funding advantages currently benefiting basic aid districts, the “hold harmless” clause included in the Governor’s proposal would preserve a historical artifact in a new system that is intended to reflect updated data. Guaranteeing that all districts would forever receive the same amount of per-pupil state aid as they did in 2012-13 would continue to augment basic aid districts’ per-pupil funding at a level that exceeds that of other districts.

Does Not Adequately Protect Investments in Facilities. The Governor’s proposal would leave the decision of how much (or how little) to spend on maintaining their facilities up to districts. We are concerned that repealing spending requirements for maintenance would jeopardize the large local and state investments in school facilities made over the past decade. Data on how districts have responded to recent categorical flexibility provisions suggest that competing spending priorities at the local level can lead districts to underinvest in maintaining their facilities. Such practice could result in unsafe conditions, a push to pass new state bonds, and/or additional lawsuits against the state. (The 2001 *Williams v. California* class-action lawsuit was related to improper conditions at school facilities.)

Recommendations

We think the Governor offers a helpful framework for restructuring the funding system, and therefore recommend the Legislature adopt most components of his proposal. We believe, however, that the proposed approach would be improved by some notable modifications. Figure 8 (see next page) summarizes our recommended changes to the Governor’s proposed LCFF, described in more detail below.

Include TIIG and HTS Transportation Funding in New Formula. To maintain consistent funding policies across districts, we recommend the Legislature include both the TIIG and HTS Transportation programs in the proposed categorical consolidation and new funding formula. This would treat these two categorical programs comparably to the vast majority of other existing categorical programs. Excluding these programs would permanently maintain significant funding differences across districts without a rational basis for doing so.

Require That EL/LI Supplemental Funds Be Used to Provide Supplemental Services for EL/LI Students. To help ensure that EL/LI students receive additional services—beyond those that all students receive—we recommend the Legislature place somewhat stronger restrictions on how districts may use the supplemental and concentration funds generated by EL/LI students. Specifically, we recommend adopting broad-based requirements—similar to those of EIA or the federal Title I and Title III programs—that require the supplemental funds be used for the target student groups to *supplement and not supplant* the basic educational services that all students receive. (Title I provisions allow schools with sufficiently high proportions of EL/LI students to use the funds to enhance services for all students. The Legislature could consider developing similar “schoolwide” provisions for the new state supplement.)

Target Concentration Funding to Districts With Highest Concentrations of EL/LI Students.

To better align funding with the greatest need, we recommend the Legislature raise the threshold at which districts qualify for supplemental concentration funding. For example, the additional supplement could be limited for districts in which 70 percent of the student population is EL/LI, rather than 50 percent. We estimate that raising the eligibility threshold in this way would narrow the beneficiaries of the concentration supplement to one-quarter of all districts, as opposed to half of all districts under the Governor's proposal. The Legislature could thereby target the supplemental funds for those districts facing the greatest challenges. Limiting the concentration supplement in this way would free up funds that could be used for other elements of the formula (such as increasing all districts' funding levels to more quickly attain the target rates). Alternatively, the Legislature could consider providing tiered concentration funding rates, such that the districts with the highest concentrations of EL/LI students get the greatest amount of additional resources.

For example, districts with 75 percent EL/LI students might get 20 percent more funding for their additional students, whereas districts with 90 percent EL/LI students might get 35 percent more funding.

Calculate EL/LI Student Supplement Based on Actual Grade-Level Data, Not Districtwide Averages. To improve the accuracy of the new funding formula, we recommend the EL/LI student supplement be calculated based on the actual rates of EL/LI students by grade. This approach—in contrast to the Governor's proposal to apply districtwide average rates of EL/LI students across all grade spans—would fund districts in a way that more closely reflects actual student need and associated costs.

Reject K-3 and High School Supplements. To avoid adding unnecessary complexity, we recommend against including the proposed K-3 and high school funding supplements in the new funding formula. Should the Legislature wish to facilitate districts' abilities to offer lower K-3 class sizes or high school CTE courses, we recommend it simply increase the applicable base rates above

Figure 8

Recommended Modifications to Governor's School District LCFF Proposal

- ✓ Include TIIG and HTS Transportation funding in new formula.
- ✓ Require that EL/LI supplemental funds be used to provide supplemental services for EL/LI students.
- ✓ Target concentration funding to districts with highest concentrations of EL/LI students.
- ✓ Calculate EL/LI student supplement based on actual grade-level data, not districtwide averages.
- ✓ Reject K-3 and high school supplements.
- ✓ Minimize historical advantages for basic aid districts.
- ✓ Maintain basic requirements for facility maintenance.

LCFF = Local Control Funding Formula; TIIG = Targeted Instructional Improvement Block Grant; HTS = Home-to-School; EL = English learner; and LI = lower income.

the levels proposed by the Governor. (This would have the effect of increasing funding for EL/LI students as well, since the 35 percent supplement would be calculated off of higher base rates.) As the Legislature considers whether to adjust the proposed base rates, we would note that the Governor’s proposed 9-12 base rate already is nearly 16 percent (or about \$1,000) above the 7-8 rate. This amount may already be sufficient to provide a full high school program, including CTE services.

Minimize Historical Advantages for Basic Aid Districts. To prioritize limited state funds for those districts that do not benefit from excess LPT revenue, we recommend rejecting the Governor’s proposal to guarantee districts the same level of state aid they received in 2012-13. We do, however, recommend adopting the Governor’s proposal to count LPT revenue towards a district’s *entire* LCFF grant, including both the base and supplemental grants. Under our modified approach, basic

aid districts whose LPT revenues exceed their calculated LCFF levels would not receive any state aid beyond the minimum constitutional obligation of \$120 per pupil. This would end the current practice of providing basic aid districts with state categorical aid in addition to their excess LPT revenue—often resulting in notably higher per-pupil funding rates compared to other districts.

Maintain Basic Requirements for Facility Maintenance. To ensure that districts continue to protect state and local investments and maintain safe school facilities, we recommend the Legislature require districts to dedicate a portion of their General Fund expenditures—between 3 percent and 4 percent—to facility maintenance. This approach would establish requirements not included in the Governor’s approach, but would be more streamlined than previous practice (which included two distinct spending requirements, one for routine and one for deferred maintenance).

COUNTY OFFICES OF EDUCATION

This section describes and assesses the changes the Governor proposes for COEs.

Background

Below, we provide background on the four major functions of COEs. These functions encompass a range of activities and are funded by a variety of sources.

General Overview

California’s 58 COEs Serve School Districts and Students. The State Constitution establishes the County Superintendent of Schools position in each of the state’s 58 counties. Most county superintendents are elected, but five are appointed locally. All county superintendents have established COEs to fulfill their duties. Initially, these duties

consisted of broadly defined responsibilities, such as to “superintend the schools” of the county and to “enforce the course of study” at those schools. Over time, however, the state has tasked COEs with some more specific responsibilities and funded them to provide numerous regional services.

COEs Have Multiple Responsibilities. The COEs conduct a variety of activities, some of which serve school district staff and some of which serve students directly. In 2012-13, COEs received roughly \$1 billion in state funds and LPT revenue to support these activities. Figure 9 (see next page) provides an overview of current COE responsibilities and their associated funding. These activities generally fall into four major areas: (1) regional services, (2) alternative education, (3) additional student instruction and

support, and (4) academic intervention. Given the notable diversity of district and student characteristics across counties, the extent of these activities varies widely by COE. Below, we describe each of these responsibilities in greater detail.

Regional Services

All COEs Provide Some Administrative Services for School Districts. The COEs provide a variety of administrative and business services for districts in their counties. Some of these activities are required by state law, such as verifying the

Figure 9

County Offices of Education (COEs) Have Several Responsibilities

Approximate Funding Levels in 2012-13

Regional Services (\$380 Million)

- ✓ **Administrative Services for School Districts (\$300 Million).** Administrative and business services provided to school districts within the county.
- ✓ **Additional Services for Small Districts (\$10 Million).** Additional administrative services for small school districts within the county.
- ✓ **Programmatic Services for Districts (\$60 Million).** Certain types of support provided for school districts within the county, such as professional development, services for beginning teachers, and technology support.
- ✓ **District Oversight (\$10 Million).** Oversight of district budgets and monitoring district compliance with two education lawsuits.

Alternative Education (\$300 Million)

- ✓ **Juvenile Court Schools (\$100 Million).** Instruction and support for incarcerated youth.
- ✓ **County Community and County Community Day Schools (\$160 Million).** Instruction and support for students who cannot or opt not to attend district-run schools, including those who have been expelled or referred by a probation officer or truancy board.
- ✓ **Categorical Funding for Alternative Education (\$40 Million).** Additional funding for services in COE alternative settings. Examples of specific funding grants include the Instructional Materials Block Grant, Economic Impact Aid, and the Arts and Music Block Grant.

Additional Student Instruction and Support (Funding Varies)

- ✓ **Regional Occupational Centers and Programs (\$150 Million).** Career technical education and training for high school students.
- ✓ **Other Student Services (Funding Varies).** Includes instruction and services for specific student populations, including foster youth, pregnant and parenting students, adults in correctional facilities, migrant students, and young children needing child care and preschool.

Academic Intervention (Funding Varies)

- ✓ **Support and Intervention (Funding Varies).** Various services for schools and districts identified as needing intervention under the state or federal accountability systems. Specific initiatives include the State System of School Support, District Assistance and Intervention Teams, and Title III assistance.

qualifications of teachers hired by school districts. Additionally, many COEs have opted to provide other administrative services based on local circumstances and district needs. For example, most COEs operate countywide payroll systems and provide human resources support for their districts. Generally, these activities are funded by a base revenue limit grant of general purpose funds, although some districts also purchase some services from COEs on a fee-for-service basis. The base grant provides each COE with a per-pupil funding rate based on countywide ADA. These per-pupil rates range from \$24 to \$465 per ADA and are determined primarily by historical factors. The base grant also supports general COE operational costs.

Many Small Districts Require Additional Services. The COEs tend to provide greater levels of administrative support for smaller school districts. Smaller districts often lack economies of scale and tend to rely on their COEs to provide such services as school nurses, guidance counselors, and librarians, instead of hiring these personnel on their own. In addition to the base grant, COEs located in counties containing smaller school districts receive supplemental general purpose funding. For the purposes of this funding, a small school district is defined as one serving 1,500 or fewer ADA. (Lower ADA thresholds apply for elementary and high school districts.) The COEs receive between \$52 and \$143 per ADA in these districts, with the specific rates differing across counties. Like the base revenue limit grants, these per-pupil funding rates are determined largely by historical factors.

Most COEs Provide Programmatic Services for Their Districts. The COEs also perform a variety of other tasks to meet the needs of school districts within their counties. Examples include providing professional development, support for beginning teachers, technology services,

and technical assistance for various district-run categorical programs. Many of these activities are funded through state categorical grants, the largest of which are the Beginning Teacher Support and Assessment (BTSA) program and the California Technology Assistance Program (CTAP). The amount of funding each COE receives to provide programmatic support varies based on historical participation in individual programs. Additionally, districts sometimes purchase these types of services from COEs. For example, some COEs charge fees when a district's teachers attend professional development sessions.

All COEs Tasked With Overseeing Some District Activities. The state has established three specific district oversight roles for all COEs—funded through three discrete categorical grants—relating to monitoring districts' fiscal status and compliance with two lawsuits. Legislation adopted in 1991 requires all COEs to review and approve the annual budgets of school districts within their county. The legislation further requires COEs to monitor districts during the year and intervene if their financial situations begin to deteriorate. (These responsibilities sometimes are referred to as "AB 1200" requirements after the establishing legislation.) Additionally, the state requires COEs to monitor school districts' activities associated with two lawsuits (*Williams v. California* and *Valenzuela v. O'Connell*). The *Williams* requirements relate to maintaining adequate school facilities, sufficient instructional materials, and qualified teachers. The *Valenzuela* requirements relate to providing supplemental services for high school seniors who fail to pass the high school exit examination.

Alternative Education

The COEs Run Alternative Schools for Certain Students. Besides providing support services for districts, one of the primary functions of COEs

is to provide classroom instruction for students who cannot (or, in some limited cases, opt not) to attend their local district-run schools. These students need alternative settings for a variety of reasons, including chronic truancy, expulsion, or incarceration. Most individual districts are not equipped to provide such services for the few students in the district who require them.

Three Types of COE Alternative Schools.

The COEs operate three types of alternative schools—juvenile court schools, county community schools, and community day schools (CDS)—for students needing alternative education settings. In these schools, the COE employs the teachers, oversees the students’ instructional program, and runs the facility. The basic funding model for these programs is similar to school districts—the state provides the COEs with a per-pupil revenue limit and various categorical grants for the students attending their schools. The revenue limit rate for most students in COE alternative education programs is roughly 40 percent higher than the average revenue limit rate in a high school district. (Most, but not all, students in alternative settings are in high school.) This higher rate is intended to support smaller class sizes, individualized student support, and more rigorous security precautions. Below, we describe some of the basic components of each type of COE alternative school. Generally, the schools represent a continuum—with court schools serving the students with the most severe challenges in the most secure settings, and CDS serving students with relatively fewer challenges in less restrictive school settings.

- ***Juvenile Court Schools.*** These programs serve students under the authority of the juvenile justice system. All students generate a higher revenue limit rate, which averaged \$8,550 per ADA in 2012-13. These schools must offer at least four hours of daily instruction.

- ***County Community Schools.*** These programs serve several types of students. Students who have been mandatorily expelled, referred by a probation officer, or are on probation generate funding at the same rate as court school students (\$8,550 per ADA). In contrast, students who are expelled for non-mandatory reasons, referred by a truancy board, or voluntarily placed in a community school generate the revenue limit rate of their home school district (on average, \$6,000 per ADA in a high school district). These schools must offer at least four hours of daily instruction.
- ***COE CDS.*** These programs serve students who have been expelled for any reason, referred by a probation officer, or referred by a truancy board. Students at these schools generate \$12,750 per ADA—consisting of the base court school rate (\$8,550 per ADA) plus \$4,200 per ADA for providing a longer school day (six hours). Some school districts also operate CDS for similar students, but district CDS are funded at the district’s revenue limit rate plus additional funding for the fifth and sixth hour. (Since 2009, most CDS funding allocations for the fifth and sixth hour have been “frozen” and subject to categorical flexibility provisions.)

Additional Student Instruction and Support

Alternative schools are the largest COE instructional programs, and students attending those programs are the only students for whom COEs maintain full responsibility for educating. Yet many COEs also operate specialized programs that provide instructional services to other types of students. All of these activities are funded through discrete state or federal categorical grants.

Many COEs Provide ROCP Services for Students Attending Local Districts. The ROCPs are among the most substantial of COE-run instructional activities. The ROCPs provide CTE services to students ages 16 and older. Coursework typically takes place both in traditional classroom settings as well as at employer job sites. About half of total state funding for ROCPs is allocated to 38 COEs to provide services mostly for students who attend district-run high schools in the region. (The remaining ROCP funds are provided to individual school districts and consortia of districts.) The ROCP grant is among the programs affected by recent categorical flexibility provisions. Since 2009, COEs receiving ROCP grants have been allowed to use the funds for any purpose.

Other Student Services. Many COEs provide direct instruction or support services for special groups of students. For example, the state funds many COEs to provide educational support for foster youth, pregnant and parenting students, and adults in correctional facilities. A federal grant funds many COEs to provide educational support for migrant students, and child care services are funded through a combination of state and federal sources.

Academic Intervention

The COEs Support Struggling Schools and Districts. In recent years, the state has tasked COEs with providing specialized support and intervention for schools and districts that have been flagged as low performers in the state and federal accountability systems. Generally, these initiatives require COEs to provide intensive professional development, data analysis, curriculum review, monitoring, and other technical assistance to schools and/or districts. Specific initiatives have included the State System of School Support, District Assistance and Intervention Teams, and Title III accountability intervention. Most of

the funding to support these activities has been provided through federal grants.

Governor's Proposals

The Governor proposes to change the state's approach to funding many COE responsibilities. Specifically, he would collapse many existing funding streams into a simplified, two-part formula.

General Overview

Replaces Much of Existing System With Two-Part Funding Formula. The Governor proposes replacing the existing COE funding model with a new two-part funding formula. As shown in Figure 10 (see next page), the formula includes funding to (1) provide regional services to districts and (2) educate students in COE-run alternative schools. While the amounts associated with these two responsibilities would be calculated through two separate formulas, the funds would be combined into one allocation that COEs could use for either purpose. Consistent with his overall approach for districts, the Governor would establish funding targets for each COE and build toward those targets over a number of years. Each COE's funding target would be the sum of its calculated allotments under the regional services formula and the alternative education formula. The Governor's 2013-14 budget proposal includes a \$28 million augmentation to begin this process for COEs.

Eliminates Some Categorical Program Requirements. Similar to his district proposals, the Governor proposes eliminating many categorical program requirements for COEs. The most notable eliminations for COEs include requirements related to ROCPs, BTSA, CTAP, foster youth services, and services for pregnant and parenting students. Districts essentially would assume responsibility for the functions COEs currently perform with these

funds, and districts would have discretion over how much—if any—of their LCFF allocations to use for maintaining similar activities. (The proposed district funding supplements for high school and EL/LI are explicitly designed to help districts address CTE and foster youth needs.) Despite these shifts in responsibility, the Governor proposes allowing COEs to keep the funding they currently receive for these categorical programs. These funds would become general purpose and apply towards each COE’s funding target under the new formula. (One additional COE categorical-funded activity—educating adults in correctional facilities—would be eliminated and likely would not shift to districts, but rather would be left up to COEs to continue—or not—using COE LCFF funds.)

Maintains Some Categorical Programs. Some programmatic requirements would continue to

apply to COEs. Some of these requirements also apply for school districts and were described earlier in this report (such as after school programs, child nutrition, and special education). In addition, the Governor would maintain existing requirements for three grants that are allocated to individual COEs to perform statewide functions—the K-12 High-Speed Network, California School Information Services, and the Fiscal Crisis and Management Assistance Team. The Governor also would maintain child care, migrant education, and academic intervention as separately funded activities.

Regional Services

Creates New Approach for Funding Regional Services. The Governor would fund the majority of COE activities—other than alternative

Figure 10

Overview of Governor’s Local Control Funding Formula for COEs

Formula Component	Proposal
Regional Services	
Target amount per COE	<ul style="list-style-type: none"> • \$655,920 for base grant. • Additional \$109,320 per school district in the county. • Additional \$40 to \$70 per ADA in the county (less populous counties would receive higher per-ADA rates).
Required oversight activities	<ul style="list-style-type: none"> • Reviewing school district budgets and accountability plans. • Monitoring district activities related to <i>Williams v. California</i> lawsuit.
Alternative Education	
Eligible student population	<ul style="list-style-type: none"> • Students who are (1) incarcerated, (2) on probation, (3) probation-referred, or (4) mandatorily expelled.
Target amount for base grant (per ADA)	<ul style="list-style-type: none"> • \$11,045.
Supplemental funding for EL, LI, and foster youth	<ul style="list-style-type: none"> • Additional 35 percent of COE base grant. • Juvenile court schools: assumes 100 percent of students fall into these groups (provides additional 35 percent grant for all students).
Supplemental concentration funding	<ul style="list-style-type: none"> • Additional 35 percent of COE base grant for EL/LI students above 50 percent of enrollment. • Juvenile court schools: assumes 100 percent of students are EL/LI (provides additional 35 percent grant for half of all students).
Annual Plan and Transition	
	<ul style="list-style-type: none"> • Annual local accountability plan would be submitted to State Superintendent of Public Instruction. • Transitions to target amounts within a few years.

COE = county office of education; ADA = average daily attendance; EL = English learner; and LI = lower income.

education—with one allotment for regional services. This grant would replace the roughly \$380 million in state funding COEs currently receive for (1) administrative services for districts, (2) small district services, (3) programmatic services for districts, and (4) district oversight.

New Regional Services Formula Includes Three Components. The top part of Figure 10 describes the Governor’s proposed approach to calculating funding for COE regional services. Under the proposed approach, each COE’s target funding level would be calculated based on three components. (The administration derived the specific funding amounts for each component through consultation with county superintendents from across the state.)

- ***Base Grant.*** Each COE would get \$655,920. This amount is intended to cover basic COE operations.
- ***District-Based Grants.*** Each COE would receive an additional grant of \$109,320 for each school district within its county. This approach is based on the assumption that additional districts generate additional responsibilities and costs for COEs.
- ***ADA-Based Grants.*** Each COE would receive additional funding per countywide ADA. The per-pupil rates would be tiered. Specifically, the COEs would receive \$70 per ADA for the first 30,000 ADA in the county; \$60 per ADA between 30,000 and 60,000; \$50 per ADA between 60,000 and 140,000; and \$40 for any ADA above 140,000. This approach is based on the assumption that COEs in more populous counties face additional responsibilities and costs, but that economies of scale reduce the magnitude of these cost differentials.

Based on the different components, we estimate funding targets for individual COEs would range from about \$775,000 (Alpine County) to about \$73 million (Los Angeles County). At full implementation, we estimate statewide regional service funding would total approximately \$450 million. This includes about \$40 million for base grants, \$110 million for district grants, and \$300 million for ADA grants. The Governor also proposes providing an annual COLA for each component of the formula, such that each COE’s funding target would grow over time.

Leaves COEs With Broad Discretion Over How to Use Funds. The proposed regional services grant would be unrestricted and available for any COE activity. The COEs still would be required to perform a few activities, including AB 1200 and *Williams* oversight responsibilities. (The administration believes *Valenzuela*-related oversight no longer would be required under the proposed LCFF approach.) As described above, however, several existing programmatic requirements would be removed. Each COE would have discretion over whether to (1) use its regional service funding to continue providing similar services, (2) support such activities by charging fees to school district participants, or (3) discontinue some of its current activities.

Requires Additional Oversight of School Districts. As discussed in the first part of this report, the Governor would place a new oversight responsibility on COEs. Specifically, the proposal would require each COE to review the local accountability plans of all school districts within its county concurrently with its review of district budgets. The COE would perform this review annually or as often as the district updated its plan. Separately, each COE would be required to validate each district’s count of its EL/LI students—also a new responsibility compared to current law. The COEs would use their regional services funding to support these new activities.

Alternative Education

Creates Alternative Education Formula.

Separate from the amount calculated for regional services, the Governor would calculate a funding allotment to support COE alternative schools. The proposed approach for COE alternative schools is very similar to that proposed for school districts in that it (1) replaces the current revenue limit and categorical approach; (2) includes a base grant for each student plus supplemental and concentration funding for EL and LI students; and (3) removes spending requirements, leaving expenditure decisions largely to COEs' discretion. The base rates and funding supplements proposed for alternative schools differ somewhat from the district proposal, however, as described below.

Includes Target Base Funding Rate. Similar to his approach for establishing school district target base rates, the Governor would set the COE alternative education target base rate at the current undeficit COE juvenile court school revenue limit rate, which reflects the rate COEs otherwise would have received were it not for recent base reductions and foregone COLAs. This rate is designed to be higher than the average district revenue limit rate. The Governor proposes a target base rate of \$11,045 per ADA for students in COE alternative education programs. Moving forward, this target rate would be adjusted for annual COLAs, similar to the district rates. (The COE base funding rate already incorporates a COLA for 2013-14.) In contrast to the district proposal, however, the Governor would provide a uniform base rate for all COE students, rather than a rate based on grade span. The proposed COE formula also excludes the K-3 and high school funding supplements that districts would receive. The new COE rate would apply for all COE alternative settings, and CDS no longer would be eligible for separate additional funding if students attend for six hours.

Includes Supplemental and Concentration Grants, Calculated From Higher Base Rate.

Similar to his proposal for school districts, the Governor would provide a supplemental grant equal to 35 percent of base funding for each COE alternative education student identified as EL, LI, or foster youth. Also comparable to his school district proposal, the Governor would provide an additional concentration grant to COEs if at least half of all students attending their alternative schools are EL/LI. Because the EL/LI and concentration supplemental grants would be calculated as 35 percent of the higher COE base grant of \$11,045, however, COEs would receive significantly more supplemental funding than school districts. (A student attending a COE school could generate up to \$7,732 in supplemental and concentration funding, while an EL/LI student attending a district-run high school could generate up to \$5,376 in additional funding.)

Juvenile Court Schools Automatically Would Receive EL/LI and Concentration Supplements for All Students. The Governor's proposal would fund juvenile court schools based on the assumption that all their students are EL, LI, or foster youth and therefore generate the additional EL/LI and concentration funding supplements. (This approach is the equivalent of providing \$16,844 for every student in a court school.) This contrasts with the funding approach for school districts, charter schools, county community schools, and county CDS, where supplemental funds only would be provided based on how many students with these characteristics had been documented. The administration proposes this approach because juvenile court schools tend to have high rates of student turnover, so collecting individual student demographic data can be difficult.

Defines Which Students the State Would Fund COEs to Serve . . . As shown in Figure 11, the Governor's proposal explicitly defines four groups of

students who would be the responsibility of COEs. Specifically, COEs would be funded at the higher base rate for students who are (1) incarcerated, (2) on probation, (3) referred by a probation officer, or (4) mandatorily expelled. The COEs no longer would receive funding directly from the state for other types of alternative students they sometimes now serve (such as students referred by truancy boards or students expelled for non-mandatory offenses). The proposed delineation differs from current law, under which similar types of students can be assigned either to COE-run programs (and funded at the court school rate) or district-run programs (and funded at the district rate).

. . . But Continues to Allow Districts and COEs to Negotiate Other Service Arrangements. The Governor would allow districts and COEs to negotiate funding pass-through agreements whereby a district could contract with a COE for the education of alternative students who are not among the four identified COE groups. Under such an arrangement, the state still would provide funding to the district for these students (at the district rate), but the district would transfer this base and supplemental funding to the COE. (Current law already allows this type of local pass-through arrangement with revenue limit funding.)

Establishes Four-Hour Minimum Instructional Day for All COE Alternative Settings. The Governor would eliminate the requirement that COE-run CDS operate a six-hour instructional day. Instead, all COE alternative settings would

be required to offer a minimum of four hours of daily instruction. The COEs would have the option of operating a longer school day, but would not receive additional funding for doing so. (The administration indicates it intends to establish a four-hour minimum day for district-run CDS too.)

Accountability and Transition

Requires Adoption of Local Accountability Plan. Similar to school districts, the Governor’s proposal would require COEs to develop annual Local Control and Accountability Plans describing how they would use LCFF funds to serve the school districts and students within their counties. Related to regional services, the plans would have to describe which services the COE planned to provide for districts within the county. Related to alternative education, the plans would have to contain similar elements as described earlier for the district plans (including how supplemental EL/LI and concentration funds would support EL/LI students). The COE governing boards annually would adopt these plans and make them available

Figure 11
Governor’s Proposal Clarifies Which Students Would Be Served in Which Alternative Programs

	Current Law	Governor’s Proposal
Students funded only through COE	<ul style="list-style-type: none"> • Incarcerated • On probation 	<ul style="list-style-type: none"> • Incarcerated • On probation • Referred by probation officer • Mandatorily expelled
Students funded only through district	<ul style="list-style-type: none"> • Suspended • Irregular attendance • Volunteers for alternative placement 	<ul style="list-style-type: none"> • Suspended • Irregular attendance • Volunteers for alternative placement • Referred by truancy board • Non-mandatorily expelled
Students funded through COE or district	<ul style="list-style-type: none"> • Mandatorily expelled • Non-mandatorily expelled • Referred by probation officer • Referred by truancy board 	None ^a

^a Under the Governor’s proposal, each type of affected student would be assigned directly to either the COE or the district. COE = county office of education.

for public review. The State Superintendent of Public Instruction (SPI) would play the same role in reviewing these COE plans as COEs would for district plans. That is, concurrent with a review of the COE's budget, the SPI would verify that its accountability plan contained all required elements and its budget provided sufficient resources to implement the activities described in the plan. The SPI's approval of a COE's budget would be contingent on confirming that the plan and budget met these requirements—essentially the same standard school districts would need to meet when submitting their budgets to COEs.

Transitions to New Formula as Funds Become Available. The Governor estimates the cost of fully implementing the new two-part COE funding formula to be roughly \$59 million. Similar to his proposal for school districts, the Governor gradually would increase the funding for each COE until the target levels were reached. The *2013-14 Governor's Budget* proposes a \$28 million augmentation to begin this process, or roughly half of the total implementation cost. Each COE that currently is funded below its target level would get a share of the new funding sufficient to close about half of its individual funding gap. Similar to districts, COEs with current funding bases that meet or exceed their new LCFF targets would not receive additional funds in 2013-14, but they would be held harmless against funding losses.

“Freed Up” Categorical Funds Diminish Gap Between Existing and Target Funding Levels for Many COEs. As with districts, each COE's current base would be calculated according to the amount it received in 2012-13 from revenue limits and state categorical programs. For COEs, this would include funds that currently support both services for districts (such as administrative support and regional categorical activities) and services for students (such as alternative education and ROCP). The administration estimates that about 25, or

fewer than half of COEs, currently receive less than their target levels. This is notably lower than the proportion of school districts (about 90 percent) that are below their targets. This is because many COEs currently receive a substantial amount of categorical funds to provide regional and student services—particularly from the ROCP, BTSA, and CTAP programs—that now would be freed up and become part of their general purpose funding base.

LAO Assessment

Figure 12 summarizes our assessment of the Governor's COE funding proposal. As with his district proposal, we believe the Governor's proposed approach to restructuring the way the state funds COEs has positive elements. We think the general framework of combining multiple funding streams and focusing on core areas of responsibility makes sense. We are concerned, however, that some elements of the Governor's approach are not well developed. Principally, we are concerned that the Governor's proposed funding rates for both regional services and alternative education exceed the associated costs. Below, we discuss our assessment of the strengths and weaknesses of the Governor's proposed funding formula for COEs.

Governor's Proposal Has Two Key Strengths

Simplifies COE Funding and Eliminates Funding Disparities. The Governor's proposed COE funding formula represents a notable improvement over the existing complicated mix of multiple funding streams. The existing formulas apportioning COE funds are poorly understood and provide divergent funding rates across counties for historical—rather than rational—reasons. In contrast, the Governor's proposed two-part formula would be relatively simple and streamlined, be based on factors that are easy to calculate and understand, and fund all COEs based on the same criteria.

Improves Alternative Education System by Establishing Consistent Policies and Funding Rates. The Governor’s proposal addresses some existing inconsistencies in how the state organizes and funds alternative education. Under current law, similar students can be subject to different funding rules. For example, under current law, mandatorily expelled students can be served by either COEs (in a county community school or a CDS) and funded at the higher COE revenue limit rate of approximately \$8,550 per ADA, *or* by school districts (in a district CDS) and funded at the lower district rate of approximately \$6,000 per ADA. There also are discrepancies within COE programs. For example, a student at a CDS operated by a COE is eligible for supplemental funding when attending school for a full six hours, but the same type of student served in a county community school generates no additional funding for any instructional time beyond the four hour minimum school day. The Governor’s proposal eliminates these distinctions between similar settings and similar students and instead (1) clarifies which students the state would assign to COE alternative schools and which to district schools and (2) establishes consistent rates for all students assigned to any COE-run alternative school.

Some Components of Proposal Raise Concerns

Increases Funding Levels for Regional Services While Reducing Statutory Responsibilities.

The Governor proposes to increase funding for COEs while requiring them to do less. Under the Governor’s LCFF proposal, individual COEs would be allocated at least as much funding as they currently receive from the funding streams being merged into the new regional services formula. Specifically, we estimate this component of the LCFF would total roughly \$450 million once fully implemented, compared to the roughly \$380 million COEs receive for regional services today. At the same time, however, the Governor would eliminate required programmatic activities (such as BTSA and CTAP) associated with roughly \$60 million of these funds. Combining these freed up funds with the estimated \$70 million overall increase for regional services, the Governor essentially would be increasing general purpose funding for COEs by about \$130 million, or almost 35 percent, while only adding one new responsibility (reviewing local district accountability plans).

Makes Holding COEs Accountable for Regional Services Even More Difficult. The Governor’s proposal compounds the existing lack of

Figure 12

Strengths and Weaknesses of Governor’s Approach for COEs

Strengths

- ✓ Simplifies COE funding and eliminates funding disparities.
- ✓ Improves alternative education system by establishing consistent policies and funding rates.

Weaknesses

- ✓ Increases funding levels for regional services while reducing statutory responsibilities.
- ✓ Makes holding COEs accountable for regional services even more difficult.
- ✓ Substantially increases alternative education funding without clear justification.

COE = county office of education.

accountability over how COEs spend their regional funding allotments. Under the current system, the state requires COEs to use a portion of these funds to conduct a few specific activities, but generally the costs of performing statutory requirements are much lower than the amount of funding provided. The state largely leaves it up to each COE to define what to do with these funds. Guaranteeing each COE a sizeable regional service funding allotment without a clear mission or well-defined expectations provides few fiscal incentives for COEs to provide the most cost-effective and beneficial services for districts. Moreover, few benchmarks exist by which the public can assess whether COEs are fulfilling their mission and providing valuable services. By increasing funding, doing nothing to clarify COEs' core mission, and reducing expectations, the Governor's proposal compounds all these existing problems.

Substantially Increases Alternative Education Funding Without Clear Justification. The Governor's formula would provide substantially more funding for alternative schools without a clear rationale for why these higher rates are warranted. Once target rates are achieved, juvenile court schools would receive a total of \$16,844 per ADA. Because county community schools and county CDS also tend to serve high concentrations of EL/LI students, they also would receive high per-pupil rates. In

contrast, we estimate the state currently provides an average of \$10,050 for students in court schools and county community schools—\$8,550 in base revenue limit funding and about \$1,500 in categorical funding (with higher rates applying to CDS). Although some COEs have indicated spending more on their alternative programs than the state currently provides in funding (by redirecting general purpose dollars to alternative schools), this assertion is not substantiated by state accounting data. (See the nearby box for a discussion of expenditures.) Even at the higher undeficit revenue limit rate, court school rates would average about \$12,500 per ADA (including base and categorical funding). The Governor does not provide a clear rationale for proposing a funding rate that so notably exceeds existing levels. Furthermore, even at these high funding rates, COEs' alternative schools would be required to offer only a four-hour instructional day.

Recommendations

As with his school district proposals, we think the Governor's COE proposals offer a helpful funding framework, but we think they could be improved with some modifications. In particular, we suggest the Legislature reconsider the target funding rates the Governor proposes for the two core COE responsibilities. Figure 13 summarizes our

State Accounting Data Shows Relatively Low Per-Pupil Expenditures

The state requires all school districts and county offices of education (COEs) to report their annual expenditures to the state using uniform accounting codes. In 2010-11 (the most recent year for which data are available), COEs reported spending about \$9,000 per average daily attendance (ADA) in juvenile court schools and county community schools. In community day schools, which offer a longer school day, spending was closer to \$14,000 per ADA. Representatives from several COEs with whom we spoke indicated that COEs spend considerably more on their alternative schools than indicated by these data, but that COEs frequently do not accurately identify these expenditures within the state's accounting system. To date, however, COEs have provided no other concrete, uniform, statewide expenditure data for the state's review.

three specific recommendations for modifying the Governor’s proposed COE LCFF, which we discuss in more detail below.

Define Which Services the State Should Require COEs to Provide. We recommend the Legislature carefully consider what role COEs should play in the state’s education delivery system and explicitly require them to perform any activities the Legislature deems vitally important. The Governor’s proposal includes relatively few mandatory responsibilities for COEs, leaving it up to individual COEs to define their roles and menus of services at the regional level. The Legislature could scale back COE requirements significantly, consistent with the Governor’s proposal. Alternatively, the Legislature could require that at least some COEs provide other high priority services—such as additional educational oversight responsibilities. For example, the state could empower some or all COEs to assess the effectiveness of districts’ instructional approaches and intervene or provide technical assistance when necessary.

Align Regional Service Funding Rates With Regional Services Required. While the Governor’s overall approach of calculating COE regional service funding based on the number of districts and students in the county generally is reasonable, we believe the proposed rates are too high. Whether the Legislature adopts the Governor’s proposal to reduce COE responsibilities or specifies some additional COE responsibilities, we recommend the Legislature set COE regional service funding rates based on the costs associated with the specific activities COEs would be required to perform under the new system. We recommend that any other services

be determined and funded at the district level. Our approach likely would result in reductions to existing COE regional service funding rates, as they currently receive notable amounts of general purpose funds. While there are benefits to letting individual COEs customize specific services based on local needs, providing a sizeable and guaranteed state funding grant to support such activities does not incentivize or hold COEs accountable for providing cost-effective services. Our alternative would allow local districts to fund COEs—through local fee-for-service arrangements—for any discretionary local activities that districts find helpful. A number of school districts already have established this type of relationship with their COE for various services. This arrangement leaves programmatic decisions at the local level, provides fiscal incentives for COEs to offer cost-effective support, and allows districts to hold COEs accountable by deciding whether to purchase COE services based on their value.

Establish Alternative Education Rate That Aligns With Differential Cost of Providing Instruction. We recommend the Legislature base the COE alternative education funding rate on the cost differential COE alternative schools face. Under current law, the per-pupil funding rate for most students attending COE alternative schools is roughly 40 percent higher than the average high school district rate. While the actual cost differential

Figure 13

Recommended Modifications to Governor’s COE LCFF Proposal

- ✓ Define which services the state should require COEs to provide.
- ✓ Align regional service funding rates with regional services required.
- ✓ Establish alternative education rate that aligns with differential cost of providing instruction.

COE = county office of education and LCFF = Local Control Funding Formula.

between alternative schools and traditional high schools is not entirely clear (given some concerns with the underlying data), alternative schools tend to have higher costs due to smaller class sizes and more instructional aides. (Court schools and county community schools, however, typically have a shorter school day that offsets some of these higher costs.) Whereas a 40 percent differential might not be a precise reflection of the actual cost differential, available data appear to suggest that the differential is no greater than 40 percent. Were the state to

maintain this differential, the total COE alternative school per-pupil rate would be \$14,515 (40 percent more than Governor's proposed high school target rate of \$7,680 plus a 35 percent EL/LI supplement). While this is about \$2,000 lower than what the Governor proposes to provide, it is about \$4,500 more than what the state currently provides for these students. Moving forward, if the Legislature were to increase the alternative school funding rate this significantly, it may want to consider whether alternative schools should be required to run a regular six-hour instructional day.

CONCLUSION

In conclusion, we believe there are a few key issues for the Legislature to keep in mind as it considers how to proceed with the Governor's LCFF proposal.

Current System Is Untenable. How best to improve upon the existing K-12 funding system has been discussed by many groups for many years. We believe, however, that the need for action grows increasingly urgent. Aside from all of the longstanding, underlying problems with the state's categorical programs, changes resulting from the state's decision in 2009 to temporarily remove spending restrictions from about 40 categorical programs have made the current system even more irrational. Specifically, data indicate that most districts have shifted substantial funding away from many "flexed" categorical programs. Additionally, the state has frozen district allocations for these programs at 2008-09 levels, continuing to distribute the same proportion of funds to each district regardless of changes in student enrollments during the ensuing years. These two trends have increasingly disconnected existing funding allocations from the original categorical purposes and student needs for which

they were originally intended. Moreover, these changes make the prospect of reestablishing the previous programmatic requirements seem increasingly impractical—yet categorical flexibility provisions currently are scheduled to expire at the end of 2014-15.

Projected Growth in Proposition 98 Funding Can Facilitate Transition to New System. Not only does a strong rationale exist for restructuring the current flawed system, but projected annual growth in the Proposition 98 minimum guarantee for 2013-14 and the ensuing several years provides a unique opportunity to transition to a more rational system without redistributing funding *away* from any district. The growth in funding can be used to phase in a new formula, restoring recent reductions for the majority of districts *and* allocating a share of new funds in a way that more closely aligns with current student needs.

Governor's Restructuring Approach Is Just One of Several Options. Adopting the Governor's proposed formula is not the only way to improve the existing K-12 funding system. The Legislature could opt to modify various components of the Governor's proposal—based on our

recommendations, or in other ways—or opt for a somewhat different allocation methodology, such as block grants. A wide variety of restructuring approaches still would meet the guiding principles of simplicity, transparency, rationality, and flexibility in K-12 funding.

Simplifying a Complex System Will Not Be Simple. Adopting any large-scale change to K-12 funding will necessitate reconsideration of numerous requirements associated with previous categorical programs. For example, requirements related to how teachers achieve “clear” teaching credentials, which textbooks schools use, and how districts assist students who have not passed the high school exit exam all are linked to current categorical programs. Thus, a myriad of statutory and regulatory changes likely will need to be made as a new funding approach is being developed. The fact that it will be an involved and complex endeavor, however, is not in and of itself a reason to avoid changing the fundamentally flawed existing system.

Funding Reform Is Not a Panacea . . . Regardless of which funding approach the Legislature ultimately adopts, restructuring the state’s allocation formulas will not be a panacea for all of the state’s K-12 education challenges. Changing the funding system will not guarantee

improved student outcomes; providing additional funding for EL/LI students will not automatically lead them to overcome the additional challenges they face; and increasing flexibility will not necessarily translate to improved instruction in all schools. These desired outcomes, however, also are not guaranteed—or uniformly taking place—under the current categorical system. There clearly are other K-12 issues outside the scope of this report that merit additional action, including how to identify and assist struggling schools and districts, develop strong local leaders, and refine accountability systems. Yet the need to address these concerns will exist *regardless* of whether the state chooses to modify or maintain the existing funding structure.

. . . But Improving the State’s School Funding System Is Critical. Restructuring the funding system will be a complex undertaking, and it will not solve every K-12 challenge. Changing the funding approach would, however, improve upon some fundamental problems. We believe that neither the complexities associated with implementing broad-based change nor the need to better develop other areas of the K-12 system should preclude the state from making significant, necessary, and immediate improvements to school funding.

2013-14 BUDGET

2013-14 BUDGET

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