

# SUBCOMMITTEE NO. 1 on Education



**Subcommittee No. 1**  
Chair, Marty Block  
Member, Roderick Wright  
Member, Mark Wyland

**Thursday, April 18, 2013**  
**Upon Adjournment of Budget and Fiscal Review**  
**Room 3191, State Capitol**

## **Governor's 2013-14 Budget Proposal: Local Control Funding Formula (LCFF)**

<b><u>Item</u></b>	<b><u>Department</u></b>
<b>6110</b>	<b>Department of Education</b>
<b>I.</b>	<b>Local Superintendent's Panel –Governor's LCFF Proposal:</b>
	<ul style="list-style-type: none"><li>• Superintendent Bill Kowba, San Diego Unified School District</li><li>• Superintendent John P. Collins, Poway Unified School District</li><li>• Superintendent Nancy Lynch, Solana Beach Unified School District</li></ul>
<b>II.</b>	<b>State Panel -- Key Decisions in Restructuring the K-12 Finance System:</b>
	<ul style="list-style-type: none"><li>• Legislative Analyst's Office</li><li>• Department of Finance</li><li>• California Department of Education</li></ul>
<b>III.</b>	<b>Public Comment</b>

### **Attachments:**

- Key Decisions in Restructuring the K-12 Finance System, Legislative Analyst's Office Handout
- Summary of LCFF Proposal, Senate Budget and Fiscal Review Committee

---

*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-651-1505. Requests should be made one week in advance whenever possible.*

April 18, 2013

# Key Decisions in Restructuring the K-12 Finance System

---

LEGISLATIVE ANALYST'S OFFICE

Presented to:  
Senate Budget and Fiscal Review Subcommittee No. 1  
On Education  
Hon. Marty Block, Chair





## Basic Design Decisions

---

- Decide Basic Finance Structure**
  - Weighted student formula.
  - Block grants.
  
- Establish Base Rates**
  - Target base rate.
  - Grade-span adjustments.
  
- Set Supplemental Rates for Certain Student Groups**
  - Targeted student groups.
  - Identification measures.
  - Time limits.
  - Rates.
  
- Determine Concentration Funding**
  - District or school-based funding.
  - Concentration thresholds.
  - Charter school issues.



## Other Funding Decisions

---

**Decide How to Fund Special Activities**

- Class size reduction.
- Career technical education.
- Transportation.
- Facility maintenance.

**Decide How to Address Special Characteristics**

- Necessary small schools.
- Basic aid districts.
- Regional differences.



## Additional Considerations

---



### **Establish Spending Requirements**

- District spending plans.
- Supplemental funds for supplemental services.
- List of allowable activities.
- Link to performance.



### **Devise Way to Monitor Whether Requirements Are Being Met**

- Plans, expenditures, and/or outcomes.
- District or school-based.
- Oversight entity.
- Consequences.



### **Build Transition Plan**

- Trade-offs with other K-12 funding priorities.
- Hold harmless provisions.
- Allocation priorities.
- Implementation timeline.



## Design Decisions Affect Overall Funding Levels for Individual Districts

---



### **Governor's Proposal Would Change Overall Funding Levels**

- Current system benefits certain districts based on historical factors.
- Governor's proposal would benefit districts with high proportions of English learner and low-income students.



### **Changing Design Components Would Change Overall Funding Levels**

- Increasing the base rates.
- Decreasing supplemental rates.
- Raising concentration thresholds.
- Including more special activities.
- Adjusting phase-in period.

## Major 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 (LCFF)** for school districts, charter schools, and county offices of education, beginning in 2013-14. The formula would be phased in over a seven-year period, projected to be completed by 2019-20, with an estimated **\$15 billion, plus cost-of-living adjustments**, in new Proposition 98 funding for K-12 schools.

The proposed LCFF 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.

### Funding Provisions for School Districts and Charter Schools

- **Base Grants.** The new formula establishes a base funding grant “target” for each school district 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.<sup>1</sup>

- **Supplemental Grants.** The formula also provides additional funding for educationally disadvantaged pupils based upon a percentage of base grant funding. Specifically, school districts and charter schools receive basic **supplemental grants** equal to **35 percent** in additional base grant funding for low-income students, English-learner students, and students residing in foster care. These are unduplicated; district wide pupil counts so students are not counted more than once. In addition, English-learner students are counted for a maximum of five years, unless they are also counted as low-income or residing in foster care.

School districts with larger proportions of disadvantaged pupils receive additional **concentration grants**. More precisely, per pupil amounts would increase **another 35 percent** above base grant funding for unduplicated counts of educationally disadvantaged students district wide that exceed 50 percent of the total district enrollment.

---

<sup>1</sup> 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.

Charter schools are also eligible for concentration grants, but must not exceed the proportion of disadvantaged students for the district in which they are located. If the charter school is located in more than one school district, it cannot exceed the proportion of disadvantaged students in any districts where the charter school is operating.

Supplemental and concentration grant calculations are applied to base grants for each 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 school districts and charter schools, reflecting base grants (including basic and special grade span adjustments) and supplemental grants (including concentration grants). In allocating an estimated \$15 billion, plus COLA, in new funding over the next seven years, districts would receive the same proportion of new funding. However, districts further below the target level would receive a larger amount of new funds. Districts and charter schools at or above the target level would receive no additional funds.
- **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 grade specific base grants on average “undeficited” revenue limit rates in 2012-13. More specifically, base grant targets reflect what average revenue limit rates would be in 2012-13 if the state had restored all reductions and provided foregone COLA funding since 2007-08.
- **Hold Harmless Provisions.** The Governor proposes to hold school districts and charter schools harmless from any loss of per pupil funding beginning in 2013-14. As a result, no school district or charter school will experience a loss in funding below their 2012-13 level as a result of the new formula.
- **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 COLAs, which will be provided to the target grants for each school district and charter school during (and after) this timespan. (The Governor proposes to fund COLAs for categorical programs outside of LCFF that currently are subject to annual adjustments.)
- **Categorical Program “Add-Ons”.** The Governor proposes to exclude two of the largest state categorical programs – Targeted Instructional Improvement Grants (\$855 million) and Home-to-School Transportation (\$491 million) – from the new formula. School districts and county offices of education that currently receive funding for these programs would continue to receive funding as a permanent “add-on” to the LCFF formula. (Charter schools are not eligible for these funds.) The Governor’s plan “locks” funding in at existing allocations, but repeals existing program requirements to make funds flexible so school districts and county offices can use funds for any educational purpose. The Governor does not propose to

provide COLAs for the Targeted Instructional Improvement Grants and Home-to-School programs.

- **Excluded Programs.** The Governor proposes to exclude a number of on-going programs from the new formula and continue these programs as separate categorical programs in 2013-14. The largest programs include Special Education (\$3.7 billion); After School Education and Safety (\$547 million); State Preschool (\$481 million); Mandates Block Grant (\$267 million); and Child Nutrition (\$157 million). The Governor also proposes to exclude a few smaller programs that are statewide projects in nature, including the Student Assessment program (\$75 million) and American Indian Education Centers and Early Childhood Education Program (\$5 million). In addition, the Governor excludes funding for the Quality Education Investment Act (\$313 million), which is scheduled to sunset in 2014-15.
- **Necessary Small Schools.** The Governor proposes to continue minimum grant funding – rather than base grants reflecting ADA -- for very small schools, but limits grants to schools in geographically isolated areas.
- **Basic Aid Districts.** The Governor proposes to change how local property tax (LPT) revenue factors into K-12 funding allocations as a part of the new LCFF funding formula. More specifically, the Governor proposes to count LPT revenues as an offsetting fund source for the whole LCFF allocation – both base grant and supplements. However, the Governor holds all districts harmless, including Basic Aid districts, from any loss of funding below the level of funding they received in 2012-13. As a result, Basic Aid districts can permanently retain all state categorical funding they received in 2012-13 and retain LPT revenues that would otherwise be offsetting to their new LCFF funding targets.
- **Flexibility Provisions.** Funding for all of the state programs that will be replaced by the Governor’s new formula will be made completely flexible for use by school districts and charter schools in supporting any locally determined educational purpose in 2013-14. As such, the Governor proposes to permanently eliminate most of the programmatic and compliance requirements for programs under the existing finance system. (Many of these current statutory requirements are already suspended as a result of categorical flexibility granted to about 40 state categorical programs from 2008-09 through 2014-15.)
- **Supplemental Funding Requirements.** The Governor’s proposal requires districts and charter schools to maintain current (2012-13) funding levels for low-income students, English-learner students, and students residing in foster care until the new LCFF formula is fully funded. This provision is intended to require districts and charters -- as a kind of maintenance of effort requirement -- to continue targeted funding for these students in the midst of new and ongoing programmatic flexibility beginning in 2013-14.

## **New Local Accountability Plans**

In place of current state spending restrictions associated with most categorical programs, the Governor requires each school district, charter school, and county office of education to produce an annual Local Control and Accountability Plan concurrent and aligned with its annual budget

and spending plan. Local accountability plans must set annual goals, and address how each agency will use new LCFF funding to improve educational outcomes, more specifically to:

- ✓ Implement Common Core standards.
- ✓ Improve academic achievement and other measures of achievement at the school level and for numerically-significant student subgroups.
- ✓ Improve high school graduation rates, increase attendance rates, and reduce dropout rates.
- ✓ Increase the percentage of students who have completed: A-G requirements for entrance to California's public colleges and universities; Advanced Placement courses; and career-technical education programs.
- ✓ Identify and address the needs of students, and schools predominantly serving students, who meet any of the following definitions: low-income students, English-language learner students, students residing in foster care, and students enrolled in county court schools.
- ✓ Provide basic education conditions for student achievement -- and remedy any deficiencies -- including: qualified teachers; sufficient instructional materials; and safe, clean, and adequate school facilities.
- ✓ Provide meaningful opportunities for parent involvement, including at a minimum, supporting effective school site councils (or other structures at each school) and advisory panels to local governing boards, or creating other processes or structures (such as creating the role of an ombudsman for parents) to address complaints and other issues raised by parents.

School district plans would be reviewed by county offices of education to ensure that each plan includes all the required components and is aligned to the district budget. County office plans would be reviewed by the Superintendent of Public Instruction.

The Governor's local accountability proposal is intended to (1) build upon existing state and federal accountability, auditing, and reporting requirements, and (2) create a stronger link between the local budget process and the decisions local agencies make about their educational programs to improve student achievement.

## **Funding Provisions for County Offices of Education**

The Governor's plan includes a new, separate funding formula for county offices of education as a part of his LCFF plan. The Governor provides a **\$28 million** augmentation in 2013-14 to begin implementation of the new formula for county offices. Once fully implemented, the new formula would provide a total of about **\$59 million** in additional funding for county offices.

The Governor's county office funding formula shares several general features with the proposed funding formula for school districts and charter schools, but has several distinct features. More specifically, the Governor's plan collapses most existing funding streams for county offices, but re-establishes them within a new, two-part formula, as follows:

**Regional Services to Districts.** The first 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.

- **Base Grant.** Each county office would receive **\$655,920**.
- **District-Based Grants.** Each county office would receive an additional grant of **\$109,320** for each school district in its county.
- **ADA-Based Grants.** Each county office would receive additional funding based upon countywide ADA: **\$70** for the first 30,000 in ADA; **\$60** for ADA between 30,000 and 60,000; **\$50** for ADA between 60,000 and 140,000; and **\$40** for any ADA above 140,000.

County offices would be required to retain some of their fiscal and programmatic (*Williams*) oversight responsibilities, and would have some new responsibilities for overseeing local district accountability plans under the Governor's new LCFF proposal. However, consistent with the Governor's plan for districts and charter schools, county offices would be freed of many current programmatic requirements and could use most of their formula funding for any educational purpose.

**Instructional Services for Students in Alternative Education Programs.** The second part of the new county office formula would provide a per-student allocation for students educated in county-operated alternative schools. Specifically, the Governor's plan provides funding for students who are: (1) incarcerated, (2) on probation, (3) probation-referred, and (4) mandatorily expelled, as follows:

- **Base Grant.** Provides **\$11,045** per ADA.
- **Supplemental Grants.** Provides an additional **35 percent** of county office base grant for unduplicated counts of low-income students, English-learner students, and students residing in foster care. Assumes 100 percent of court school ADA is eligible for supplemental grants.
- **Concentration Grants.** Provides an **additional 35 percent** of county office base grant for unduplicated counts of low-income students, English-learner students, and students residing in foster care that exceed 50 percent of the county office ADA. Assumes 100 percent of court school ADA is eligible for concentration grants.

Similar to school districts and charters schools, the Governor's county office funding formula establishes a new funding base that would be phased in over time. For county offices, this timeframe is estimated to be just a couple of years, rather than the seven years for school districts and charter schools. County offices would also be held harmless from loss of funding below 2012-13 levels. In addition, county offices would receive COLA adjustments annually for formula allocations.